

NEWTEK BUSINESS SERVICES INC

Form 10QSB

November 14, 2003

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2003

OR

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

Commission File Number: 001-16123

NEWTEK BUSINESS SERVICES, INC.

(Exact name of registrant as specified in its charter)

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New York

11-3504638

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

100 Quentin Roosevelt Boulevard, Garden City, NY

11530

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (516) 390-2260

Check whether the registrant has (1) filed all documents and reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 ninety days. Yes No

As of November 12, 2003, 25,097,485 shares of Common Stock were issued and outstanding.

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Table of Contents**ITEM 1. FINANCIAL STATEMENTS****NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

| | September 30, 2003 | December 31, 2002 |
|--|-------------------------------|------------------------------|
| | <u> </u> | <u> </u> |
| ASSETS | | |
| Cash and cash equivalents | \$ 35,000,307 | \$ 41,171,358 |
| Credits in lieu of cash | 73,411,999 | 41,580,950 |
| SBA loans receivable (net of reserve for possible SBA loan losses of \$1,690,964 as of September 30, 2003) | 50,623,424 | 56,073,016 |
| SBA loans held for sale | 804,440 | |
| Accounts receivable (net of allowance of \$169,798 and \$34,466, respectively) | 664,107 | 661,351 |
| Receivable from bank | 2,489,608 | 2,938,309 |
| Accrued interest receivable | 215,877 | 285,151 |
| Investments in qualified businesses held to maturity investments | 2,592,568 | 3,962,353 |
| Investments in qualified businesses equity investments | 300,000 | 1,091,110 |
| Structured insurance product | 3,014,355 | 2,893,301 |
| Prepaid insurance | 12,673,214 | 14,056,196 |
| Prepaid expenses and other assets | 1,774,813 | 575,772 |
| Furniture, fixtures and equipment (net of accumulated depreciation of \$327,926 and \$190,590, respectively) | 729,274 | 546,231 |
| Customer merchant accounts | 3,208,838 | 356,675 |
| Goodwill | 3,225,353 | 2,862,965 |
| | <u> </u> | <u> </u> |
| Total assets | \$ 190,728,177 | \$ 169,054,738 |
| | <u> </u> | <u> </u> |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 5,178,789 | \$ 4,218,367 |
| Notes payable certified investors | 3,833,525 | 3,844,181 |
| Notes payable insurance | 3,881,803 | 5,369,896 |
| Notes payable other | 2,365,183 | 480,500 |
| Borrowings under line of credit | | 450,000 |
| Bank notes payable | 48,970,105 | 53,824,492 |
| Interest payable in credits in lieu of cash | 61,831,800 | 65,196,116 |
| Deferred tax liability | 12,582,824 | 3,726,151 |
| | <u> </u> | <u> </u> |
| Total liabilities | 138,644,029 | 137,109,703 |
| | <u> </u> | <u> </u> |
| Minority interest | 8,688,868 | 4,772,741 |
| | <u> </u> | <u> </u> |

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| | | |
|---|-----------------------|-----------------------|
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common Stock (par value \$0.02 per share; authorized 39,000,000 shares, issued and outstanding 25,948,889 and 25,341,428 not including 582,980 shares held in escrow, as of September 30, 2003 and December 31, 2002, respectively) | 518,978 | 506,828 |
| Additional paid-in Capital | 23,262,523 | 20,992,827 |
| Unearned Compensation | (98,334) | |
| Retained earnings | 19,712,113 | 5,672,639 |
| | <u>43,395,280</u> | <u>27,172,294</u> |
| Total stockholders' equity | 43,395,280 | 27,172,294 |
| | <u>\$ 190,728,177</u> | <u>\$ 169,054,738</u> |
| Total liabilities and stockholders' equity | \$ 190,728,177 | \$ 169,054,738 |

See accompanying notes to these unaudited condensed consolidated financial statements.

Table of Contents**NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002**

| | Three Months Ended September 30, | | Nine months Ended September 30, | |
|--|-------------------------------------|---------------------|------------------------------------|---------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Revenue: | | | | |
| Income from tax credits | \$ 22,067,285 | \$ 14,886,087 | \$ 43,926,619 | \$ 25,144,192 |
| Credit card processing revenue | 1,879,526 | 519,798 | 3,867,612 | 912,730 |
| Interest and dividend income | 921,507 | 78,329 | 3,005,227 | 683,016 |
| Other income | 1,141,963 | 1,250,581 | 2,815,815 | 1,318,098 |
| Recovery of investment permanently written off | 350,000 | | 350,000 | |
| Gain on sale of property | | | | 16,841 |
| Consulting fee income | 68,353 | 168,736 | 102,953 | 268,053 |
| Total revenue | 26,428,634 | 16,903,531 | 54,068,226 | 28,342,930 |
| Expenses: | | | | |
| Interest | 3,322,298 | 3,090,193 | 10,526,385 | 8,658,556 |
| Payroll and consulting fees | 1,725,050 | 2,049,085 | 4,471,345 | 4,245,085 |
| Credit card processing direct costs | 870,932 | 318,675 | 2,393,580 | 521,313 |
| Credit card processing administrative costs | 1,227,443 | 431,202 | 2,252,204 | 1,341,503 |
| Professional fees | 691,991 | 902,837 | 2,748,647 | 2,427,007 |
| Insurance | 622,731 | 471,609 | 1,834,148 | 1,336,364 |
| Other than temporary decline in value of investments | 257,339 | 601,025 | 1,991,040 | 1,588,630 |
| Equity in net losses of affiliates | | 120,993 | | 793,868 |
| Provision for SBA loan losses | (7,429) | | 331,371 | |
| Other | 955,093 | 812,640 | 2,898,486 | 1,511,133 |
| Total expenses | 9,665,448 | 8,798,259 | 29,447,206 | 22,423,459 |
| Income before minority interest, provision for income taxes, extraordinary gain on acquisition of minority interest and extraordinary gain on acquisition of a business | | | | |
| | 16,763,186 | 8,105,272 | 24,621,020 | 5,919,471 |
| Minority interest in (loss) income | (1,231,560) | 689,952 | (1,911,602) | 1,738,590 |
| Income before provision for income taxes and extraordinary gain | 15,531,626 | 8,795,224 | 22,709,418 | 7,658,061 |
| Provision for income taxes | (6,057,334) | (3,342,186) | (8,856,673) | (2,910,064) |
| Income before extraordinary gain on acquisition of minority interest and extraordinary gain on acquisition of a business | 9,474,292 | 5,453,038 | 13,852,745 | 4,747,997 |
| Extraordinary gain on acquisition of minority interest, net of taxes of \$162,778 for 2002 | | | | 265,584 |
| Extraordinary gain on acquisition of a business | | | 186,729 | |
| Net income | \$ 9,474,292 | \$ 5,453,038 | \$ 14,039,474 | \$ 5,013,581 |

See accompanying notes to these unaudited condensed consolidated financial statements.

Table of Contents**NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002 (CONTINUED)**

| | Three Months Ended September 30, | | Nine months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| Weighted average common shares outstanding: | | | | |
| Basic | 25,709,700 | 24,787,535 | 25,671,712 | 23,947,116 |
| Diluted | 26,110,536 | 24,847,408 | 26,016,931 | 24,052,620 |
| Income per share: | | | | |
| Basic | \$ 0.37 | \$ 0.22 | \$ 0.55 | \$ 0.21 |
| Diluted | \$ 0.36 | \$ 0.22 | \$ 0.54 | \$ 0.21 |
| Income per share before extraordinary items: | | | | |
| Basic | \$ 0.37 | \$ 0.22 | \$ 0.54 | \$ 0.20 |
| Diluted | \$ 0.36 | \$ 0.22 | \$ 0.53 | \$ 0.20 |

See accompanying notes to these unaudited condensed consolidated financial statements.

Table of Contents**NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002**

| | September 30, 2003 | September 30, 2002 |
|---|-------------------------------|-------------------------------|
| Cash flows from operating activities: | | |
| Net income | \$ 14,039,474 | \$ 5,013,581 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Other than temporary decline in value of investments | 1,991,040 | 1,588,630 |
| Gain on sale of asset held for sale | | (16,841) |
| Equity in net losses of affiliates | | 793,868 |
| Extraordinary gain on acquisition of minority interests | | (265,584) |
| Extraordinary gain on acquisition of a business | (186,729) | |
| Income from tax credits | (43,926,619) | (25,144,192) |
| Deferred income taxes | 8,856,673 | 2,910,064 |
| Depreciation and amortization | 258,940 | 90,922 |
| Provision for SBA loan losses | 331,371 | |
| Proceeds from sale of SBA loans | 2,438,119 | |
| Accretion of interest income | (121,054) | (131,711) |
| Accretion of interest expense | 8,642,249 | 8,066,217 |
| Compensation expense for vested stock options | 124,583 | 570,000 |
| Issuance of stock for services received | 58,388 | 80,789 |
| Minority interest | 1,911,602 | (1,738,590) |
| Changes in assets and liabilities: | | |
| Prepaid insurance | 1,471,982 | 100,336 |
| Prepaid expenses, accounts receivable and other assets | (348,270) | (316,080) |
| Accounts payable and accrued expenses | 585,422 | 591,119 |
| Net cash used in operating activities | <u>(3,872,829)</u> | <u>(7,807,472)</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of asset held for sale | | 348,770 |
| Investments in cost method investments | (55,000) | |
| Investments in qualified businesses (held to maturity) | (300,000) | (1,204,942) |
| Investments in qualified businesses (consolidated entities) | (9,510,000) | (9,295,667) |
| Return of principal held to maturity investments | 469,855 | 4,902,566 |
| Return of principal consolidated entities | 4,206,675 | 8,677,906 |
| Consolidation of majority owned partner companies | 5,303,325 | 2,838,519 |
| SBA loans issued | (3,724,500) | |
| Cash paid for acquisition of AMS | (1,500,000) | |
| Repayments of SBA loans receivable | 5,589,916 | |
| Cash received from AMS and Exponential acquisition, respectively | 7,000 | 106,642 |
| Purchase of furniture, fixtures and equipment | (320,379) | (223,590) |
| Net cash provided by investing activities | <u>166,892</u> | <u>6,150,204</u> |

See accompanying notes to these unaudited condensed consolidated financial statements.

Table of Contents**NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)**

| | September 30, 2003 | September 30, 2002 |
|---|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Cash flows from financing activities: | | |
| Proceeds from issuance of debt | \$ 1,000,000 | \$ 21,548,698 |
| Principal repayments of note payable insurance | (1,488,093) | (11,640,982) |
| Principal repayments of mortgage payable | | (306,929) |
| Net proceeds from issuance of common stock | 1,393,641 | 1,898,499 |
| Proceeds from exercise of stock options | 243,042 | |
| Distributions to CAPCO members | | (7,867) |
| Contributions from members | 6,000 | |
| Proceeds from sale of preferred stock of subsidiary | 2,000,000 | |
| Principal repayment on notes payable to others | (315,317) | |
| Proceeds from issuance of warrants | | 572,298 |
| Principal repayments of bank notes payable | (4,854,387) | (4,813,955) |
| Principal repayments of line of credit | (450,000) | (575,000) |
| | <u> </u> | <u> </u> |
| Net cash (used in) provided by financing activities | (2,465,114) | 6,674,762 |
| | <u> </u> | <u> </u> |
| Net (decrease) increase in cash and cash equivalents | (6,171,051) | 5,017,494 |
| Cash and cash equivalents beginning of period | 41,171,358 | 31,171,966 |
| | <u> </u> | <u> </u> |
| Cash and cash equivalents end of period | \$ 35,000,307 | \$ 36,189,460 |
| | <u> </u> | <u> </u> |
| Supplemental disclosure of non-cash financing activities: | | |
| Reduction of credits in lieu of cash and interest payable in credits in lieu of cash balances due to delivery of tax credits to certified investors | \$ 12,095,570 | \$ 7,589,449 |
| | <u> </u> | <u> </u> |
| Consolidation of investments previously accounted for under the equity method | | \$ 537,083 |
| | <u> </u> | <u> </u> |
| Acquisition of Exponential (net liabilities assumed) | | \$ 10,978 |
| | <u> </u> | <u> </u> |
| Acquisition of Automated Merchant Services (net liabilities assumed) | | \$ |
| | <u> </u> | <u> </u> |
| Issuance of common stock in connection with acquisition of Exponential | | \$ 920,000 |
| | <u> </u> | <u> </u> |
| Goodwill recognized in connection with acquisition of minority interests | \$ 362,388 | \$ 873,173 |
| | <u> </u> | <u> </u> |
| Acquisition of five Capcos minority interests | | |
| Newtek Business Services common stock issued | | \$ 1,868,583 |
| Less, minority interests acquired | | 914,580 |
| | <u> </u> | <u> </u> |
| Goodwill recognized | | \$ 954,003 |
| | <u> </u> | <u> </u> |
| Acquisition of three Capcos minority interests | | |

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| | | |
|---|-------------------|-------------------|
| Minority interests acquired | | \$ 1,369,156 |
| Less, Newtek Business Services common stock issued | | 940,794 |
| | | <u> </u> |
| Extraordinary gain recognized | | \$ 428,362 |
| | | <u> </u> |
| Issuance of note in partial payment for insurance | | \$ 2,000,000 |
| | | <u> </u> |
| Details of AMS acquisition: | | |
| Assets acquired (including customer merchant accounts valued at approximately \$2,910,000) | \$ 3,075,000 | |
| Less: Liabilities assumed | 160,000 | |
| Less: Accrued acquisition costs (included in assets acquired) | 215,000 | |
| Less: Notes issued to seller | 1,200,000 | |
| | <u> </u> | <u> </u> |
| Cash paid for acquisition | \$ 1,500,000 | |
| | <u> </u> | <u> </u> |

See accompanying notes to these unaudited condensed consolidated financial statements.

Table of Contents**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1 SIGNIFICANT ACCOUNTING POLICIES****Basis of presentation and description of business**

The unaudited condensed consolidated financial statements of Newtek Business Services, Inc. and Subsidiaries (the Company or Newtek) included herein have been prepared by Newtek pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations. The unaudited condensed consolidated financial statements of Newtek reflect, in the opinion of management, all adjustments necessary to present fairly the financial position of Newtek at September 30, 2003, the results of its operations for the three and nine month periods ended September 30, 2003 and 2002, and its cash flows for the nine month periods ended September 30, 2003 and September 30, 2002. All adjustments are of a normal recurring nature. These financial statements should be read in conjunction with the annual financial statements and notes thereto for the year ended December 31, 2002. The results of operations for the three and nine months ended September 30, 2003 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2003.

The following is a summary of each certified capital company (Capco) or Capco fund, state of certification and date of certification:

| Capco | State of Certification | Date of Certification |
|--|-------------------------------|------------------------------|
| WA (Wilshire Advisers) | New York | May 1998 |
| WP (Wilshire Partners) | Florida | December 1998 |
| WI (Wilshire Investors) | Wisconsin | October 1999 |
| WLA (Wilshire Louisiana Advisers) | Louisiana | October 1999 |
| WA II (Wilshire New York Advisers, II) | New York | April 2000 |
| WNY III (Wilshire New York Partners, III) | New York | December 2000 |
| WC (Wilshire Colorado Partners) | Colorado | October 2001 |

The State of Louisiana has authorized three Capco funds which are all a part of the WLA Capco (the first fund). The second, Wilshire Louisiana Partners II (WLP II), and the third, Wilshire Louisiana Partners III (WLP III), were formed in October 2001, and October 2002, respectively.

In general, the Capcos issue debt and equity instruments, generally warrants (Certified Capital), to insurance company investors (Certified Investors). The Capcos then make targeted investments (Investments in Qualified Businesses), as defined under the respective state statutes, or, Qualified Businesses), with the Certified Capital raised. Such investments may be accounted for as either consolidated subsidiaries, under the equity method or cost method of accounting, depending upon the nature of the investment and the Company's and/or the Capco's ability to control or otherwise exercise significant influence over the investee. Each Capco has a contractual arrangement with the particular state that legally entitles the Capco to receive (or earn) tax credits from the state upon satisfying quantified, defined investment percentage thresholds and time

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requirements. In order for the Capcos to maintain their state-issued certifications, the Capcos must make Investments in Qualified Businesses in accordance with these requirements. Each Capco also has separate contractual arrangements with the Certified Investors obligating the Capco to pay interest on the aforementioned debt instruments whether or not it meets the

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NOTE 1 SIGNIFICANT ACCOUNTING POLICIES: (Continued)

statutory requirements for Investments in Qualified Businesses. The Capco can satisfy this interest payment obligation, at the Capco's discretion, by delivering tax credits in lieu of paying cash. The Capcos have the right to deliver the tax credits to the Certified Investors. The Certified Investors have the right to receive and use the tax credits and would, in turn, use these tax credits to reduce their respective state tax liabilities in an amount usually equal to 100% (Louisiana Capco and the Louisiana second fund - 110%) of their certified investment. The tax credits can be utilized over a ten-year period at a rate of 10% (Louisiana Capco and Louisiana second fund- 11%) per year and in some instances are transferable and all can be carried forward.

On December 31, 2002, Newtek acquired a majority stake in a nonbank U.S. Small Business Administration (SBA) lender. As a nonbank SBA lender, the company (originally named Commercial Capital Corp., now named Newtek Small Business Finance (NSBF)) originates, sells (in whole or in part) and services SBA loans to qualifying small businesses, which are partially guaranteed by the SBA. Newtek Small Business Finance sells the SBA guaranteed portion of such SBA loans to third-party investors, retains the unguaranteed portion and continues to service the SBA loans. Newtek Small Business Finance has the ability to originate SBA loans throughout the United States. Presently, the SBA loans originated by the company are primarily to customers in the Northeast United States. The Company's competition for originating SBA loans comes primarily from banking organizations and the other nonbank entities holding an SBA license.

SBA Loans Receivable

As of December 31, 2002, SBA loans that are past due more than 90 days, but were still performing (accruing interest), amounted to \$293,800. Of this amount, \$175,000 became current, and \$100,000 was moved to non-performing status. As of September 30, 2003, SBA loans that are past due more than 90 days, but are still performing (accruing interest), amount to \$65,824.

As of December 31, 2002, SBA loans that are on a non-accrual basis amounted to \$2,914,767. As of September 30, 2003, SBA loans that are on a non-accrual basis amount to \$4,248,724. This increase was predominately due to two SBA loans being downgraded to non-performing.

Stock Based Compensation

Newtek has elected to continue using Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, in accounting for employee stock options. No stock-based employee compensation cost is reflected in net income, as all options granted under the Company's plan had an exercise price equal to the market value of the underlying common stock at the date of grant. The following table summarizes the pro forma consolidated results of operations of Newtek as though the fair value based accounting method in SFAS 148 Accounting for Stock-based Compensation Transition and Disclosure an amendment of SFAS 123 had been used in accounting for stock options.

Table of Contents**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

| | Stock Compensation | | Stock Compensation | |
|---|----------------------------|--------------|---------------------------|--------------|
| | for the three months ended | | for the nine months ended | |
| | September 30, | | September 30, | |
| | 2003 | 2002 | 2003 | 2002 |
| As reported | | | | |
| Net income | \$ 9,474,292 | \$ 5,453,038 | \$ 14,039,474 | \$ 5,013,581 |
| Deduct: Total stock based employee Compensation expense determined under fair value based method for all awards, net of related tax effects | (217,945) | (256,659) | (646,065) | (703,860) |
| Pro forma net income | \$ 9,256,347 | \$ 5,196,379 | \$ 13,393,409 | \$ 4,309,721 |
| Earnings per share: | | | | |
| Basic as reported | \$.037 | \$.022 | \$.055 | \$.021 |
| Basic pro forma | \$.036 | \$.021 | \$.052 | \$.018 |
| Diluted as reported | \$.036 | \$.022 | \$.054 | \$.021 |
| Diluted pro forma | \$.035 | \$.021 | \$.051 | \$.018 |

For 2003 and 2002, the weighted average fair value of each option granted is estimated on the date of grant using the Black Scholes model with the following assumptions: expected volatility of 60-85%, risk-free interest rate of 1.61% to 6.15%, respectively, expected dividends of \$0 and expected terms of 1-6 years.

NOTE 2 COMMON STOCK

In the third quarter of 2003, Newtek sold 16,666 shares of common stock in private transactions, with gross and net cash proceeds totaling \$75,000. During the same period there were approximately 37,000 stock options exercised, with gross cash proceeds totaling approximately \$108,000. In addition, 2,000 shares of common stock were issued in consideration for consulting services rendered, valued at approximately \$12,000.

During the third quarter of 2003, in connection with two employment agreements, shares of restricted stock, valued at approximately \$120,000 were issued as part of total compensation. The shares vest over a one year period. Total compensation expense for the third quarter was approximately \$22,000.

NOTE 3 INVESTMENTS IN QUALIFIED BUSINESSES

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The various interests that Newtek acquires in its investments are accounted for under three methods: consolidation, equity method and cost method. The applicable accounting method is generally determined based on the Company's voting interest in an investee.

Consolidation Method. Investments in which Newtek directly or indirectly owns more than 50% of the outstanding voting securities or those Newtek has effective control over are generally accounted for under the consolidation method of accounting and are referred to here as Partner Companies. Under this method, an investment's financial position and results of operations are reflected within the Company's Balance Sheet and Consolidated Statements of Income. All significant inter-company accounts and transactions including returns of principal, dividends, interest received and investment redemptions have been eliminated. The results of operations and cash flows of a consolidated Partner Company are included through the latest interim period in which Newtek owned a greater than 50% direct or indirect voting interest for the entire interim period or otherwise exercised control over the Partner Company. Upon dilution of control below 50%, the accounting method is adjusted to the equity or cost method of accounting, as appropriate, for subsequent periods.

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NOTE 3 INVESTMENTS IN QUALIFIED BUSINESSES: (Continued)

Equity Method. Investees that are not consolidated, but over which Newtek exercises significant influence, are accounted for under the equity method of accounting. Whether or not Newtek exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the Company's Board of Directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the Company, including voting rights associated with the Company's holdings in common, preferred and other convertible instruments in the investee. Under the equity method of accounting, an investee's accounts are not reflected within the Company's Consolidated Balance Sheet and Consolidated Statements of Income; however, the Company's share of the earnings or losses of the investee is reflected in the caption "Equity in net losses of affiliates" in the Consolidated Statements of Income.

Cost Method. Investees not accounted for under the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Under this method, the Company's share of the earnings or losses of such companies is not included in the Consolidated Balance Sheet and Consolidated Statements of Income. However, cost method impairment charges are recognized, as necessary, in the Consolidated Statement of Income. If circumstances suggest that the value of the investee has subsequently recovered, such recovery is not recorded until realized. In some of the entities which we account for under the cost or equity method, Newtek may own warrants that if exercised, would cause Newtek to use either the equity or consolidation method. As of December 31, 2002, Newtek does not expect these warrants to be exercised in the near future.

During the nine month period ended September 30, 2003, Newtek determined that there was an approximately \$943,000 of an other than temporary decline in the value of its investments for Merchant Data Systems, Inc., \$500,000 for 1-800 Gift Certificate, \$271,000 for Direct Creations, LLC \$145,000 for O.S. Johnson, LLC, \$112,000 for Gerace Auto Parts, LLC, and \$20,000 of an other than temporary decline in the value of its investments for Transworld Business Brokers, LLC. These items aggregated approximately \$1,991,000 which is shown on the statement of income as other than temporary decline in value of investments.

During the nine month period ended September 30, 2002, Newtek determined that there was approximately \$734,000 of an other than temporary decline in the value of its investments for Starphire Technologies, LLC, approximately \$77,000 other than temporary decline in the value of its investments for Embosser's Sales and Service, \$100,000 for O.S. Johnson, LLC, \$458,000 other than temporary decline in the value of its investments for Direct Creations, LLC, and an approximate \$87,000 of an other than temporary decline in the value of its investments for Gino's Seafood. In addition, Newtek determined an impairment existed for a non-Capco investment (included in prepaid expenses and other assets on the balance sheet), and recorded a charge of approximately \$162,000. In 2002, Newtek also recovered approximately \$29,000 of cash on two of its investments written down in 2000. These items aggregate approximately \$1,589,000 which is shown on the statement of income as other than temporary decline in value of investments.

The following table is a summary of such investments as of September 30, 2003, shown separately between their debt and equity components, and all terms of each are summarized. There are no expiration dates on any of the financial instruments, unless disclosed.

In accordance with the provisions of Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investment in Debt and Equity Securities", Newtek classifies its debt investments as held-to-maturity and such investments are initially recorded at amortized cost. On a monthly basis, the Company's Investment Committee meets to evaluate the Company's investments. Newtek considers several factors in determining whether an impairment exists on the investment, such as the investee's net book value, cash flow, revenue growth and net income. In addition, the Investment Committee considers other factors, such as the economy and the investee company's industry, to determine if an other than temporary decline in value exists in the Company's investment

Table of Contents**NOTE 3 INVESTMENTS IN QUALIFIED BUSINESSES: (Continued)****DEBT INVESTMENTS**

| Investee | Direct Creations, LLC | Merchant Data Systems, Inc. | 4G s Truck Renting | Transworld Business Brokers, LLC | Autotask Group | Louisiana BIDCO Debt Investments | Gulf Coast Bidco | Total |
|--|-----------------------------|--------------------------------------|------------------------------|---|-------------------|---|------------------------|--------------|
| Investment Date (s) | Sep-01, Nov-01 | Aug-00 | Nov-99, Jul-00, Jun-02 | Jun-01 | Oct-02 | Various | Dec-02 | |
| Maturity Date | Jun-04 | May-04 | Aug-03 | Jun-04 | Sep-03 | Various | Various | |
| Interest Rate | LIBOR | 0.00% | 7.40% | 5.00% | 7.75% | Prime +1% | Various | |
| Principal outstanding at December 31, 2002 | \$ 373,233 | \$ 942,591 | \$ 100,000 | \$ 140,000 | \$ 200,000 | \$ 1,234,029 | \$ 972,500 | \$ 3,962,353 |
| Return of principal 2003 | (61,923) | | (100,000) | (25,000) | (200,000) | (82,932) | | (469,855) |
| Investments in 2003 | | | | | 300,000 | | | 300,000 |
| Other than temporary decline in value of its investments | | (942,591) | | | | (257,339) | | (1,199,930) |
| Principal outstanding at September 30, 2003 | \$ 311,310 | | | \$ 115,000 | \$ 300,000 | \$ 893,758 | \$ 972,500 | \$ 2,592,568 |

EQUITY INVESTMENTS

| Investee | Direct Creations, LLC | 1-800 Gift Certificates, LLC | Distribution Video and Audio | BuySeasons, Inc. | Newtek Financial Info Services of LA, LLC | Transworld Business Brokers, LLC | Total |
|--------------------|-----------------------------|------------------------------------|------------------------------------|---------------------|--|--|-------|
| Investment Date(s) | Dec-00, Aug-02 | Jul-99 Jul-01 | Jun-00 | Jun-01 | Dec-02 | Jun-01 | |
| Type of Investment | Warrants | Common Stock/ | Common Stock | Common Stock | Preferred Member | Preferred Membership | |

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Warrants

| Ownership Interest as of September 30, 2003 | 3.84% | <5% | <5% | <5% | 49% | 33% | |
|--|------------|------------|------------|------------|-----------|-----------|--------------|
| Total equity investments at December 31, 2002 | \$ 270,823 | \$ 500,000 | \$ 200,000 | \$ 100,000 | | \$ 20,287 | \$ 1,091,110 |
| Investments in 2003 | | | | | 710,000 | | 710,000 |
| Reclassification of consolidated investment | | | | | 272,627 | | 272,627 |
| Equity in losses 2003 | | | | | (117,904) | | (117,904) |
| Reversal of equity in loss due to consolidation as a result of FIN 46 adoption | | | | | 117,904 | | 117,904 |
| Reclassification to consolidated based on FIN 46 adoption | | | | | (982,627) | | (982,627) |
| Other than temporary decline in value of its investments | (270,823) | (500,000) | | | | (20,287) | (791,110) |
| Total equity investments at September 30, 2003 | \$ | \$ | \$ 200,000 | \$ 100,000 | \$ | \$ | \$ 300,000 |

Table of Contents**NOTE 3 INVESTMENTS IN QUALIFIED BUSINESSES: (Continued)**

Newtek has not guaranteed any obligation of these investees, and Newtek is not otherwise committed to provide further financial support for the investees. However, from time-to-time, Newtek may decide to provide such additional financial support which, as of September 30, 2003, was not significant. Should Newtek determine that an impairment exists upon its periodic review, and it is deemed to be other than temporary, Newtek will write down the recorded value of the asset to its estimated fair value and record a corresponding charge in the Statement of Income.

CONSOLIDATED DEBT INVESTMENTS

| Investee | Newtek Merchant Solutions of NY, LLC | Newtek Merchant Solutions of WI, LLC | PPM Link, LLC | Newtek Business Exchange of NY, LLC | Newtek Financial Info Services of FL, LLC | DC Media Capital, LLC | Newtek Strategies - CO, LLC | Total |
|--|---|--|---------------------|--|--|-----------------------------|-----------------------------------|----------------|
| Investment Date(s) | Mar-01 | Jun-01 Mar-03 | Mar-01 | Mar-02 | Nov-99 | Oct-02 | Jun-03 | |
| Maturity Date | Nov-05 | Jun-06 Mar-08 | Sep-02 | Mar-05 | Nov-01 | Oct-03 | April-04 | |
| Interest Rate | 6.00% | 5.00-8.00% | 5.75% | 2.50% | 5.25% | 12.00% | 3% | |
| Total consolidated debt investments as of December 31, 2002 | \$ 685,000 | \$ 1,505,000 | \$ 1,000,000 | \$ 325,000 | \$ 150,000 | \$ 163,277 | \$ | \$ 3,828,277 |
| Total consolidated debt investments made in 2003 | | 1,000,000 | | | | | 300,000 | \$ 1,300,000 |
| Return of principal 2003 | | (363,334) | (1,000,000) | | | (80,083) | | \$ (1,443,417) |
| Total consolidated debt investments as of September 30, 2003 | \$ 685,000 | \$ 2,141,666 | \$ 0 | \$ 325,000 | \$ 150,000 | \$ 83,194 | \$ 300,000 | \$ 3,684,860 |

CONSOLIDATED EQUITY INVESTMENTS

| Investee | Newtek Merchant Solutions of NY, LLC | Newtek Merchant Solutions of LA, LLC | Newtek Merchant Solutions of CO, LLC | PPM Link, LLC | Wilshire Louisiana Capital Management | Newtek Strategies, LLC | Newtek Business Exchange of NY, LLC | SBA Holdings, Inc. | Automated Merchant Services, Inc. |
|----------|--|--|--|---------------------|--|------------------------------|---|--------------------------|--|
|----------|--|--|--|---------------------|--|------------------------------|---|--------------------------|--|

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| Investment Date(s) | Fund | | | | | | | | |
|--|------------------|------------------|------------------|------------------|----------------------|------------------|---------------------------|-----------------|-----------------|
| | Mar-01 | Sep-01 | Dec-02 | Mar-01 | Dec-02 | Aug-01 | Mar-02 | Sep-02 | Aug-03 |
| Type of investment | Preferred Member | Preferred Member | Preferred Member | Preferred Member | Preferred Membership | Preferred Member | Common & Preferred Member | Preferred Stock | Preferred Stock |
| Ownership interest | 90.00% | 95.00% | 95.00% | 90.00% | 100.00% | 70.00% | 93.10% | 80.00% | 100% |
| Total consolidated equity Investments 2002 | \$ 125,000 | \$ 1,350,000 | \$ 3,308,665 | \$ 1,103,333 | \$ 972,500 | \$ 999,950 | \$ 3,102,196 | \$ 2,000,000 | \$ |
| Total consolidated equity investments made in 2003 | | | | | | | | | \$ 2,000,000 |
| Preferred return - dividends | | (50,625) | (66,006) | (3,950) | | | (71,438) | | (3,333) |
| Preferred return redemption | | (392,973) | | | | | | | |
| Total consolidated equity | \$ 125,000 | \$ 906,402 | \$ 3,242,659 | \$ 1,099,383 | \$ 972,500 | \$ 999,950 | \$ 3,030,758 | \$ 2,000,000 | \$ 1,996,667 |

Table of Contents**NOTE 3 INVESTMENTS IN QUALIFIED BUSINESSES: (Continued)****CONSOLIDATED EQUITY INVESTMENTS (CONTINUED)**

| Investee | Newtek Financial Info Services of LA, LLC | Newtek Financial Info Services of FL, LLC | Newtek Client Services, LLC | Global Business Advisors, LLC | Newtek Louisiana IT, LLC | Newtek Strategies CO, LLC | Newtek Community Financial | Total |
|--|--|--|--------------------------------------|--|--------------------------------|------------------------------------|----------------------------------|----------------|
| Investment Date(s) | Dec-02 | Feb-02 | Jun-02 | Mar 03 | July 03 | June-03 | July-03 | |
| Type of investment | Preferred Member | Preferred Members | Preferred Member | Preferred Members | Preferred Members | Preferred Members | Preferred Members | |
| Ownership interest | 49% | 87.48% | 95.00% | 90% | 49% | 75.00% | 49% | |
| Total consolidated equity Investments 2002 | \$ | \$ 100,383 | \$ 2,441,456 | \$ | \$ | \$ | \$ | \$ 15,503,483 |
| Total consolidated equity investments made in 2003 | 710,000 | | | 2,200,000 | 1,500,000 | 300,000 | 1,500,000 | \$ 8,210,000 |
| Reclassification from equity based on adoption of FIN 46 | 272,627 | | | | | | | 272,627 |
| Preferred return dividends | (9,434) | (21,094) | (24,226) | (30,000) | (7,500) | (3,000) | (7,500) | \$ (298,106) |
| Preferred return redemption | | | (2,072,179) | | | | | \$ (2,465,152) |
| Total consolidated equity investments 2003 | \$ 973,193 | \$ 79,289 | \$ 345,051 | \$ 2,170,000 | \$ 1,492,500 | \$ 297,000 | \$ 1,492,500 | \$ 21,222,852 |

NOTE 4 SBA LOANS RECEIVABLE

Below is the rollforward of the SBA loan receivable balance, net of SBA loan loss reserves for the nine-months ended September 30, 2003:

| | |
|-------------------------------|---------------|
| Balance at January 1, 2003 | \$ 56,073,016 |
| SBA Loan originations | 3,724,500 |
| Sales of SBA loans | (2,438,119) |
| Payments Received in 2003 | (5,589,916) |
| Provision for SBA loan losses | (331,371) |
| SBA loans held for sale | (804,440) |
| Deferred Costs | (10,246) |
| | <hr/> |
| Balance at September 30, 2003 | \$ 50,623,424 |
| | <hr/> |

Table of Contents**NOTE 4 SBA LOANS RECEIVABLE: (Continued)**

Below is the rollforward of the reserve for possible SBA loan losses balance for the nine months ended September 30, 2003:

| | |
|---|--------------|
| Balance at January 1, 2003 | \$ 2,557,624 |
| SBA Loan loss provision charged in 2003 | 331,371 |
| Recoveries | 73,853 |
| Charge-offs | (1,271,884) |
| | <hr/> |
| Balance at September 30, 2003 | \$ 1,690,964 |
| | <hr/> |

NOTE 5 EARNINGS PER SHARE

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. The dilutive effect of common stock equivalents is included in the calculation of diluted earnings per share only when the effect of their inclusion would be dilutive.

The calculations of Net Income Per Share were:

| | Three Months Ended September 30, | | Nine months Ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|--------------|
| | 2003 | 2002 | 2003 | 2002 |
| Numerator: | | | | |
| Numerator for basic and diluted EPS income available to common stock holders | \$ 9,474,292 | \$ 5,453,038 | \$ 14,039,474 | \$ 5,013,581 |
| Numerator for basic and diluted EPS extraordinary item and cumulative effect of a change in accounting principle | | | 186,729 | 265,584 |
| Numerator for basic and diluted EPS income before extraordinary item | 9,474,292 | 5,453,038 | 13,852,745 | 4,747,997 |
| Denominator: | | | | |
| Denominator for basic EPS weighted average shares | 25,709,700 | 24,787,535 | 25,671,712 | 23,947,116 |
| Effect of dilutive securities (stock options) | 400,836 | 59,873 | 345,219 | 105,504 |
| Denominator for diluted EPS weighted average shares | 26,110,536 | 24,847,408 | 26,016,931 | 24,052,620 |
| Net EPS: Basic | \$ 0.37 | \$ 0.22 | \$ 0.55 | \$ 0.21 |
| Net EPS: Diluted | \$ 0.36 | \$ 0.22 | \$ 0.54 | \$ 0.21 |
| Net EPS: Basic before extraordinary gain | \$ 0.37 | \$ 0.22 | \$ 0.54 | \$ 0.20 |
| Net EPS: Diluted before extraordinary gain | \$ 0.36 | \$ 0.22 | \$ 0.53 | \$ 0.20 |

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NOTE 6 BUSINESS SEGMENTS

Newtek's reportable segments are as follows: SBA lending, credit card processing and Capcos and other.

Operating segments are organized internally primarily by the type of services provided, and in accordance with SFAS No. 131, the Company has aggregated similar operating segments into three reportable segments, SBA lending, credit card processing and Capcos and other. The SBA lending segment is NSBF, a licensed, Small Business Administration (SBA) lender that originates, sells (in whole or in part) and services SBA loans to qualifying small businesses, which are partially guaranteed by the SBA.

As an SBA lender, NSBF generates revenues from sales of SBA loans, servicing income for those SBA loans retained to service by NSBF (included in other income on the consolidated statements of income) and interest income earned on available cash balances. The lender also generates expenses such as interest, professional fees, payroll and consulting, and provision for SBA loan losses, all of which are included in the respective caption on the consolidated statement of income. NSBF also has expenses such as SBA loan recovery expenses, SBA loan processing costs, depreciation and amortization, and other expenses that are all included in the other expense caption on the consolidated statements of income.

The credit card processing segment is a processor of credit cards, as well as a marketer of credit card solutions to the small business market. The Capcos and other segment represents Newtek's activities in the certified capital company market as described in Note 1.

Management has considered the following characteristics when making its determination of its operating and reportable segments:

- a. the nature of the products and services,
- b. the type or class of customer for their products and services,
- c. the methods used to distribute their products or provide their services, and
- d. the nature of the regulatory environment, for example, banking, insurance, or public utilities.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Inter-company activity is not significant.

| For the three months ended September 30, 2003 | For the three months ended September 30, 2002 | For the nine months ended September 30, | For the nine months ended September 30, 2002 |
|--|--|---|---|
|--|--|---|---|

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| | | | 2003 | |
|--------------------------------|----------------------|----------------------|----------------------|----------------------|
| Revenue | | | | |
| SBA Lending | \$ 1,638,336 | \$ | \$ 4,643,831 | \$ |
| Credit Card Processing | 1,879,526 | 519,054 | 3,867,612 | 912,730 |
| Capco & other | 22,910,772 | 16,384,477 | 45,556,783 | 27,430,200 |
| Total | \$ 26,428,634 | \$ 16,903,531 | \$ 54,068,226 | \$ 28,342,930 |
| Operating (Loss) Income | | | | |
| SBA Lending | \$ 377,603 | \$ | \$ (89,603) | \$ |
| Credit Card Processing | (218,849) | (286,027) | (778,172) | (950,086) |
| Capco & other | 16,604,451 | 8,391,299 | 25,488,795 | 6,869,557 |
| Total | \$ 16,763,186 | \$ 8,105,272 | \$ 24,621,020 | \$ 5,919,471 |

Table of Contents**NOTE 6 BUSINESS SEGMENTS: (Continued)**

| | For the three months ended September 30, 2003 | For the three months ended September 30, 2002 | For the nine months ended September 30, 2003 | For the nine months ended September 30, 2002 |
|-------------------------------|--|--|---|---|
| Depreciation and Amortization | | | | |
| SBA Lending | \$ 7,472 | \$ | \$ 13,301 | \$ |
| Credit Card Processing | 101,253 | 15,025 | 150,253 | 42,025 |
| Capco & other | 104,364 | 17,897 | 116,535 | 48,897 |
| Total | \$ 213,089 | \$ 32,922 | \$ 280,089 | \$ 90,922 |

| | At September 30, 2003 | At September 30, 2002 |
|------------------------|--------------------------|--------------------------|
| Identifiable Assets | | |
| SBA Lending | \$ 61,221,376 | \$ |
| Credit Card Processing | 7,788,718 | 2,315,137 |
| Capco & other | 121,718,083 | 99,822,596 |
| Total | \$ 190,728,177 | \$ 102,137,733 |

NOTE 7 MINORITY INTEREST

In January 2003 SBA, Inc. a partner company and a majority owned subsidiary of the Company, issued preferred stock to Credit Suisse First Boston Management Corporation for cash proceeds of \$2,000,000. Newtek has accounted for this issuance of preferred stock of a subsidiary as an increase to its minority interest liability in the accompanying condensed consolidated balance sheet at September 30, 2003.

NOTE 8 NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 requires the primary beneficiary of a variable interest entity to consolidate that entity. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the variable interest entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual, or other financial interests in the entity. Prior to the issuance of FIN 46, an enterprise generally consolidated an entity when the enterprise had a controlling financial interest in the entity through ownership of a majority voting interest. Upon adoption, FIN 46 applied immediately to variable interest entities created after January 31, 2003. Pursuant to FASB staff position No. 46-6 (FSP 46-6), a public entity need not apply the provisions of FIN 46 to an interest held in a variable interest entity or potential variable interest entity until the end of the first interim or annual period ending after December 15, 2003, if the variable interest entity was created before February 1, 2003, and the public entity has not issued financial statements reporting that variable interest entity in accordance with FIN 46. The Company has elected not to defer the application of FIN 46 to its interests in potential variable interest entities created prior to

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February 1, 2003 pursuant to FSP 46-6.

The Company determined that it is the primary beneficiary of a variable interest entity in which it has made an investment. Accordingly, the Company has consolidated such entity into the Company's financial statements, and the effect of such consolidation at September 30, 2003 was the inclusion on the balance sheet of \$817,473 in assets, and \$732,228 in liabilities.

NOTE 9 ACQUISITION OF AUTOMATED MERCHANT SERVICES

On August 7, 2003, a majority-owned subsidiary of Newtek, its Florida-based certified capital company, completed the acquisition of substantially all of the stock of Automated Merchant Services, Inc. (AMS), a company engaged in the business of soliciting merchants and others for credit card processing services. The acquisition brings to Newtek's credit card processing business an additional 2,100 existing clients as well as 10 customer representatives covering the Southern Florida market. In addition to gaining a significant foothold in the Florida small to medium-

Table of Contents**NOTE 9 ACQUISITION OF AUTOMATED MERCHANT SERVICES: (Continued)**

sized business market, Newtek will utilize this acquisition to cross-market other Newtek products and services including its small business lending service, outsourced bookkeeping service and tax and insurance services. Newtek plans on growing AMS beyond the Florida market and expanding its product base to include everything that Newtek's existing processing marketer, Newtek Merchant Solutions, offers.

Newtek's aggregate cost to acquire AMS was approximately \$3.1 million, of which \$1.5 million was cash paid and \$1.2 million in three year, 6 percent promissory notes issued to the selling stockholders. Also included in the aggregate cost is \$160,000 of AMS liabilities assumed by Newtek and \$215,000 of accrued acquisition costs.

The results of AMS's operations and financial position have been included in the accompanying consolidated condensed financial statements since the acquisition date.

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

| | |
|---|--------------|
| Cash | \$ 7,000 |
| Customer merchant accounts | 2,910,000 |
| Other Assets | 158,000 |
| | <hr/> |
| Total assets acquired | 3,075,000 |
| | <hr/> |
| Current liabilities (including accrued acquisition costs) | 375,000 |
| Notes payable to seller | 1,200,000 |
| | <hr/> |
| Total liabilities assumed | 1,575,000 |
| | <hr/> |
| Cash paid | \$ 1,500,000 |
| | <hr/> |

The difference between the aggregate purchase price of \$3,075,000 (including accrued acquisition costs of \$215,000) and the fair value of the assets acquired, \$165,000, has been recorded as customer merchant accounts. These customer accounts are being amortized over a sixty-six month period. For the period ended September 30, 2003, amortization expense relating to the customer merchant accounts totaled approximately \$79,000.

NOTE 10 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS

The following table is an unaudited summary of the investments which Newtek accounts for under either the equity method or by consolidation. These financial statements also reflect the degree to which the Company's Partner Companies interact with each other to provide and market

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needed goods or, particularly, services to each other. The income from services provided to other Partner Companies is shown as Intercompany Eliminated Revenue and the cost of services acquired from other Partner Companies is shown as Intercompany Eliminated Expenses.

Table of Contents**NOTE 10 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS: (Continued)**

Balance Sheet data is as of September 30, 2003 and December 31, 2002

CONSOLIDATED ENTITIES

| | Newtek Strategies (Harvest) | | Newtek Merchant Solutions CO (UPS-CO) | | Newtek Merchant Solutions NY (UPS-NY) | | Newtek Merchant Solutions LA (UPS-LA) | | Newtek Merchant Solutions WI (UPS-WI) | |
|-----------------------------------|-----------------------------------|-------------------|--|---------------------|--|---------------------|--|-------------------|--|---------------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Cash | 94,832 | 256,233 | 2,952,464 | 3,248,403 | 26,649 | 18,611 | 141,313 | 705,617 | 259,679 | 445,686 |
| Other Assets | 189,240 | 207,801 | 65,442 | 2,662 | 380,717 | 417,956 | 35,416 | 26,485 | 544,769 | 254,444 |
| Total Assets | \$ 284,072 | \$ 464,034 | \$ 3,017,906 | \$ 3,251,065 | \$ 407,366 | \$ 436,567 | \$ 176,729 | \$ 732,102 | \$ 804,448 | \$ 700,130 |
| Current Liabilities | 46,259 | 33,006 | 39,109 | 14,433 | 184,154 | 108,554 | 36,018 | 29,729 | 159,090 | 118,670 |
| Total Liabilities | \$ 46,259 | \$ 33,006 | \$ 39,109 | \$ 14,433 | \$ 659,713 | \$ 584,112 | \$ 36,018 | \$ 29,729 | \$ 2,317,424 | \$ 1,588,670 |
| Total Equity (Deficit) | \$ 237,813 | \$ 431,028 | \$ 2,978,797 | \$ 3,236,632 | \$ (252,347) | \$ (147,545) | \$ 140,711 | \$ 702,373 | \$ (1,512,976) | \$ (888,540) |

CONSOLIDATED ENTITIES

| | PPM Link | | Exponential Business Development Co., Inc. | | Newtek Small Business Finance (NSBF) | | Newtek Financial Information Systems FL (GMT) | |
|---------------------|-------------------|---------------------|---|------------------|---|----------------------|--|-------------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Cash | 53,754 | 1,254,506 | 29,017 | 41,973 | 5,737,794 | 4,367,870 | 41,921 | 70,034 |
| Other Assets | 105,936 | 61,686 | 71,357 | 25,551 | 55,483,582 | 59,296,476 | 129,759 | 131,985 |
| Total Assets | \$ 159,690 | \$ 1,316,192 | \$ 100,374 | \$ 67,524 | \$ 61,221,376 | \$ 63,664,346 | \$ 171,680 | \$ 202,019 |
| Current Liabilities | 168,562 | 1,069,144 | 58,454 | 59,996 | 52,233,813 | 2,704,417 | 48,075 | 44,809 |

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| | | | | | | | | |
|-------------------------------|-------------------|---------------------|------------------|------------------|----------------------|----------------------|--------------------|-------------------|
| Total Liabilities | \$ 168,562 | \$ 1,919,144 | \$ 63,530 | \$ 59,996 | \$ 52,233,813 | \$ 58,028,909 | \$ 198,075 | \$ 194,809 |
| Total Equity (Deficit) | \$ (8,872) | \$ (602,952) | \$ 36,844 | \$ 7,528 | \$ 8,987,563 | \$ 5,635,437 | \$ (26,395) | \$ 7,210 |

CONSOLIDATED ENTITIES

| | Newtek Business Exchange of NY | | Newtek Client Services | | DC Media Capital | | Newtek Tax Services | | Global Business Advisors | |
|-------------------------------|--------------------------------------|---------------------|---------------------------|---------------------|---------------------|-------------------|------------------------|------------|-----------------------------|------------|
| | (Transworld | NY) | (Global) | | | | | | | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Cash | 2,845,584 | 3,186,239 | 234,400 | 2,377,662 | 894,616 | 344,293 | 3,725 | (a) | 2,076,654 | (a) |
| Other Assets | 59,680 | 55,005 | 2,195 | 1,415 | 198,920 | 385,063 | 11,583 | (a) | 24,953 | (a) |
| Total Assets | \$ 2,905,264 | \$ 3,241,244 | \$ 236,595 | \$ 2,379,077 | \$ 1,093,536 | \$ 729,356 | \$ 15,308 | (a) | \$ 2,101,607 | (a) |
| Current Liabilities | 27,527 | 21,089 | 6,300 | | 24,322 | 92,226 | 39,208 | (a) | 7,389 | (a) |
| Total Liabilities | \$ 352,527 | \$ 346,089 | \$ 6,300 | | \$ 1,378,099 | \$ 736,003 | \$ 39,208 | (a) | \$ 7,389 | (a) |
| Total Equity (Deficit) | \$ 2,552,737 | \$ 2,895,155 | \$ 230,295 | \$ 2,379,077 | \$ (284,563) | \$ (6,647) | \$ (23,900) | (a) | \$ 2,094,218 | (a) |

CONSOLIDATED ENTITIES

| | Newtek Strategies- CO | | Automated Merchant Services, Inc. | | Newtek Community Financial Services | | Newtek Louisiana Technology | | Newtek Financial Systems LA | | Totals | |
|-------------------------------|-----------------------------|------------|---|------------|--|------------|-----------------------------------|------------|-----------------------------------|-------------------|----------------------|----------------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | Cash | 490,288 | (a) | 417,958 | (a) | 1,442,681 | (a) | 1,427,104 | (a) | 793,828 | 284,000 | \$ 19,964,261 |
| Other Assets | 7,996 | (a) | 2,964,311 | (a) | 7,316 | (a) | 6,252 | (a) | 23,646 | 500 | 60,313,070 | 60,867,029 |
| Total Assets | \$ 498,284 | (a) | \$ 3,382,269 | (a) | \$ 1,449,997 | (a) | \$ 1,433,356 | (a) | \$ 817,474 | \$ 284,500 | \$ 80,277,331 | \$ 77,468,156 |
| Current Liabilities | 18,333 | (a) | 295,830 | (a) | 8,467 | (a) | 10,159 | (a) | 22,227 | 11,373 | 53,433,296 | 4,307,446 |
| Total Liabilities | \$ 18,333 | (a) | \$ 1,415,830 | (a) | \$ 8,467 | (a) | \$ 10,159 | (a) | \$ 732,229 | \$ 11,373 | \$ 59,731,044 | \$ 63,546,273 |
| Total Equity (Deficit) | \$ 479,951 | (a) | \$ 1,966,439 | (a) | \$ 1,441,530 | (a) | \$ 1,423,197 | (a) | \$ 85,245 | \$ 273,127 | \$ 20,546,287 | \$ 13,921,883 |

Table of Contents**NOTE 10 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS: (Continued)**

Income Statement data is for the nine months period ended September 30, 2003 and September 30, 2002

CONSOLIDATED ENTITIES

| | Newtek | | Newtek Merchant | | Newtek Merchant | | Newtek Merchant | | Newtek Merchant | |
|-------------------------------|---------------------|---------------------|---------------------|------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Strategies | | Solutions | CO | Solutions | NY | Solutions | LA | Solutions | WI |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Revenue | \$ 552,275 | \$ 428,613 | \$ 71,653 | (a) | \$ 296,502 | \$ 286,519 | \$ 53,969 | \$ 46,486 | \$ 3,474,184 | \$ 615,955 |
| SG&A | 736,857 | 636,930 | 262,133 | (a) | 346,734 | 462,033 | 171,739 | 457,021 | 3,986,121 | 1,153,390 |
| Depreciation and Amortization | 8,634 | 6,246 | 1,349 | (a) | 33,174 | 32,506 | 3,063 | 2,052 | 33,018 | 7,467 |
| Interest expense | | 35,624 | | (a) | 21,394 | 18,767 | | | 79,479 | 65,625 |
| Income/Loss | \$ (193,216) | \$ (250,187) | \$ (191,829) | (a) | \$ (104,800) | \$ (226,787) | \$ (120,833) | \$ (412,587) | \$ (624,434) | \$ (610,527) |

INTERCOMPANY ITEMS INCLUDED IN ABOVE

| | | | | | | | | | | |
|------------------|---------|---------|--------|-----|---------|---------|--------|--------|---------|--------|
| Revenue | 445,724 | 289,935 | 41,145 | (a) | 113,615 | 18,139 | 27,522 | 2,115 | 59,528 | 15,976 |
| SG&A | 34,340 | 34,307 | 67,765 | (a) | 80,489 | 101,775 | 59,184 | 63,450 | 245,277 | 86,428 |
| Interest Expense | | 35,624 | | (a) | 21,394 | 18,767 | | | 79,479 | 65,625 |

CONSOLIDATED ENTITIES

| | PPM Link | | Exponential Business Development Co., Inc. | | Newtek Small Business Finance | | Newtek Financial Information Systems FL | |
|--|----------------|-------------------|--|-------------------|-------------------------------|---------------------|---|-------------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | Revenue | \$ 183,720 | \$ 172,560 | \$ 174,645 | (a) | \$ 4,643,831 | (a) | \$ 513,083 |

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| | | | | | | | | |
|-------------------------------|---------------------|---------------------|------------------|------------|---------------------|------------|--------------------|--------------------|
| SG&A | 438,863 | 456,338 | 145,171 | (a) | 4,891,860 | (a) | 500,654 | 401,845 |
| Depreciation and Amortization | 1,639 | 299 | | (a) | 13,301 | (a) | 18,998 | 15,861 |
| Interest expense | 56 | 79,781 | | (a) | | (a) | 5,941 | 6,107 |
| Income/Loss | \$ (256,838) | \$ (363,858) | \$ 29,474 | (a) | \$ (261,330) | (a) | \$ (12,510) | \$ (45,024) |

INTERCOMPANY ITEMS INCLUDED IN ABOVE

| | | | | | | | | |
|------------------|--------|--------|--------|-----|---------|-----|---------|---------|
| Revenue | 8,565 | 99,300 | | (a) | | (a) | 352,521 | 208,035 |
| SG&A | 49,459 | 24,623 | 24,639 | (a) | 171,727 | (a) | 31,760 | 24,636 |
| Interest Expense | 56 | 79,781 | | (a) | | (a) | 5,941 | 6,107 |

CONSOLIDATED ENTITIES

| | Newtek | | Newtek | | DC Media | | Newtek Tax | | Global Business | |
|-------------------------------|---------------------|---------------------|--------------------|--------------------|---------------------|--------------------|--------------------|------------|--------------------|------------|
| | Business Exchange | | Client | | DC Media | | Newtek Tax | | Advisors | |
| | of NY | | Services | | Capital | | Services | | of WI | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Revenue | \$ 73,469 | \$ 0 | \$ 0 | 0 | \$ 32,695 | \$ 527,272 | \$ 47,695 | (a) | \$ 80,900 | (a) |
| SG&A | 327,508 | 143,660 | 50,880 | 34,721 | 212,334 | 539,538 | 71,595 | (a) | 156,537 | (a) |
| Depreciation and Amortization | 10,597 | 4,015 | 678 | | | | | (a) | 145 | (a) |
| Interest expense | 6,343 | 4,398 | | | 47,894 | 4,268 | | (a) | | (a) |
| Income/Loss | \$ (270,979) | \$ (152,073) | \$ (51,558) | \$ (34,721) | \$ (227,533) | \$ (16,534) | \$ (23,900) | (a) | \$ (75,782) | (a) |

INTERCOMPANY ITEMS INCLUDED IN ABOVE

| | | | | | | | | | | |
|------------------|--------|--------|--------|--------|--------|---|--------|-----|--------|-----|
| Revenue | | | | | | 0 | 25,929 | (a) | | (a) |
| SG&A | 63,966 | 21,169 | 39,875 | 14,500 | 20,529 | | 7,000 | (a) | 24,768 | (a) |
| Interest Expense | 6,343 | 4,062 | | | 10,483 | | | (a) | | (a) |

Table of Contents**NOTE 10 SUMMARY RESULTS OF QUALIFIED INVESTMENTS: (Continued)**

CONSOLIDATED ENTITIES

| | Newtek | | | | | | | | | | | |
|-------------------------------|---------------|------|-------------|------|-------------|------|-------------|------|------------------|----------|----------------|----------------|
| | Newtek | | Automated | | Community | | Newtek | | Newtek Financial | | Totals | |
| | Strategies Co | | Merchant | | Financial | | Louisiana | | Information | | | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Revenue | \$ 2,563 | (a) | \$ 230,939 | (a) | \$ 2,980 | (a) | \$ 0 | (a) | \$ 1,510 | \$ 0 | \$ 10,436,613 | \$ 2,456,194 |
| SG&A | 119,446 | (a) | 170,855 | (a) | 53,949 | (a) | 71,661 | (a) | 180,766 | 11,373 | 12,895,663 | 4,296,849 |
| Depreciation and Amortization | 266 | (a) | 79,649 | (a) | | (a) | 57 | (a) | 1,026 | | 205,594 | 68,446 |
| Interest expense | | (a) | 10,664 | (a) | | (a) | (2,415) | (a) | (1,836) | | 167,520 | 214,570 |
| Income/Loss | \$ (117,149) | (a) | \$ (30,229) | (a) | \$ (50,969) | (a) | \$ (69,303) | (a) | (178,446) | (11,373) | \$ (2,832,164) | \$ (2,123,671) |

INTERCOMPANY ITEMS INCLUDED IN ABOVE

| | | | | | | | | | | | | |
|------------------|--------|-----|--------|-----|--------|-----|--------|-----|--------|--|-----------|---------|
| Revenue | | (a) | 17,826 | (a) | | (a) | | (a) | | | 1,092,375 | 633,500 |
| SG&A | 15,500 | (a) | | (a) | 11,000 | (a) | 28,000 | (a) | 12,204 | | 987,482 | 370,888 |
| Interest Expense | | | | (a) | | (a) | | (a) | | | 123,696 | 209,966 |

ENTITIES UNDER THE EQUITY METHOD (1)

| | Transworld Business | | | | | | | | | |
|--------------|---------------------|------|------------------|---------|------------|---------|---------|---------|------------|------------|
| | Starphire | | Nichedirectories | | Brokers FL | | Totals | | | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | | |
| Cash | | | 3,552 | 14,653 | 63,808 | 212,409 | 190,939 | 153,087 | \$ 258,299 | \$ 380,149 |
| Other Assets | | | 349,682 | 402,874 | 188,273 | 288,103 | 329,408 | 328,261 | 867,363 | 1,019,238 |

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| | | | | | | | | |
|-------------------------------|-------------------|-------------------|---------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| Total Assets | \$ 353,234 | \$ 417,527 | \$ 252,081 | \$ 500,512 | \$ 520,347 | \$ 481,348 | \$ 1,125,662 | \$ 1,399,387 |
| Current Liabilities | 65,052 | 34,330 | 311,460 | 438,915 | 27,355 | 53,990 | 403,867 | 527,235 |
| Total Liabilities | \$ 65,052 | \$ 34,330 | 377,187 | \$ 484,850 | \$ 142,354 | \$ 168,990 | \$ 584,593 | \$ 688,170 |
| Total Equity (Deficit) | \$ 288,182 | \$ 383,197 | \$ (125,106) | \$ 15,662 | \$ 377,993 | \$ 312,358 | \$ 541,069 | \$ 711,217 |

ENTITIES UNDER THE EQUITY METHOD (1)

| | Starphire | | Niche Directories | | Transworld Business Brokers FL | | Total | |
|-------------------------------|--------------------|---------------------|---------------------|---------------------|-----------------------------------|---------------------|---------------------|---------------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | Revenue | \$ 81,752 | \$ 76,440 | \$ 654,068 | \$ 544,272 | \$ 1,174,460 | \$ 1,581,034 | \$ 1,910,280 |
| SG&A | 121,074 | 364,444 | 768,035 | 755,608 | 1,085,340 | 1,576,717 | 1,974,449 | 2,696,769 |
| Depreciation and Amortization | 14,396 | 21,188 | 23,026 | 13,417 | 1,500 | 1,833 | 38,922 | 36,438 |
| Interest expense | (58) | 12,451 | 3,643 | | (483) | 8,063 | 3,102 | 20,514 |
| Income/Loss | \$ (53,660) | \$ (321,643) | \$ (140,636) | \$ (224,753) | \$ 88,103 | \$ (5,579) | \$ (106,193) | \$ (551,975) |

INTERCOMPANY ITEMS INCLUDED IN ABOVE

| | | | | | | | | |
|------------------|-------|--------|--------|--------|--------|--------|--------|---------|
| Revenue | 207 | | | | | | 207 | |
| SG&A | 3,750 | 27,330 | 35,956 | 56,420 | 12,750 | 17,550 | 52,456 | 101,300 |
| Interest expense | | 12,451 | | | | 8,063 | | 20,514 |

(a) No activity under Newtek's ownership during this time period

(1) The company also owns 20% of Copia Technology, which had no operating activity and no assets.

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NOTE 11 SUBSEQUENT EVENTS

In October of 2003, Newtek sold 125,000 shares of common stock in a private transaction, with gross and net cash proceeds of approximately \$477,000.

Also in October of 2003, Newtek raised \$6,800,000 of certified capital for another Capco fund, Wilshire Louisiana Partners IV, LLC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Three Months Ended September 30, 2003 compared to Three Months Ended September 30, 2002

Revenues increased by approximately \$9,525,000 to \$26,429,000 for the three months ended September 30, 2003, from \$16,904,000 for the three months ended September 30, 2002. Income from tax credits increased by approximately \$7,181,000 to \$22,067,000 for the three months ended September 30, 2003, from \$14,886,000 for the three months ended September 30, 2002, due to Newtek meeting different investment thresholds mandated by the various state Capco statutes in the same three month period of 2003 versus 2002. Credit card processing revenue increased by approximately \$1,360,000 to \$1,880,000 for the three months ended September 30, 2003 from \$520,000 for the three months ended September 30, 2002, due to the Company's increase in credit card processing customers, as well as the company's acquisition of Automated Merchant Services. Interest and dividend income increased by approximately \$844,000 to \$922,000 for the three months ended September 30, 2003, from \$78,000 for the three months ended September 30, 2002. This increase was primarily due to the acquisition of Newtek Small Business Finance (NSBF). Other income decreased by approximately \$109,000 to \$1,142,000 for the three months ended September 30, 2003, from \$1,251,000 for the three months ended September 30, 2002. This decrease is primarily due to the operating activities of consolidated partner companies other than credit card processing and NSBF as described above. Consulting fee income decreased \$100,000 to \$68,000 for the three months ended September 30, 2003 from \$168,000 for the three months ended September 30, 2002. This decrease is a result of the increased focus on the credit card and small business lending activities. During the three months ended September 30, 2003, Newtek had a recovery of a previously written off investment of \$350,000.

Interest expense increased by approximately \$232,000 to \$3,322,000 for the three months ended September 30, 2003 from \$3,090,000 for the three months ended September 30, 2002. The increase was due primarily to the increased number of Capcos (Wilshire Colorado Partners and Wilshire Louisiana Partners III) in 2003, as well as the interest expense attributable to NSBF operations. Payroll and consulting fees decreased by \$324,000 to \$1,725,000 for the three months ended September 30, 2003 compared to \$2,049,000 for the three months ended September 30, 2002. The decrease was due to the Company's efforts to reduce consulting fees. Credit card processing direct costs increased by \$552,000 to \$871,000 for the three months ended September 30, 2003 from \$319,000 for the three months ended September 30, 2002. Credit card administrative costs increased by approximately \$796,000 to \$1,227,000 for the three months ended September 30, 2003 from \$431,000 for the three months ended September 30, 2002. These increases are due to the significant increase in the number of credit card processing customers.

Professional fees decreased by approximately \$211,000 to \$692,000 for the three months ended September 30, 2003 from \$903,000 for the three months ended September 30, 2002. The decrease was due primarily to a decrease in the need for professional services in the three month period in 2003 versus the same period in 2002. Insurance expense increased by approximately \$151,000 to \$623,000 for the three months ended September 30, 2003 compared to \$472,000 for the three months ended September 30, 2002. The increase is due primarily to the increased

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION:
(Continued)**

number of Capcos in the current period compared to the prior period. Other expenses increased by \$142,000 to \$955,000 for the three months ended September 30, 2003 from \$813,000 for the three months ended September 30, 2002. The increase was due primarily to expenses incurred by consolidated partner companies.

Other than temporary decline in value of investments decreased by approximately \$344,000 from \$601,000 for the three months ended September 30, 2002 to \$257,000 for the three months ended September 30, 2003, due to the Company's determination that fewer impairment charges were required in the current period. Newtek determined that there was an other than temporary decline in the value of two debt investments held by its Louisiana Capco of approximately \$257,000 for the three month period ended September 30, 2003. The Company determined that the collateral for these two investments (which are believed to be in liquidation) would not be enough to satisfy its obligations.

For the three month period ended September 30, 2002, the Company determined that there was approximately \$100,000 of an other than temporary decline in the value of its investments for O.S. Johnson, LLC, \$329,000 for DC Media, and an approximately \$44,000 other than temporary decline in the value of its investments for Gino's Seafood. In addition, the Company determined an impairment existed for a non-Capco investment (included in prepaid expenses and other assets on the balance sheet), and recorded a charge of approximately \$150,000. In 2002, the Company also recovered approximately \$22,000 of cash on two of its investments written down in 2000. These items aggregate approximately \$601,000 which is shown on the statement of income as other than temporary decline in value of investments.

Equity in net losses of affiliates decreased by approximately \$121,000 from \$121,000 for the three months ended September 30, 2002 to zero for the three months ended September 30, 2003. This decrease is due to additional equity investments in 2002 compared to 2003, as well as additional losses incurred by the equity investment companies in the three month period ended September 30, 2002 as compared to the three month period ended September 30, 2003.

Nine months Ended September 30, 2003 compared to Nine months Ended September 30, 2002

Revenues increased by approximately \$25,725,000 to \$54,068,000 for the nine months ended September 30, 2003, compared to \$28,343,000 for the nine months ended September 30, 2002. Income from tax credits increased by approximately \$18,783,000 to \$43,927,000 for the nine months ended September 30, 2003, from \$25,144,000 for the nine months ended September 30, 2002, due to Newtek meeting different investment thresholds mandated by the various state Capco statutes in the same nine month period of 2003 versus 2002. Credit card processing revenue increased by approximately \$2,955,000 to \$3,868,000 for the nine months ended September 30, 2003 from \$913,000 for the nine months ended September 30, 2002, due to the Company's increase in credit card processing customers as well as two additional partner companies in the business. Interest and dividend income increased by approximately \$2,322,000 to \$3,005,000 for the nine months ended September 30, 2003, from \$683,000 for the nine months ended September 30, 2002. This increase was primarily due to the activities of Newtek Small Business Finance (NSBF), which was acquired on December 31, 2002. Consulting fee income decreased by approximately \$165,000 to \$103,000 for the nine months ended September 30, 2003, from \$268,000 for the nine months ended September 30, 2002. This decrease is a result of the increased focus on the credit card and small business lending activities. Other income increased by approximately \$1,498,000 to \$2,816,000 for the nine months ended September 30, 2003, from \$1,318,000 for the nine months ended September 30, 2002. This increase is primarily due to the SBA loan servicing fee income and SBA loan application fees of \$1,796,000 earned by Newtek Small Business Finance during the nine months ended September 30, 2003.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION:
(Continued)**

Interest expense increased by approximately \$1,867,000 to \$10,526,000 for the nine months ended September 30, 2003 from \$8,659,000 for the nine months ended September 30, 2002. The increase was due primarily to the increased number of Capcos (Wilshire Colorado Partners and Wilshire Louisiana Partners III) in 2003, as well as the interest expense attributable to NSBF operations. Payroll and consulting fees increased by approximately \$226,000 to \$4,471,000 for the nine months ended September 30, 2003 compared to \$4,245,000 for the nine months ended September 30, 2002. The increase was due to the increased number of partner companies. Credit card processing direct costs increased by \$1,873,000 to \$2,394,000 for the nine months ended September 30, 2003 from \$521,000 for the nine months ended September 30, 2002. Credit card processing administrative costs increased by approximately \$910,000 to \$2,252,000 for the nine months ended September 30, 2003 from \$1,342,000 for the nine months ended September 30, 2002. The increases are due to the significant increase in the number of credit card processing customers.

Professional fees increased by \$322,000 to \$2,749,000 for the nine months ended September 30, 2003 from \$2,427,000 for the nine months ended September 30, 2002. The increase was due primarily to additional legal fees incurred, which is attributable to the increased size and number of Capcos in 2003 versus 2002, as well as due to the increase in numbers of partner companies. Other expenses increased by \$1,387,000 to \$2,898,000 for the nine months ended September 30, 2003 from \$1,511,000 for the nine months ended September 30, 2002. The increase was due primarily to expenses incurred by consolidated partner companies other than credit card processing and NSBF as described above.

Other than temporary decline in value of investments increased by approximately \$402,000 from \$1,589,000 for the nine months ended September 30, 2002 to \$1,991,000 for the nine months ended September 30, 2003, due to the Company's determination that a greater amount of its investment values were impaired in the first nine months of 2003 versus the same period of 2002. During the nine month period ended September 30, 2003, Newtek determined that there was an approximately \$943,000 of an other than temporary decline in the value of its investments for Merchant Data Systems, Inc., (MDS) \$500,000 for 1-800 Gift Certificate, \$271,000 for an equity investment in Direct Creations, LLC, \$145,000 for O.S. Johnson, LLC, \$112,000 for Gerace Auto Parts, and \$20,000 for Transworld Business Brokers, LLC. These items aggregated approximately \$1,991,000 which is shown on the statement of income as other than temporary decline in value of investments.

The Company also has a debt investment in Direct Creations (DC) which had produced a new infomercial for its only product the Zen Oracle Training Putter . DC was counting on a high response rate from its April, 2003 media buys. The results from this airing of the infomercial were extremely disappointing and accordingly, the investment committee has serious doubts as to the market acceptability of the Zen Oracle and thus the viability of the company. The debt that is owed by DC to Newtek's capco subsidiaries is collateralized by the assets of DC (some inventory that would need to be closed-out) and a personal guarantee from the CEO. The Company believes that the CEO has the financial capability to honor the guarantee and accordingly, the investment committee has determined that there has not been an other than temporary decline in the recorded value of its debt investment.

1-800 Gift Certificate has not provided a 2002 annual audited financial statement. The audited financial statement was required to be delivered to Newtek as of April 1, 2003. This constitutes a technical default of covenants under the investment terms. 1-800's interim financial statements have indicated an additional weakening of the balance sheet (which reflects a negative equity position). The Company does not expect to recover this investment.

In March, 2003, Wilshire Partners (Newtek's Florida Capco) filed a law suit in Florida state court claiming a default under the outstanding debt investment to MDS. MDS counter-sued Wilshire Partners, and Newtek's CEO,

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION:
(Continued)**

COO and CFO in April, 2003. Although the investment committee is confident that the balance owed is appropriate and due, it does not expect to recover this investment.

For the nine month period ended September 30, 2002, Newtek determined that there was approximately \$734,000 of an other than temporary decline in the value of its investments for Starphire Technologies, LLC, approximately \$87,000 other than temporary decline in the value of its investment for Gino's Seafood, approximate \$458,000 for Direct Creations, LLC, \$100,000 for O.S. Johnson, LLC and an approximate \$77,000 other than temporary decline in the value of its investments for Embosser's Sales and Service. In addition, Newtek determined an impairment existed for a non-Capco investment (included in prepaid expenses and other assets on the balance sheet), and recorded a charge of approximately \$162,000. In 2002, Newtek also recovered approximately \$29,000 of cash on two of its investments written down in 2000. These items aggregate approximately \$1,589,000 which is shown on the statement of income as other than temporary decline in value of investments.

For the nine month period ended September 30, 2003, equity in net losses of affiliates decreased by approximately \$794,000 to zero from \$794,000 for the nine month period ended September 30, 2002. This decrease is due to additional equity investments in 2002 compared to 2003, as well as additional losses incurred by the equity investment companies in the nine month period ended September 30, 2002 as compared to the nine month period ended September 30, 2003.

At September 30, 2003, Newtek had nineteen majority-owned partner companies, all of which were as a result of investments through the capco programs. For the nine months ended September 30, 2003, these companies represented approximately \$2,813,000 in losses that are consolidated in Newtek's results (net of inter-company eliminations of \$1,092,000 in revenues and \$1,111,000 in expenses). For the nine months ended September 30, 2003, revenues from consolidating partner companies, net of inter-company eliminations, amounted to \$9,344,000 and were generated from the following sources: SBA lending (\$4,644,000), credit card processing (\$3,868,000), consulting (\$463,000), outsourced bookkeeping (\$162,000), and other (\$207,000). For the nine months ended September 30, 2003, expenses incurred by consolidating partner companies, net of inter-company eliminations, amounted to \$12,157,000 and were incurred by the following sources: SBA lending (\$4,733,000), credit card processing (\$4,646,000), consulting (\$1,773,000), outsourced bookkeeping (\$656,000), and other (\$349,000). For the nine months ended September 30, 2002, these companies represented approximately \$2,176,000 in losses that are consolidated in Newtek's results (net of inter-company eliminations of \$634,000 in revenues and \$581,000 in expenses). For the nine months ended September 30, 2002, revenues from consolidating partner companies, net of inter-company eliminations, amounted to \$1,823,000 and were generated from the following sources: credit card processing (\$913,000), consulting (\$212,000), outsourced bookkeeping (\$171,000), and other (\$527,000). For the nine months ended September 30, 2002, expenses incurred by consolidating partner companies, net of inter-company eliminations, amounted to \$3,999,000 and were incurred by the following sources: credit card processing (\$1,863,000), consulting (\$1,188,000), outsourced bookkeeping (\$404,000), and other (\$544,000).

As of December 31, 2002, SBA loans that were past due more than 90 days, but was still performing (accruing interest), amounted to \$293,800. Of this amount, \$175,000 became current, and \$100,000 was moved to non-performing status. As of September 30, 2003, SBA loans that are past due more than 90 days, but are still performing (accruing interest), amount to \$65,824.

As of December 31, 2002, SBA loans that are on a non-accrual basis amounted to \$2,914,767. As of September 30, 2003, SBA loans that are on a non-accrual basis amount to \$4,248,724. This increase was predominately due to two loans being degraded to non-performing status. Charge offs are made due to the decrease in asset quality of the receivables as a result of their poor performance on repaying the SBA loan. Newtek considers the specific payback performance of each SBA loan, as well as payback performance as a whole, to determine if our provision is adequate.

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LIQUIDITY AND CAPITAL RESOURCES

Newtek has funded its operations primarily through the issuance of notes to Certified Investors through the Capco program. To date, Newtek has received approximately \$166,700,000 in proceeds from the issuance of long-term debt, Capco warrants and the Company's common stock through the Capco programs. The Company's principal capital requirements have been to fund the extinguishment of the principal amount of notes issued to the Certified Investors, the acquisition of Capco insurance policies, the acquisition of partner companies interests, funding of other investments, and working capital needs resulting from increased operating and business development activities of its Partner Companies.

Net cash used in operating activities for the nine months ended September 30, 2003 of approximately \$3,873,000 resulted primarily from net income of approximately \$14,040,000, increased by the non-cash interest expense of approximately \$8,642,000. It was also affected by the approximately \$1,991,000 in other than temporary decline in value of investments, approximately \$1,912,000 in minority interest, the approximately \$43,927,000 in income from tax credits, and the deferred income tax provision of \$8,857,000. In addition, Newtek had an increase in components of working capital of \$1,709,000.

Net cash provided by investing activities for the nine months ended September 30, 2003 of approximately \$167,000 resulted primarily from returns of principal of approximately \$4,677,000, offset by approximately \$9,810,000 in additional qualified investments made in the period, \$1,500,000 of cash paid for the acquisition of AMS, and approximately \$3,725,000 in SBA loans issued. Newtek also received approximately \$5,590,000 in repayments of its SBA loans receivable and Newtek consolidated approximately \$5,303,000 of cash of its majority owned partner companies.

Net cash used in financing activities for the nine months ended September 30, 2003 was approximately \$2,465,000, primarily attributable to approximately \$1,637,000 from the private placement of common stock and exercise of stock options, \$1,000,000 in proceeds from issuance of debt, and \$2,000,000 in proceeds from the sale of preferred stock of a consolidated subsidiary, offset by approximately \$4,854,000 in payments on SBA loans payable, and payment of notes payable-insurance of \$1,488,000, \$315,000 of repayment to notes payable-other, and repayment of a line of credit totaling \$450,000.

Newtek believes that its cash and cash equivalents, its anticipated cash flow from operations, its ability to access private and public debt and equity markets, and the availability of funds under its existing credit agreements will provide it with sufficient liquidity to meet its short and long-term capital needs.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10 QSB contains forward-looking statements. Additional written or oral forward-looking statements may be made by Newtek from time to time in filings with the Securities and Exchange Commission or otherwise. The words "believe," "expect," "seek," and "intend" and similar expressions identify forward-looking statements, which speak only as of the date the statement is made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but are not limited to, projections of income or loss, expenditures, acquisitions, plans for future operations, financing needs or plans relating to services of the Company, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements.

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Newtek does not undertake, and specifically disclaims, any obligation to publicly release the results of revisions which may be made to forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after such statements.

Table of Contents**ITEM 3. CONTROLS AND PROCEDURES**

Within 90 days prior to the date of this report, Newtek Business Services, Inc. carried out an evaluation, under the supervision and with the participation of the Newtek's management, including the Newtek's Chief Executive Officer and the Newtek's Chief Financial Officer, of the effectiveness of the design and operation of Newtek's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, Newtek's Chief Executive Officer and Newtek's Chief Financial Officer concluded that Newtek's disclosure controls and procedures are effective in alerting them in a timely manner to material information relating to Newtek (including its consolidated subsidiaries) required to be included in Newtek's periodic SEC filings. There have been no significant changes in Newtek's internal controls or in other factors that could significantly affect these controls subsequent to the date Newtek conducted its evaluation.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed by Newtek under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to Newtek's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Disclosure controls include internal controls that are designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use and transactions are properly recorded and reported.

Any control system, no matter how well conceived and operated, can provide only reasonable assurance that its objectives are achieved. The design of a control system inherently has limitations, including the controls' cost relative to their benefits. Additionally, controls can be circumvented. No cost-effective control system can provide absolute assurance that all control issues and instances of fraud, if any, will be detected.

PART II OTHER INFORMATION**ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

(c) The following transaction in the securities of the Registrant occurred in the three month period ending September 30, 2003.

The securities sold were shares of the Company's common stock and the sale was to an unaffiliated, accredited investor and in reliance on Section 4(2) of the Securities Act of 1933, as amended, and applicable New York State law. The shares were sold for cash at an approximately 20 percent discount to the then current market value due to the fact that the shares are restricted under applicable securities laws and were sold without registration rights.

| <u>NAME</u> | <u>DATE</u> | <u>SHARES</u> | <u>PRICE</u> |
|-----------------------|---------------|---------------|--------------|
| Robert & Betsy Wexler | July 18, 2003 | 16,666 | \$4.50 |

ITEM 5. OTHER INFORMATION

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Attached as **Exhibits 31.1, 31.2** and **99.1** are, respectively, the Certifications required by Rules 13a-14(a)/15d-14(a) and Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

NEWTEK BUSINESS SERVICES, INC.

Date: November 13 , 2003

/s/ Barry Sloane

Barry Sloane

Chairman of the Board, Chief Executive Officer and
Secretary

Date: November 13 , 2003

/s/ Brian A. Wasserman

Brian A. Wasserman

Treasurer, Chief Financial Officer and Director

Date: November 13 , 2003

/s/ Giuseppe Soccodato

Giuseppe Soccodato

Controller and Chief Accounting Officer