NEWTEK BUSINESS SERVICES INC
Form 10-Q
May 13, 2008
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2008

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: 001-16123

NEWTEK BUSINESS SERVICES, INC.

(Exact name of registrant as specified in its charter)

New York	**11-3504638**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1440 Broadway, 17th floor, New York, NY	**10018**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (212) 356-9500

Indicate by checkmark 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 x No ¨

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

Large Accelerated Filer ¨	Accelerated Filer ¨
Non-Accelerated Filer ¨	Smaller reporting company x

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

As of May 5, 2008, there 36,948,524 of the Company s Common Shares issued and outstanding.

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Item 1. Financial Statements

NEWTEK BUSINESS SERVICES, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

(In Thousands, except for Per Share Data)

	2008	2007
Operating revenues	$ 23,520	$ 21,809
Operating expenses:		
Electronic payment processing costs	12,225	9,865
Salaries and benefits	6,579	5,397
Interest	2,290	3,883
Depreciation and amortization	1,809	1,567
Other operating costs	4,652	5,287
Total operating expenses	27,555	25,999
Operating loss from continuing operations before minority interest, benefit for income taxes, and discontinued operations	(4,035)	(4,190)
Minority interest	102	124
Loss from continuing operations before benefit for income taxes and discontinued operations	(3,933)	(4,066)
Benefit for income taxes	1,238	1,372
Loss from continuing operations before discontinued operations	(2,695)	(2,694)
Discontinued operations, net of taxes		(205)
Net loss	$ (2,695)	$ (2,899)
Weighted average common shares outstanding:		
Basic and diluted	35,869	35,651
Loss per share from continuing operations:		
Basic and diluted	$ (0.08)	$ (0.07)
Loss per share from discontinued operations, net of taxes:		
Basic and diluted		(0.01)
Basic and diluted loss per share	$ (0.08)	$ (0.08)

See accompanying notes to these unaudited condensed consolidated financial statements.

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NEWTEK BUSINESS SERVICES, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

MARCH 31, 2008 AND DECEMBER 31, 2007

(In Thousands, except for Per Share Data)

	March 31, 2008 Unaudited	December 31, 2007 (Note 1)
ASSETS		
Cash and cash equivalents	$ 20,230	$ 25,372
Restricted cash	10,755	12,948
Credits in lieu of cash	86,186	92,781
SBA loans held for investment (net of reserve for loan losses of $2,226, and $2,196, respectively)	27,605	27,895
Accounts receivable (net of allowance of $442 and $321, respectively)	3,673	3,957
SBA loans held for sale	957	360
Prepaid and structured insurance	3,775	14,738
Prepaid expenses and other assets (net of accumulated amortization of deferred financing costs of $1,736 and $1,593, respectively)	10,607	9,789
Servicing asset (net of accumulated amortization and allowances of $3,432 and $3,160, respectively)	2,483	2,718
Fixed assets (net of accumulated depreciation and amortization of $7,339 and $6,616, respectively)	5,417	5,433
Intangible assets (net of accumulated amortization of $9,484 and $8,775, respectively)	8,316	8,829
Goodwill	12,996	12,996
Total assets	$ 193,000	$ 217,816
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$ 8,606	$ 10,259
Notes payable	24,699	26,765
Deferred revenue	2,254	2,032
Notes payable in credits in lieu of cash	85,686	79,085
Deferred tax liability	7,038	17,880
Total liabilities	128,283	136,021
Minority interest	4,726	4,970
Commitments and contingencies		
Shareholders equity:		
Preferred stock (par value $0.02 per share; authorized 1,000 shares, no shares issued and outstanding)		
Common stock (par value $0.02 per share; authorized 54,000 shares, issued and outstanding 36,084 and 36,081, respectively, not including 474 and 583 shares held in escrow, respectively, and 473 held by an affiliate)	722	722
Additional paid-in capital	56,237	56,161
Retained earnings	3,223	20,245
Treasury stock, at cost (137 and 217 shares, respectively)	(191)	(303)
Total shareholders equity	59,991	76,825
Total liabilities and shareholders equity	$ 193,000	$ 217,816

See accompanying notes to these unaudited condensed consolidated financial statements.

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NEWTEK BUSINESS SERVICES, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

(In Thousands)

	2008	2007
Cash flows from operating activities:		
Net loss	$ (2,695)	$ (2,899)
Adjustments to reconcile net loss to net cash used in operating activities:		
Income from tax credits	(1,464)	(1,301)
Accretion of interest expense	1,749	3,063
Deferred income taxes	(1,290)	(1,589)
Depreciation and amortization	1,809	1,567
Provision for loan losses	409	167
Other, net	9	(319)
Changes in operating assets and liabilities :		
Originations of SBA loans held for sale	(3,068)	(9,116)
Proceeds from sale of SBA loans held for sale	2,471	6,594
Prepaid expenses and other assets, accounts receivable and accrued interest receivable	(692)	1,935
Accounts payable, accrued expenses and deferred revenue	(1,363)	(2,553)
Other, net	137	316
Net cash used in operating activities	(3,988)	(4,135)
Cash flows from investing activities:		
Investments in qualified businesses	(90)	
Return of investments in qualified businesses	174	570
Purchase of fixed assets and customer merchant accounts	(1,001)	(862)
SBA loans originated for investment, net	(994)	(2,686)
Payments received on SBA loans	903	1,744
Proceeds from sale of asset held for sale		1,572
Change in restricted cash	2,021	2,766
Other		578
Net cash provided by investing activities	1,013	3,682

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NEWTEK BUSINESS SERVICES, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (CONTINUED)

	2008	2007
Cash flows from financing activities:		
Proceeds from notes payable		5,057
Repayments of notes payable		(4,266)
Change in restricted cash relating to CDS financing		2,050
Net proceeds (repayments) on bank notes payable	(2,026)	907
Other	(141)	(114)
Net cash (used in) provided by financing activities	(2,167)	3,634
Net (decrease) increase in cash and cash equivalents	(5,142)	3,181
Cash and cash equivalents - beginning of period	25,372	26,685
Cash and cash equivalents - end of period	$ 20,230	$ 29,866
Supplemental disclosure of cash flow activities:		
Reduction of credits in lieu of cash and notes payable in credits in lieu of cash balances due to delivery of tax credits to Certified Investors	$ 4,045	$ 3,828
Effects of CDS Business Services, Inc. consolidation (excludes intercompany balances):		
Additions to assets:		
Cash	$	$ 233
Accounts receivable		4,311
Prepaid expenses and other assets		94
Total assets	$	$ 4,638
Additions to liabilities:		
Accounts payable and accrued expenses	$	$ 3,127
Notes payable		3,259
Total liabilities		6,386
Goodwill recognized	$	$ 1,748

See accompanying notes to these unaudited condensed consolidated financial statements.

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NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION:

Newtek Business Services, Inc. (Newtek) is a holding company for several wholly- and majority-owned subsidiaries, including 15 certified capital companies which are referred to as Capcos, and several portfolio companies in which the Capcos own non-controlling or minority interests. The Company provides a one-stop-shop of business services to the small- and medium-sized business market and uses state of the art web-based proprietary technology to be a low-cost acquirer and provider of products and services. The Company partners with companies, credit unions, and associations to offer its services.

Effective January 1, 2008, the Company changed its basis of presentation for its business segments. For additional information see Note 11 to the Condensed Consolidated Financial Statements.

The Company s principal business segments are:

Electronic Payment Processing: Marketing, credit card processing and check approval services to the small- and medium-sized business market.

Web Hosting: CrystalTech Web Hosting, Inc., which offers shared and dedicated web hosting and related services to the small- and medium-sized business market.

Small Business Finance: Newtek Small Business Finance, Inc. (NSBF), a nationally licensed, U.S. Small Business Administration (SBA) lender that originates, sells and services loans to qualifying small businesses, which are partially guaranteed by the SBA. CDS Business Services, Inc, D/B/A Newtek Business Credit (NBC), provides financing to small- and medium-sized businesses by purchasing their receivables at a discounted rate. In addition, NBC provides billing and accounts receivable maintenance services to businesses.

All Other: Includes results from businesses formed from Investments in Qualified Businesses made through Capco programs which cannot be aggregated with other operating segments.

Corporate Activities: Revenue and expenses not allocated to other segments, including interest income, Capco management fee income and corporate expenses.

Capcos: Fifteen certified capital companies which invest in small- and medium-sized businesses. They generate non-cash income from tax credits and non-cash interest expense.

The condensed consolidated financial statements of Newtek Business Services, Inc., its subsidiaries and FIN 46 consolidated entities, (Financial Accounting Standards Board (FASB) issued Interpretation (FIN) No. 46 Consolidation of Variable Interest Entities), (the Company or Newtel included herein have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America and include all wholly- and majority-owned subsidiaries, and those portfolio companies over which the Company has effective control but which the Capcos own non-controlling minority interest, or those of which Newtek is considered to be the primary beneficiary (as defined under FIN 46 and FIN 46R). All inter-company balances and transactions have been eliminated in consolidation. Currently, the Company is absorbing losses attributable to certain of its minority interest holders. Once these entities achieve profitability, the losses will be restored to the Company prior to allocation of profits to all minority holders.

The accompanying notes to condensed consolidated financial statements should be read in conjunction with Newtek s 2007 Annual Report on Form 10-K. These financial statements have been prepared in accordance with instructions to Form 10-Q and Article 10 of Regulations S-X and, therefore, omit or condense certain footnotes and other information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States. The results of operations for an interim period may not give a true indication of the results for the entire year. The December 31, 2007 consolidated balance sheet has been derived from the audited financial statements of that date, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

All financial information included in the tables in the following footnotes are stated in thousands, except per share data.

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NOTE 2 SIGNIFICANT ACCOUNTING POLICIES:

Use of Estimates

The preparation of consolidated 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 disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting period. The level of uncertainty in estimates and assumptions increases with the length of time until the underlying transactions are complete. The most significant estimates are with respect to valuation of investments in qualified businesses, asset impairment valuation, allowance for loan losses, valuation of servicing assets, chargeback reserves, tax valuation allowances and the fair value measurements used to value certain financial assets and financial liabilities. Actual results could differ from those estimates.

Change in Accounting Principle

During the first quarter of fiscal 2008, we elected to change our accounting principle to recognize the sale of guaranteed portions of SBA loans on the trade date. Prior to the first quarter of fiscal 2008, we recognized these transactions in our condensed consolidated financial statements on the settlement date. We concluded that use of the trade date was preferable to the settlement date as recognition of the sale at the trade date better reflects the risks and rewards of the transfer of ownership. In accordance with Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections, this change in accounting principle has been applied retrospectively to our condensed consolidated financial statements for all prior periods. As historically traded loans have settled in the same period, this change in accounting principle had no effect on previously reported operating income, net earnings, shareholders equity or cash flows.

Revenue Recognition

The Company operates in several different segments. Revenues are recognized as services are rendered and are summarized as follows:

Electronic payment processing revenue: Electronic payment processing income is derived from the electronic processing of credit and debit card transactions that are authorized and captured through third-party networks. Typically, merchants are charged for these processing services on a percentage of the dollar amount of each transaction plus a flat fee per transaction. Certain merchant customers are charged miscellaneous fees, including fees for handling chargebacks or returns, monthly minimum fees, statement fees and fees for other miscellaneous services. In accordance with Emerging Issues Task Force (EITF) 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent , revenues derived from the electronic processing of MasterCard® and Visa® sourced credit and debit card transactions are reported gross of amounts paid to sponsor banks.

The Company also derives revenues from acting as independent sales offices (ISO) for third-party processors (residual revenue) and from the sale of credit and debit card devices. Residual revenue is recognized monthly, based on contractual agreements with such processors to share in the residual income derived from the underlying merchant agreements. Revenues derived from sales of equipment are recognized at the time of shipment to the merchant.

Web hosting revenue: Web hosting revenues are primarily derived from monthly recurring service fees for the use of our web hosting and software support services. Customer set-up fees are billed upon service initiation and are recognized as revenue over the estimated customer relationship period of 2.5 years. Payment for web hosting and related services is generally received one month to three years in advance. Deferred revenues represent customer prepayments for upcoming web hosting and related services.

Income from tax credits: Following an application process, a state will notify a company that it has been certified as a Capco. The state then allocates an aggregate dollar amount of tax credits to the Capco. However, such amount is neither recognized as income nor otherwise recorded in the financial statements since it has yet to be earned by the Capco. The Capco is legally entitled to earn tax credits upon satisfying defined investment percentage thresholds within specified time requirements and corresponding non-recapture percentages. At March 31, 2008, the Company had Capcos in seven states and the District of Columbia. Each state statute requires that the Capco invest a threshold percentage of Certified Capital in Qualified Businesses within the time frames specified. As the Capco meets these requirements, it avoids grounds under the statute for its disqualification for continued participation in the Capco program. Such a disqualification, or decertification as a Capco results in a recapture of all or a portion of the allocated tax credits; the proportion of the recapture is reduced over time as the Capco remains in general compliance with the program rules and meets the progressively increasing investment benchmarks.

As the Capco continues to make its investments in Qualified Businesses and, accordingly, places an increasing proportion of the tax credits beyond recapture, it earns an amount equal to the non-recapturable tax credits and records such amount as income from tax credits , with a corresponding asset called credits in lieu of cash , in the accompanying condensed consolidated balance sheets. The amount earned and recorded as income is determined by multiplying the total amount of tax credits allocated to the Capco by the percentage of tax credits immune from recapture (the earned income percentage) under the state statute. To the extent that the investment requirements are met ahead of schedule, and the percentage of non-recapturable tax credits is accelerated, the present value of the tax credit earned is recognized currently and the asset, credits in lieu of cash, is accreted up to the amount of tax credits available to the Certified Investors. If the tax credits are earned before the state is required to make delivery (i.e., investment requirements are met ahead of schedule, but credits can only be used by the certified investor in a future year), then the present value of the tax credits earned are recorded upon completion of the requirements, in accordance with Accounting Principles Board Opinion No. 21. The receivable (called credits in lieu of cash) is accreted to the annual deliverable amount which can then be delivered to the insurance company investors in lieu of cash interest. Delivery of the tax credits to the Certified Investors results in a decrease of the receivable and the notes payable in credits in lieu of cash.

The allocation and utilization of Capco tax credits is controlled by the state law. In general, the Capco applies for tax credits from the state and is allocated a specific dollar amount of credits which are available to be earned. The Capco provides the state with a list of the Certified Investors, who have contractually agreed to accept the tax credits in lieu of cash interest payments on their notes. The tax credits are claimed by the Certified Investors on their state premium tax return as provided under each state Capco and tax law. State regulations specify the amount of tax credits a Certified Investor can claim and the period in which they can claim them. Each state periodically reviews the Capco s operations to verify the amount of tax credits earned. In addition, the state maintains a list of Certified Investors and therefore has the ability to determine whether the Certified Investor is allowed to claim this deduction.

Sales and Servicing of SBA Loans: NSBF originates loans to customers under the SBA program that generally provides for SBA guarantees of 50% to 85% of each loan, subject to a maximum guarantee amount. NSBF sells the guaranteed portion of each loan to a third party and retains the unguaranteed principal portion in its own portfolio. A gain is recognized on these loans through collection on sale of a premium over the adjusted carrying value. Commencing on January 1, 2008, the Company began to recognize the gain on sale of the guaranteed portion of the loans on the trade date rather than the date of settlement. Such transactions are recorded under the terms of Statement of Financial Accounting Standards (SFAS) No. 156 (SFAS No. 156), Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140 and are recorded as a component of servicing fee and premium income in the condensed consolidated statements of operations. In each loan sale, NSBF retains servicing responsibilities and receives servicing fees of a minimum of 1% of the guaranteed loan portion sold. NSBF is required to estimate its servicing compensation in the calculation of its servicing asset. The purchasers of the loans sold have no recourse to NSBF for failure of customers to pay amounts contractually due.

In accordance with SFAS No. 156, upon sale of the loans to third parties, NSBF separately recognizes at fair value any servicing assets or servicing liabilities first, and then allocates the previous carrying amount between the assets sold and the interests that continue to be held by the transferor (the unguaranteed portion of the loan) based on their relative fair values at the date of transfer. The difference between the proceeds received and the allocated carrying value of the financial assets sold is recognized as a gain on sale of loans.

Each class of servicing assets and liabilities are subsequently measured using either the amortization method or the fair value measurement method. The amortization method, which NSBF has chosen to continue applying to its servicing asset, amortizes the asset in proportion to, and over the period of, the estimated future net servicing income on the underlying sold portion of the loans (guaranteed) and assesses the servicing asset for impairment based on fair value at each reporting date. In the event future prepayments are significant or impairments are incurred and future expected cash flows are inadequate to cover the unamortized servicing assets, additional amortization or impairment charges would be recognized. The Company uses an independent valuation specialist to estimate the fair value of the servicing asset.

In evaluating and measuring impairment of servicing assets, NSBF stratifies its servicing assets based on year of loan and loan term which are key risk characteristics of the underlying loan pools. The fair value of servicing assets is determined by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, servicing costs and discount rates that NSBF believes market participants would use for similar assets.

If NSBF determines that the impairment for a stratum is temporary, a valuation allowance is recognized through a charge to current earnings for the amount the unamortized balance exceeds the current fair value. If the fair value of the stratum were to later increase, the valuation allowance may be reduced as a recovery. However, if NSBF determines that an impairment for a stratum is other than temporary, the value of the servicing asset and any related valuation allowance is written-down.

Interest and Small Business Administration (SBA) Loan Fees SBA Loans: Interest income on loans is recognized as earned. Loans are placed on nonaccrual status if they are 90 days past due with respect to principal or interest and, in the opinion of management, interest or principal on individual loans is not collectible, or at such earlier time as management determines that the collectibility of such principal or interest is unlikely. When a loan is designated as nonaccrual, the accrual of interest is discontinued, and any accrued but uncollected interest income is reversed and charged against current income. While a loan is classified as nonaccrual and the future collectibility of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding.

NSBF passes through to the borrower certain expenditures it incurs, such as forced placed insurance or insufficient funds fees, or fees it assesses, such as late fees, with respect to managing the loan. These expenditures are recorded when incurred. Due to the uncertainty with respect to collection of these passed through expenditures or assessed fees, any funds received to reimburse NSBF are recorded on a cash basis as other income.

Insurance commissions: Revenues are comprised of commissions earned on premiums paid for insurance policies and are recognized at the time the commission is earned. At that date, the earnings process has been completed and the Company can estimate the impact of policy cancellations for refunds and establish reserves. The reserve for policy cancellations is based on historical cancellation experience adjusted by known circumstances.

Other income: Other income represents revenues derived from operating units that cannot be aggregated with other business segments. In addition, other income represents one-time recoveries or gains on qualified investments. Revenue is recorded when there is credible evidence of an agreement, the related fees are fixed, the service and/or product has been delivered, and the collection of the related receivable is assured.

The detail of total operating revenues included in the condensed consolidated statements of operations are as follows for the three months ended:

(In thousands):	March 31, 2008	March 31, 2007
Electronic payment processing	$ 15,183	$ 12,518
Web hosting	4,276	3,876
Interest income	973	1,497
Income from tax credits	1,463	1,301
Premium income	150	716
Servicing fee	485	444
Insurance commissions	243	238
Other income	747	1,219
Totals	$ 23,520	$ 21,809

Electronic Payment Processing Costs

Electronic payment processing costs consist principally of costs directly related to the processing of merchant sales volume, including interchange fees, VISA and MasterCard dues and assessments, bank processing fees and costs paid to third-party processing networks. Such costs are recognized at the time the merchant transactions are processed or when the services are performed. Two of the most significant components of electronic processing expenses include interchange and assessment costs, which are set by the credit card associations. Interchange costs are passed on to the entity issuing the credit card used in the transaction and assessment costs are retained by the credit card associations. Interchange and assessment fees are billed primarily as a percent of dollar volume processed and, to a lesser extent, as a per transaction fee. In addition to costs directly related to the processing of merchant sales volume, electronic payment processing costs also include residual expenses. Residual expenses represent fees paid to third-party sales referral sources. Residual expenses are paid under various formulae as contracted with such third-party referral sources, but are generally linked to revenues derived from merchants successfully referred to the Company and that begin using the Company for merchant processing services. Such residual expenses are typically ongoing as long as the referred merchant remains a customer of the Company and are recognized as expenses as related revenues are recognized in the Company s condensed consolidated statements of operations.

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Restricted Cash

Restricted cash includes cash collateral relating to a letter of credit; monies due on loan-related remittances and insurance premiums received by the Company and due to third parties; cash held by the Capcos restricted for use in managing and operating the Capco, making qualified investments and for the payment of income taxes; and a cash account maintained as a reserve against chargeback losses.

Investments in Qualified Businesses

The various interests that the Company acquires in its qualified 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, or the economics of the transaction if the investee is determined to be a variable interest entity.

Consolidation Method. Investments in which the Company directly or indirectly owns more than 50% of the outstanding voting securities, those the Company has effective control over, or those deemed to be a variable interest entity in which the Company is the primary beneficiary under the provisions of FIN 46R (FIN 46 consolidated entity) are generally accounted for under the consolidation method of accounting. Under this method, an investment s financial position and results of operations are reflected within the Company s condensed consolidated financial statements. All significant inter-company accounts and transactions are eliminated, including returns of principal, dividends, interest received and investment redemptions. The results of operations and cash flows of a consolidated operating entity are included through the latest interim period in which the Company owned a greater than 50% direct or indirect voting interest, exercised control over the entity for the entire interim period or was otherwise designated as the primary beneficiary. Upon dilution of control below 50%, or upon occurrence of a triggering event requiring reconsideration as to the primary beneficiary of a variable interest entity, the accounting method is adjusted to the equity or cost method of accounting, as appropriate, for subsequent periods.

Equity Method. Investees that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the investee s Board of Directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the investee, 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 condensed consolidated financial statements; however, the Company s share of the earnings or losses of the investee is reflected in the Company s condensed consolidated financial statements.

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 net earnings or losses of such companies is not included in the Company s condensed consolidated financial statements. However, cost method impairment charges are recognized, as necessary, in the Company s condensed consolidated financial statements. If circumstances suggest that the value of the investee has subsequently recovered, such recovery is not recorded until ultimately liquidated or realized.

The Company s debt and equity investments have substantially been made with funds available to Newtek through the Capco programs. These programs generally require that each Capco meet a minimum investment benchmark within five years of initial funding. In addition, any funds received by a Capco as a result of a debt repayment or equity return may, under the terms of the Capco programs, be reinvested and counted towards the Capcos minimum investment benchmarks.

Stock - Based Compensation

The Company applies SFAS 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R requires all share-based payments to employees to be recognized in the financial statements based on their fair values using an option-pricing model at the date of grant.

As of March 31, 2008 the Company had two share-based compensation plans. For the three month period ended March 31, 2008, compensation cost charged to operations for those plans was $123,000 and is included in salaries and benefits in the accompanying condensed consolidated statements of operations. The total income tax benefit recognized in the condensed consolidated statements of operations for the three months ended March 31, 2008 for share-based compensation arrangements was $35,000.

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In March 2008, Newtek granted its six independent directors an aggregate of 197,434 options valued at $87,000. Option awards are granted with an exercise price equal to the market price of the Company s stock at the date of grant. The options vest immediately and expire 10 years from the date of grant. The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that uses the following assumptions: 5 year expected life, risk-free interest rate of 2.51% and expected volatility of the Company s stock of 53.48%. Expected volatilities are based on the historical volatility of the Company s stock and other factors. The risk-free rate for periods during the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected term was determined using the simplified method under Staff Accounting Bulletin No. 107, Valuation of Share-Based Payment Arrangements for Public Companies

There were no other options or restricted stock awards granted during the three months ended March 31, 2008.

As of March 31, 2008, there was $18,000 of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized ratably through the year ending December 31, 2009.

New Accounting Pronouncements

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157) and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States (GAAP) and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The impact of adopting both SFAS 157 and SFAS 159 reduced the beginning balance of retained earnings as of January 1, 2008 by $14.3 million, net of tax. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings when they occur. For additional information on the fair value of certain financial assets and liabilities, see Note 3 of the condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations (SFAS 141(R)), and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 141(R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income attributable to the parent. SFAS 141(R) and SFAS 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We do not expect the adoption of SFAS 141(R) and SFAS 160 to have a material impact on our consolidated financial statements.

NOTE 3 FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Company adopted SFAS No. 157 Fair Value Measurements (SFAS 157), concurrent with its adoption of SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 157 clarifies the definition of fair value and describes methods available to appropriately measure fair value in accordance with GAAP. SFAS 157 applies whenever other accounting pronouncements require or permit fair value measurements. SFAS 159 allows entities to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities that are not otherwise required to be measured at fair value, with changes in fair value recognized in earnings as they occur. SFAS 159 establishes presentation and disclosure requirements designed to improve comparability between entities that elect different measurement attributes for similar assets and liabilities. The Company has adopted SFAS 159 effective January 1, 2008 concurrent with the adoption of SFAS 157 for valuing its Capcos credits in lieu of cash, notes payable in credits in lieu of cash and prepaid insurance with the exception of those related to its Wilshire Advisers, LLC Capco. The discussion below is therefore exclusive of Wilshire Advisors, LLC.

The Company adopted SFAS 159 in order to reflect in its financial statements the assumptions that market participants use in evaluating these financial instruments. Under the cost basis of accounting, the discount rates used to calculate the present value of the credits in lieu of cash and notes payable in credits in lieu of cash did not reflect the credit enhancements that the Company s Capcos obtained from AIG, namely its AA+ rating, for their debt issued to certified investors. Instead the cost paid for the credit enhancements was recorded as prepaid insurance and amortized on a straight-line basis over the term of the credit enhancements.

With the adoption of SFAS 159 and the concurrent adoption of SFAS 157, credits in lieu of cash and notes payable in credits in lieu of cash are valued based on the yields at which financial instruments would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. SFAS 157 requires the fair value of the assets or liabilities to be determined based on the assumptions that market participant s use in pricing the financial instrument. In developing those assumptions, the Company identified characteristics that distinguish market participants generally, and considered factors specific to (a) the asset type, (b) the principal (or most advantageous) market for the asset group, and (c) market participants with whom the reporting entity would transact in that market.

Based on the aforementioned characteristics and in view of the AIG credit enhancements, the Company believes that market participants purchasing or selling its Capcos debt, and therefore its credits in lieu of cash, and notes payable in credits in lieu of cash view nonperformance risk to be equal to the risk of an AIG nonperformance risk and as such both the fair value of credits in lieu of cash and notes payable in credits in lieu of cash should be priced to yield a rate equal to an applicable AIG U.S. Dollar denominated debt instrument. Because the value of notes payable in credits in lieu of cash directly reflects the credit enhancement obtained from AIG, the unamortized cost relating to the credit enhancement will cease to be separately carried as an asset on Company s condensed consolidated balance sheet and is incorporated in notes payable in credits in lieu of cash.

The Company elected not to apply this method of accounting to one of its Capcos, Wilshire Advisers, LLC, because its debt has a different credit enhancement which makes the debt economically different than the other Capco debt and does not permit the Company to assign the credit risk of the debt to Wilshire Advisers insurer, AIG. As such, the Company reports the credits in lieu of cash, notes payable in credits in lieu of cash and prepaid insurance on a cost basis. For March 31, 2008, these were $260,000, $3,980,000, and $3,775,000, respectively.

The following table summarizes the impact of the change in accounting for Credits in lieu of cash, Prepaid insurance and Notes payable in credits in lieu of cash, and the impact of adopting the fair value option for certain financial instruments on January 1, 2008. Amounts shown represent the carrying value of the affected instruments before and after the changes in accounting resulting from the adoption of SFAS 157 and SFAS 159.

Transition impact:

(In thousands:)	**Ending Balance Sheet December 31, 2007**	**Adoption Net Gain/(Loss)**	**Opening Balance Sheet January 1, 2008**
Impact of electing the fair value option under SFAS 159			
Credits in lieu of cash	$ 92,781	$ (4,013)	$ 88,768
Prepaid insurance	14,738	(11,006)	3,732
Notes payable in credits in lieu of cash	(79,085)	(8,859)	(87,944)
Cumulative-effect adjustment (pre-tax)		(23,878)	
Tax impact		9,551	
Cumulative-effect adjustment (net of tax), decrease to retained earnings		$ (14,327)	

The fair value at March 31, 2008 was calculated using fair value hierarchy level two and in the same manner as the valuation at January 1, 2008.

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Fair Value Option

Credits in lieu of cash and Notes payable in credits in lieu of cash

The Company elected to account for both credits in lieu of cash and notes payable in credits in lieu of cash at fair value in accordance with SFAS 159 in order to reflect in its financial statements the assumptions that market participant s use in evaluating these financial instruments.

Prepaid insurance

The Company has determined that the effect of the credit enhancement obtained from AIG, namely the AA+ rating, is inseparable from the notes payable in credits in lieu of cash. In adopting SFAS 159 the prepaid insurance unamortized cost relating to the credit enhancement will cease to be separately carried as an asset on the Company s condensed consolidated balance sheet and is incorporated in notes payable in credits in lieu of cash.

Fair Value Measurement

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts and residential mortgage loans held-for-sale.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly structured or long-term derivative contracts.

As described above, the Company s Capcos debt, enhanced by AIG insurance, effectively bears the nonperformance risk of AIG. Therefore the Company calculates the present value of both the credits in lieu of cash and notes payable in credits in lieu of cash, with the exception of Wilshire Advisers, LLC, using the yield of AIG s 7.70% Series A-5 Junior Subordinated Debentures. The Company considers this a level 2 input under SFAS 157, since it is a quoted yield for a similar liability that is traded in an active exchange market. The Company selected these debentures as the most representative of the nonperformance risk associated with the CAPCO notes because they are AIG issued notes, were recently issued, and are actively traded.

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As of March 31, 2008, the future values of the credits in lieu of cash and notes payable in credits in lieu of cash, exclusive of Wilshire Advisers, LLC, are both $85,686,000. Changes in the future yield of the AIG issued debt selected for valuation purposes will result in changes to the present values of the credits in lieu of cash and notes payable in credits in lieu of cash when calculated for future periods; these changes will be reported through the Company s consolidated statements of operations.

NOTE 4 SBA LOANS:

SBA loans are primarily concentrated in the hotel and motel, and restaurant industries, as well as geographically in Florida. Below is a summary of the activity in the SBA loans held for investment, net of SBA loan loss reserves for the three months ended March 31, 2008 (In thousands):

Balance at December 31, 2007	$ 27,895
SBA loans originated for investment	989
Payments received	(902)
Provision for SBA loan losses	(409)
Loans foreclosed into real estate owned	(29)
Discount on loan originations, net	61
Balance at March 31, 2008	$ 27,605

Below is a summary of the activity in the reserve for loan losses for the three months ended March 31, 2008 (In thousands):

Balance at December 31, 2007	$ 2,196
SBA loan loss provision	409
Recoveries	15
Loan charge-offs	(394)
Balance at March 31, 2008	$ 2,226

Below is a summary of the activity in the SBA loans held for sale for the three months ended March 31, 2008 (In thousands):

Balance at December 31, 2007	$ 360
Loan originations for sale	3,068
Loans sold	(2,471)
Balance at March 31, 2008	$ 957

All loans are priced at the prime interest rate plus approximately 2.75% to 3.75%. The only loans with a fixed interest rate are defaulted loans of which the guaranteed portion sold is repurchased from the secondary market by the SBA, while the unguaranteed portion of the loans still remains with the Company. As of March 31, 2008 and December 31, 2007, net SBA loans receivable held for investment with adjustable interest rates amounted to $24,819,000 and $25,806,000, respectively.

For the three months ended March 31, 2008 and 2007, the Company funded approximately $4,058,000 and $11,985,000 in loans and sold approximately $2,471,000 and $6,595,000 of the guaranteed portion of the loans, respectively.

The outstanding balances of loans past due ninety days or more and still accruing interest as of March 31, 2008 and December 31, 2007 amounted to $308,000 and $273,000, respectively.

At March 31, 2008 and December 31, 2007, total impaired non-accrual loans amounted to $6,145,000 and $5,550,000, respectively. For the three months ended March 31, 2008 and for the year ended December 31, 2007, the average balance of impaired non-accrual loans was $6,054,000 and $5,637,000, respectively. Approximately $1,064,000 and $1,008,000 of the allowance for loan losses were allocated against such impaired non-accrual loans, respectively, in accordance with SFAS 114 Accounting by Creditors for Impairment of a Loan an amendment of FASB Statement No. 5 and 15 . The following is a summary of SBA loans held for investment as of:

(In thousands):	**March 31, 2008**	**December 31, 2007**
Due in one year or less	$ 60	$ 64
Due between one and five years	1,373	1,392
Due after five years	30,170	30,468
Total	31,603	31,924
Less : Allowance for loan losses	(2,226)	(2,196)
Less: Deferred origination fees, net	(1,772)	(1,833)
Balance (net)	$ 27,605	$ 27,895

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NOTE 5 SERVICING ASSETS:

Servicing rights are recognized as assets when SBA loans are sold and the rights to service those loans are retained. As of January 1, 2007, the Company adopted the provisions of SFAS 156 which requires all separately recognized servicing assets to be initially measured at fair value, if practicable. As of January 1, 2007, the Company identified its entire balance in servicing rights as one class of servicing assets for this measurement. The Company reviews capitalized servicing rights for impairment which is performed based on risk strata, which are determined on a disaggregated basis given the predominant risk characteristics of the underlying loans. The predominant risk characteristics are loan term and year of loan origination.

The changes in the value of the Company s servicing rights for the three months ended March 31, 2008 were as follows:

(In thousands):	
Balance at December 31, 2007	$ 3,099
Servicing assets capitalized	37
Servicing assets amortized	(272)
Balance at March 31, 2008	2,864
Reserve for impairment of servicing assets:	
Balance at December 31, 2007	(381)
Additions	
Balance at March 31, 2008	(381)
Balance at March 31, 2008 (net of reserve)	$ 2,483

The estimated fair value of capitalized servicing rights was $2,483,000 and $2,718,000 at March 31, 2008 and December 31, 2007, respectively. The estimated fair value of servicing assets at both balance sheet dates was determined using a discount rate of 11.2%, weighted average prepayment speeds ranging from 1% to 23%, depending upon certain characteristics of the loan portfolio, a weighted average life of 3 years, and an average default rate of 4.9%.

The unpaid principal balances of loans serviced for others are not included in the accompanying condensed consolidated balance sheets. The unpaid principal balances of loans serviced for others were $149,775,000 and $155,182,000 as of March 31, 2008 and December 31, 2007, respectively.

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NOTE 6 COMMON STOCK:

In connection with a restricted stock award granted in 2007, the Company issued 2,659 common shares to one employee during the three months ended March 31, 2008.

NOTE 7 WARRANTS:

In March 2008, a warrant was granted to purchase 50,000 shares of the Company s common stock to a firm performing investor relations for the Company. The warrant vests in six months with an exercise price of $2.00 and expires in March 2018. At March 31, 2008, the warrant was valued at $31,000. The compensation cost that has been charged to operations for these warrants at March 31, 2008 was $2,600 and is included in other operating costs in the accompanying condensed consolidated statements of operations. The fair value of each warrant award is estimated on the date of grant using a Black-Scholes option valuation model that uses the following assumptions: 10 year expected life, risk-free interest rate of 3.45% and expected volatility of the Company s stock of 63.76%. Expected volatilities are based on the historical volatility of the Company s stock and other factors. The risk-free rate for periods during the expected life of the warrant is based on the U. S. Treasury yield curve in effect at the time of grant. The expected term was determined based on the contractual term of the warrant. In accordance with EITF 96-18, the Company will adjust the value of the warrant to fair value at each measurement date through the date of vesting.

NOTE 8 TREASURY STOCK:

Shares of common stock repurchased by us are recorded at cost as treasury stock and result in a reduction of shareholders equity in our condensed consolidated balance sheets. From time-to-time, treasury shares may be reissued as part of our stock-based compensation programs. When shares are reissued, we use the weighted average cost method for determining cost. The difference between the cost of the shares and the issuance price is charged to compensation expense and added or deducted from additional contributed capital.

In March 2006, the Newtek Board of Directors adopted a stock buy-back program authorizing management to enter the market to re-purchase up to 1,000,000 of the Company s common shares. As of March 31, 2008, the Company has purchased a total of 217,358 treasury shares under that authorization.

In connection with the Company s 401(k) plan, at December 31, 2007, the Company elected to make a matching contribution in the form of Company stock equal to 50% of the first 2% of employee s 2007 contributions, up to a maximum match of 1%. In March 2008, in connection with this match, 80,315 treasury shares were transferred to the Company s 401(k) plan at a value of $1.10 per share.

NOTE 9 LOSS PER SHARE:

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

The calculations of loss per share were:

(In thousands except per share data):		**Three Months Ended March 31, 2008**		**Three Months Ended March 31, 2007**
Numerator:				
Numerator for basic and diluted EPS loss from continuing operations	$	(2,695)	$	(2,694)
Numerator for basic and diluted EPS loss from discontinued operations				(205)
Numerator for basic and diluted EPS loss available to common shareholders	$	(2,695)	$	(2,899)
Denominator:				
Denominator for basic and diluted EPS weighted average shares		35,869		35,651
EPS from continuing operations: Basic and diluted	$	(0.08)	$	(0.07)
EPS from discontinued operations: Basic and diluted				(0.01)

EPS: Basic and diluted	$	(0.08)	$	(0.08)

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The amount of anti-dilutive shares/units excluded from the above calculation is as follows:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Stock options and restricted stock	1,033	823
Warrants	216	216
Contingently issuable shares	474	583

NOTE 10 SUBSEQUENT EVENT:

In March 2008, the Company purchased an additional 100,000 treasury shares for a total purchase price of $105,000 under the Newtek Board of Directors adopted stock buy-back program. The purchase settled in April 2008 and is therefore not included in the accompanying condensed consolidated balance sheet as of March 31, 2008.

NOTE 11 SEGMENT REPORTING:

Operating segments are organized internally primarily by the type of services provided, and in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company has aggregated similar operating segments into six reportable segments: Electronic payment processing, Web hosting, Small business finance, All other, Corporate, and Capcos.

Effective in the first quarter of 2008, the Company made certain changes to its segment reporting to more accurately portray the operation of its businesses. For all segments other than Corporate, intercompany expenses are now charged to the user of the service with a resulting reduction in expense for the provider of the service; no revenue is recorded. Previously the provider showed the expense. This change will better match expenses to the revenues generated by a segment. In addition, the Company moved two finance-related businesses from its All other segment to the Small business finance segment and renamed it such. The new name better characterizes the financing services provided by the segment: the entities consolidated into the segment provide small- and medium-sized businesses with loans of various types including SBA 7a loans as well as receivables financing and earn fees for servicing loans for other lenders. Segment reporting for the current and previous periods reflect these changes.

Historically a substantial amount of resources were dedicated to new Capcos and the investment of the proceeds in qualified businesses and the managing of these businesses. Since management does not anticipate any new Capcos in the foreseeable future, the Company has changed its internal reporting to better evaluate and manage the existing Capco business, its corporate activities and its portfolio of small businesses included in the All other segment. The segment previously called Capco and other, which Management previously evaluated as one integrated segment, is now being evaluated as three segments Capcos, Corporate activities and All other. The segment information for prior periods has been restated to conform to the current disclosure.

The Electronic payment processing segment is a processor of credit card transactions, as well as a marketer of credit card and check approval services to the small- and medium-sized business market. Expenses include direct costs (included in a separate line captioned electronic payment processing costs), professional fees, salaries and benefits, and other expenses, all of which are included in the respective caption on the condensed consolidated statements of operations.

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The Web hosting segment consists of CrystalTech, acquired in July 2004. CrystalTech s revenues are derived primarily from web hosting services and consist of web hosting and set up fees. CrystalTech generates expenses such as professional fees, payroll and benefits, and depreciation and amortization, which are included in the respective caption on the accompanying condensed consolidated statements of operations, as well as licenses and fees, rent, and general office expenses, all of which are included in other expenses in the respective caption on the condensed consolidated statements of operations.

The Small business finance segment consists of Small Business Lending, Inc., a lender that primarily originates, sells and services government guaranteed SBA 7a loans to qualifying small businesses through its licensed SBA lender, Newtek Small Business Finance (NSBF); the Texas Whitestone Group which manages the Company s Texas Capco and closes loans; and CDS Business Services, Inc. (d/b/a Newtek Business Credit) which provides accounts receivable financing, billing and accounts receivable maintenance services to businesses. NSBF generates revenues from sales of loans, servicing income for those loans retained to service by NSBF and interest income earned on the loans themselves. The lender generates expenses for interest, professional fees, salaries and benefits, depreciation and amortization, and provision for loan losses, all of which are included in the respective caption on the condensed consolidated statements of operations. NSBF also has expenses such as loan recovery expenses, loan processing costs, and other expenses that are all included in the other general and administrative costs caption on the condensed consolidated statements of operations.

The All Other segment includes revenues and expense primarily from qualified businesses that received investments made through the Company s Capcos which cannot be aggregated with other operating segments. The two largest entities in the segment are Newtek Insurance Agency, LLC, an insurance sales operation, and Business Connect, LLC, a provider of sales and processing services.

Corporate activities represent revenue and expenses not allocated to our segments. Revenue includes interest income and management fees earned from Capcos (and included in expenses in the Capco segment). Expenses primarily include corporate operations related to broad-based sales and marketing, legal, finance, information technology, corporate development and additional costs associated with administering the Capcos.

The Capco segment, which consists of the 15 Capcos, generates non-cash income from tax credits, interest income and gains from investments in qualified businesses which are included in other income. Expenses primarily include non-cash interest and insurance expense, management fees paid to Newtek (and included in the Corporate activities revenues), legal, and auditing fees and losses from investments in qualified businesses.

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

- the nature of the product and services,
- the type or class of customer for their products and services,
- the methods used to distribute their products or provide their services, and
- 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.

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The following table presents the Company s segment information for the periods ended March 31, 2008 and 2007 and total assets as of March 31, 2008 and December 31, 2007 (In thousands):

	For the three months ended March 31, 2008	For the three months ended March 31, 2007
Third Party Revenue		
Electronic payment processing	$ 15,211	$ 12,557
Web hosting	4,282	3,888
Small business finance	1,866	3,011
Capcos	1,636	1,636
All other	661	823
Corporate activities	1,073	1,126
Total reportable segments	24,729	23,041
Eliminations	(1,209)	(1,232)
Consolidated Total	$ 23,520	$ 21,809
Inter Segment Revenue		
Electronic payment processing	$ 18	$ 10
Web hosting	39	46
Small business finance	8	
Capcos	477	501
All other	177	204
Corporate activities	504	579
Total reportable segments	1,223	1,340
Eliminations	(1,223)	(1,340)
Consolidated Total	$	$
Income (loss) before benefit for income taxes and discontinued operations		
Electronic payment processing	$ 1,080	$ 921
Web hosting	614	929
Small business finance	(1,502)	(118