NEWTEK CAPITAL INC
Form 10QSB
May 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10QSB

(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, 2002

OR

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

Commission File Number: 001-16123

NEWTEK CAPITAL, 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.)

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
[X]	[ ]

As of May 8, 2002, 24,698,542 shares of Common Stock were issued and outstanding.

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ITEM 1. FINANCIAL STATEMENTS

NEWTEK CAPITAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31 2002	December 31, 2001
ASSETS		
Cash and cash equivalents	$ 35,263,256	$ 31,171,966
Credits in lieu of cash	27,197,603	21,810,776
Investments in qualified businesses	8,027,218	14,450,228

Structured insurance product	2,772,246	2,731,894
Prepaid insurance	10,320,795	10,820,841
Prepaid expenses and other assets	1,253,414	953,142
Furniture, fixtures and equipment, net	295,098	128,290
Goodwill	2,333,159	963,736
Asset held for sale	--	331,929
Total assets	$ 87,462,789	$ 83,362,802

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:		
Accounts payable and accrued expenses	$ 2,291,338	$ 1,541,359
Notes payable - certified investors	3,854,837	3,858,389
Notes payable - insurance	8,940,821	9,404,032
Note payable - bank	575,000	575,000
Mortgage payable	--	306,929
Interest payable	52,095,632	49,640,846
Deferred tax liability	1,627,974	1,563,018
Total liabilities	69,385,602	66,889,573
Minority interest	2,093,731	5,081,692
Stockholders' equity:		
Common Stock (par value $0.02 per share: authorized 39,000,000 shares, issued and outstanding 24,198,542 as of March 31, 2002, not including 500,000 shares held in escrow, and 22,212,517 as of December 31, 2001)	483,971	444,250
Additional paid-in Capital	17,889,118	13,442,899
Accumulated deficit	(2,389,633)	(2,495,612)
Total stockholders' equity	15,983,456	11,391,537
Total liabilities and stockholders' equity	$ 87,462,789	$ 83,362,802

See accompanying notes to these condensed consolidated financial statements.

NEWTEK CAPITAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001

	March 31, 2002	March 31, 2001

Revenue:		
Income from tax credits	$ 5,386,827	$ 6,030,103
Consulting fee income	46,700	8,000
Interest and dividend income	240,710	638,210
Other income	397,464	45,238
Total revenue	6,071,701	6,721,551
Expenses:		
Interest	2,653,587	3,335,532
Payroll and consulting fees	1,756,412	815,634
Professional fees	739,968	470,814
Insurance	556,878	398,107
Other	625,493	166,148
Total expenses	6,332,338	5,186,235
(Loss) income before other than temporary decline in value of investments, gain on sale of property, equity in net losses of affiliates, minority interest, extraordinary gain and provision for income taxes	(260,637)	1,535,316
Other than temporary decline in value of investments (net of $7,176 recovery in 2002)	(617,913)	--
Gain on sale of property	16,841	--
Equity in net losses of affiliates	(601,244)	(298,798)
(Loss) income before provision for income taxes, extraordinary gain and minority interest	(1,462,953)	1,236,518
Minority interest in loss	1,205,526	18,561
(Loss) income before provision for income taxes and extraordinary gain	(257,427)	1,255,079
(Benefit from) provision for income taxes	97,822	(494,608)
(Loss) income before extraordinary gain on conversion of minority interest into Newtek stock	(159,605)	760,471
Extraordinary gain on acquisition of minority interest, net of taxes of $162,778 for 2002	265,584	--
Net income	$ 105,979	$ 760,471
Weighted average common shares outstanding:		
Basic	22,825,191	21,382,586
Diluted	22,884,871	21,382,586
Income per share:		
Basic	$.00	$.04
Diluted	$.00	$.04
(Loss) income per share before extraordinary items:		
Basic	($.01)	$.04

Diluted	($.01)	$.04

See accompanying notes to these condensed consolidated financial statements.

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NEWTEK CAPITAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001

	March 31, 2002	March 31, 2001
Cash flows from operating activities:		
Net income	$ 105,979	$ 760,471
Adjustments to reconcile net income to net cash used in operating activities:		
Other than temporary decline in value of investments	617,913	--
Gain on sale of property	(16,841)	--
Equity in net losses of affiliates	601,244	298,798
Extraordinary gain	(265,584)	--
Income from tax credits	(5,386,827)	(6,030,103)
Deferred Income Taxes	(97,822)	375,614
Depreciation and other amortization	23,945	2,013
Accretion of interest income	(43,907)	(25,734)
Accretion of interest expense	2,454,786	3,104,657
Issuance of stock options to non-employees	290,000	--
Issuance of stock for services performed	80,789	58,800
Minority interest included in loss	(1,205,526)	(18,561)
Changes in assets and liabilities:		
Prepaid insurance	500,046	363,652
Prepaid expenses and other assets	(47,006)	21,584
Accounts payable and accrued expenses	460,207	(1,291,266)
Net cash used in operating activities	(1,928,604)	(2,380,075)
Cash flows from investing activities:		
Proceeds from sale of asset held for sale	348,770	--
Investments in qualified businesses	(4,558,427)	(9,631,833)
Return of principal - qualified investments	5,696,133	6,245,320
Consolidation of majority owned investments	3,962,152	5,703,333
Purchase of furniture, fixtures and equipment	(57,367)	--
Net cash provided by investing activities	5,391,261	2,316,820

See accompanying notes to these condensed consolidated financial statements.

NEWTEK CAPITAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

	March 31, 2002	March 31, 2001
Cash flows from financing activities:		
Proceeds from issuance of note payable insurance	$ --	$ 5,200,000
Payments of note payable insurance	(463,211)	(1,333,334)
Payments on mortgage payable	(306,929)	(12,522)
Net proceeds from issuance of common stock	1,299,999	726,391
Distributions to CAPCO members	(7,868)	(402,060)
Cash received from Exponential acquisition	106,642	--
Net cash provided by financing activities	628,633	4,178,475
Net increase in cash and cash equivalents	4,091,290	4,115,220
Cash and cash equivalents - beginning of period	31,171,966	34,697,081
Cash and cash equivalents - end of period	$ 35,263,256	$ 38,812,301
Supplemental disclosure of non-cash financing activities:		
Reduction of credits in lieu of cash and interest payable balances due to delivery of tax credits to certified investors:	$ --	$ 3,908,599
Consolidation of investments previously accounted for under the equity method	$ 537,083	$ --
Acquisition of Exponential (net liabilities assumed)	$ 10,978	$ --
Issuance of common stock in connection with acquisition of Exponential	$ 920,000	$ --
Acquisition of four Capcos minority interests		
Newtek Capital common stock issued	$ 954,358	$ --
Less, minority interests acquired	405,411	--

Goodwill recognized	$ 548,947	--
Acquisition of three Capcos minority interests		
Minority interests acquired	$ 1,369,156	$ --
Less, Newtek Capital common stock issued	940,794	--
Extraordinary gain recognized	$ 428,362	--

See accompanying notes to these condensed consolidated financial statements.

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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 Capital, Inc. and Subsidiaries (the "Company") included herein have been prepared by the Company 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 the Company reflect, in the opinion of management, all adjustments necessary to present fairly the financial position of the Company at March 31, 2002 and the results of its operations and cash flows for the periods ended March 31, 2002 and March 31, 2001. 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, 2001. The results of operations for the three months ended March 31, 2002 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2002.

The following is a summary of each of the Company's certified capital companies ("Capco"), state of certification and date of certification:

Capco	State of Certification	Date of Certification
Wilshire Advisers, LLC	New York	May 1998
Wilshire Partners, LLC	Florida	December 1998
Wilshire Investors, LLC	Wisconsin	October 1999
Wilshire Louisiana Advisers, LLC	Louisiana	October 1999
Wilshire New York Advisers II, LLC	New York	April 2000
Wilshire New York Partners III, LLC	New York	December 2000
Wilshire Colorado Partners, LLC	Colorado	October 2001
Exponential of New York, LLC	New York	April 1998

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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, or as notes receivable, 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 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, legal contractual arrangements with the Certified Investors obligating the capco to pay interest on the aforementioned debt instruments whether or not it meets the statutory requirements for Investments in Qualified Businesses. The capco can satisfy this interest payment, at the capco's discretion, by delivering tax credits in lieu of paying cash. The capcos legally have the right to deliver the tax credits to the Certified Investors. The Certified Investors legally 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 - 110%) of their certified investment. The tax credits can be utilized over a ten-year period at a rate of 10% (Louisiana - 11%) per year and in some instances are transferable and can be carried forward.

NOTE 2 - PRIVATE PLACEMENT OF COMMON STOCK:

In the first quarter of 2002, the Company sold 433,333 shares of common stock in private transactions, with gross and net cash proceeds totaling approximately $1,300,000. In addition, 14,546 shares of common stock were issued in consideration of the provision of strategic and business consulting services from Park Strategies, LLC valued at $48,000. Finally, an additional 3,600 shares of common stock were issued in consideration of investor relations and consulting services provided by Aurelius Consulting Group, Inc. valued at $12,000.

NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES:

The following table is a summary of Qualified Business investments as of March 31, 2002, shown separately between their debt $7,365,739 and equity $661,479 components (for a total non-consolidated investment in Qualified Businesses of $8,027,218), 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 "Financial Accounting Standards Board No. 115", the Company's debt investments are considered held to maturity and recorded at cost. The Company periodically assesses these investments for impairment.

The investments are grouped by date of investment: those investments which as of March 31, 2002 were made within the previous 18 months and those investments made between 18 - 36 months prior to March 31, 2002.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES: (CONTINUED)

DEBT INVESTMENTS MADE IN THE LAST 18 MONTHS

DEBT Investee	Type	Date of Investment	Maturity Date	Stated Interest Rate	Original Principal Amount	Cumulative other than temporary decline in the value of its investment since original investment date
Direct Creations, LLC	Debt	11/01	12/02	10.00%	$ 2,108,333	
1 800GiftCertificate(5)	Debt	7/99, 7/01	7/03	8.75%	$ 1,250,000	
Starphire Technologies, LLC	Debt	6/01	6/02	5.75%	$ 1,000,000	
Scandinavia(4)	Debt	12/01, 2/02, 3/02	Various	Prime + 1.00%	$ 1,108,130	
Pontchartain(4)	Debt	12/01, 1/02, 2/02, 3/02	Various	Prime +1.00%	$ 955,800	
Sunshine Gardens Special(4)	Debt	2/02, 3/02	Various	Prime +1.00%	$ 40,527	
4G's Truck Renting	Debt	11/99, 12/00, 1/02	6/02	8.70%	$ 1,300,000	
OS Johnson (4)	Debt	9/01	Various	Prime + 1.00%	$ 750,000	
Transworld Business Brokers, LLC	Debt	06/01, 3/02	6/02, 6/04	6.00%	$ 240,000	
Drilling Productivity (4)	Debt	12/01	Various	Prime + 1.00%	$ 1,199,700	
BuySeasons, Inc.	Debt	6/01	6/06	11.00%	$ 200,000	
St. Gabriel Hardware(4)	Debt	11/00, 8/01	Various	Prime +1.00%	$ 792,000	
E&E Machine Shop(4)	Debt	9/01	Various	Prime + 1.00%	$ 556,393	

Tsunami Restaurants(4)	Debt	3/01	Various	Prime +1.00%	$ 328,500	
BBQ West(4)	Debt	10/00, 11/00	Various	Prime +1.00%	$ 49,500	
Amerimed (4)	Debt	8/01, 9/01	Various	Prime + 1.00%	$ 179,999	
Hypercosm, Inc.	Debt	4/01	4/02	8%	$ 250,000	$ (250,00
Subtotal 0 - 18 months Debt					$12,308,882	$ (250,00

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES: (CONTINUED)

DEBT INVESTMENTS MADE IN THE LAST 18-36 MONTHS

DEBT Investee	Type	Date of Investment	Maturity Date	Stated Interest Rate	Original Principal Amount	Cumulative other than temporary decline in the value of its investment since original investment date
Gerace Auto Parts(4)	Debt	4/00	Various	Prime +1.00%	$ 810,000	
Steve Kent Trucking(4)	Debt	3/00, 5/00	Various	Prime +1.00%	$ 747,000	
Merchant Data Systems, Inc.	Debt	8/00	5/04	0%	$ 4,900,000	$ (414,98
Multi-Media Distribution Corp.	Debt	6/00	6/02	10.00%	$ 1,000,000	
Embosser's Sales and Service(4)	Debt	8/00	Various	Prime +1.00%	$ 495,000	$ (76,71
Group Management Technologies, LLC (5)	Debt	11/99	11/01	5.25%	$ 3,350,000	$ (447,44
Gino's Seafood(4)	Debt	3/00, 4/00	Various	Prime +1.00%	$ 517,942	

Data-Tel of Louisiana(4)	Debt	3/00	Various	Prime +1.00%	$ 513,000	
Raising Cain(4)	Debt	3/00, 4/00, 5/00	Various	Prime +1.00%	$ 315,000	
Tari's School of Dance(4)	Debt	5/00	Various	Prime +1.00%	$ 189,000	
CB Real Net, LLC	Debt	2/00	Various	8%	$ 2,500,000	
Cedric Kushner Boxing, Inc.	Debt	11/98	1/00	9%	$ 400,000	
Down To Earth, Inc.	Debt	12/99	Various	8%	$ 580,000	$ (495,00
Subtotal 18-36 months - Debt					$16,316,942	$(1,434,14
Total Debt Investments at March 31, 2002					$28,625,824	$(1,684,14

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES: (CONTINUED)

EQUITY INVESTMENTS MADE IN THE LAST 18 MONTHS

EQUITY Investee	Date of Investment	Type of Investment	Common Stock Equivalents (1)	Percentage of Ownership	Original Investment Amount	Cumulative other than temporary decline in the value of its investments since original investment date
Niche Directories, LLC	12/00	Preferred Membership Interest w/ voting rights	N/A	37.50%	$ 1,344,000	
Transworld Business Brokers, LLC	06/01, 3/02	Preferred Membership Interest w/ voting rights	N/A	33%	$ 350,000	
BuySeasons, Inc.	6/01	Common Stock	18,182	3%	$ 100,000	
		Warrant for				

Direct Creations	12/00	Membership Interest	N/A	28%	$ 0	
Merchant Data Systems, Inc.	5/01	Warrants for Membership Interest(3)	N/A	20.00%	$ 0	
Subtotal 0-18 months - Equity					$ 1,794,000	

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES: (CONTINUED)

EQUITY INVESTMENTS MADE IN THE LAST 18-36 MONTHS

EQUITY Investee	Date of Investment	Type of Investment	Common Stock Equivalents (1)	Percentage of Ownership	Original Investment Amount	Cumulative other than temporary decline in the value of its investments since original investment date
1-800GiftCertificate	7/99	Class B Preferred Stock	113,140	N/A	$ 22,396	
1-800GiftCertificate	7/99	Class A Preferred Stock	3,159	N/A	$ 2,604	
Cedric Kushner Boxing, Inc. (3)	11/98	Options for Common Stock(2)	3	N/A	$ 0	
Starphire Technologies, LLC	8/00	Preferred Membership Interest w/ voting rights	N/A	50.00%	$ 1,400,000	$ (536,371)
Multi-Media Distribution Corp.	6/00	Common Stock	66,000	3%	$ 200,000	
Subtotal 18-36 months - Equity					$ 1,625,000	$ (536,371)

Total Equity Investments as of March 31, 2002	$ 3,419,000	$ (536,371)
Total Debt and Equity Investments as of March 31, 2002	$32,044,824	

(1) Common Stock Equivalents reflect conversion of all financial instruments into common stock.
(2) Expires four years from date of investment, and has a $.01 exercise price.
(3) Expires six years from date of investment, and has a $.01 exercise price.
(4) Represents Small Business Administration (SBA) loans made in Louisiana. Wilshire Louisiana's investment total for these types of loans was $9,547,492 as of March 31, 2002. Of this amount, approximately 75% was guaranteed by the SBA and was sold in the secondary market, while the remaining balance is amortized over 5 to 20 years. Accordingly, the CAPCO had approximately $2,538,047 outstanding and received approximately $4,094,000 (55%) of credits toward the investment hurdle, based upon its agreement with the State of Louisiana.
(5) This loan has been restructured, and the Company continues to receive monthly principal payments.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES: (CONTINUED)

The Company consolidates nine of its investments. All investments were made within the past 18 months as of March 31, 2002, except for CB Real Net, which was made between 18-36 months ago as of March 31, 2002. The following tables are summaries of such investments:

DEBT Investee	Type	Date of Investment	Maturity Date	Original Principal Amount	Stated Interest Rate	Cumulative other than temporary decline in th value of its investments since investment da
AIDA, LLC	Debt	3/01	3/02	$ 3,500,000	7.00%	
Universal Processing Services, LLC	Debt	3/01	3/02	$ 3,400,000	6.00%	
Universal Processing Services - Wisconsin, LLC	Debt	6/01	6/06	$ 2,100,000	5.00%	
Transworld Business Brokers, LLC	Debt	3/02	3/05	$ 325,000	2.5%	
Group Management	Debt	11/99	11/01	$ 150,000	5.25%	$ (57,061)

Technologies, Inc.						
PPM Link, LLC	Debt	3/01	9/02	$ 1,850,000	6.00%	
Harvest Strategies, LLC	Debt	8/01	10/02	$ 975,000	5.00%	
Total Consolidated Debt Investments				$12,300,000 ===========		$ (57,061) ==========

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES: (CONTINUED)

EQUITY Investee	Date of Investment	Type of Investment	Common Stock Equivalents	Percentage of Ownership	O In
Universal Processing Services - Louisiana, LLC	9/01	Preferred Membership Interest w/ voting rights	N/A	95%	$
Harvest Strategies, LLC	8/01	Preferred Membership Interest w/ voting rights	N/A	70%	$
PPM Link, LLC	3/01	Preferred Membership Interest w/ voting rights	N/A	67%	$
Universal Processing Services, New York, LLC	3/01	Preferred Membership Interest w/ voting rights	N/A	66%	$
Universal Processing Services - Wisconsin, LLC	3/01	Preferred Membership Interest w/ voting rights	N/A	82%	$
CB Real Net, LLC	2/00	Membership Interest(3)	N/A	100.00%	$
Group Management Technologies, Inc.	2/02	Options for Common Stock	N/A		$
Transworld Business Brokers, LLC	3/02	Preferred Membership Interest	N/A	65%	$

Transworld Business Brokers, LLC	3/02	Common Stock	N/A	65%	$
AIDA, LLC	10/00	Preferred Membership Interest w/ voting rights	N/A	50%	$
Total Consolidated Equity Investments					$
Total Consolidated Debt and Equity Investments March 31, 2002					$1

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES: (CONTINUED)

The Company has not guaranteed any obligation of these investees, and the Company is not otherwise committed to provide further financial support for the investees. However, from time-to-time the Company may decide to provide such additional financial support which, as of March 31, 2002, was not significant. Periodically, the Company evaluates each of its individual investments for potential impairment in value. Should the Company determine that an impairment exists and it is deemed to be other than temporary, the Company will write down the recorded value of the asset to its estimated fair value and record a corresponding charge in the statement of operations. During the period ended March 31, 2002, the Company determined that there was $536,371 of other than temporary decline in the value of its investments for Starphire Technologies, LLC, and a $76,718 other than temporary decline in the value of its investments for Embosser's Sales and Service. 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 $12,000. In 2002, the Company also recovered $7,176 of cash on two of its investments written down in 2000. These items aggregate $617,913 which is shown on the statement of operations as other than temporary decline in value of investments.

NOTE 4 - 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 effect of common stock equivalents were anti-dilutive for the three months ended March 31, 2001 and, therefore, have been excluded from the calculation of diluted earnings per share for that period.

The calculations of Net Income (Loss) Per Share were:

	Three months ended March 31, 2002	2001

Basic		
Net income	$ 105,979	$ 760,471
Weighted average shares - basic	22,825,191	21,382,586
Dilutive effect of stock options	59,680	--
Weighted average shares - diluted	22,884,871	21,382,586
Basic and diluted	$ .00	$ .04

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS:

Principles of Accounting for Ownership Interests in Qualified Investments

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 in a Partner Company.

Investments in which the Company directly or indirectly owns more than 50% of the outstanding voting securities or those the Company has effective control over 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 Consolidated Statements of Operations. All significant inter-company accounts and transactions have been eliminated. The results of operations and cash flows of a consolidated Partner Company are included through the latest interim period in which the Company 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.

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 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 Statements of Operations; however, the Company's share of the earnings or losses of the investee is reflected in the caption "Equity income (loss)" in the Consolidated Statements of Operations.

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 Statements of Operations. However, cost method impairment charges are recognized, as necessary, in the Consolidated Statement of Operations. If circumstances suggest that the value of the investee has subsequently recovered, such recovery is not recorded until realized.

On a monthly basis, Newtek Capital Investment Committee meets to evaluate the Company's investments. The Company 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 looks at larger variables, 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 investments.

The following table is an unauditied summary of the investments which the Company 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 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."

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS:

CONSOLIDATED ENTITIES

	Harvest Strategies		Universal Processing Services - NY		Universal Processing Services - LA		Universal P Services
	2002	2001	2002	2001	2002	2001	2002
Cash	$1,560,301	$1,605,753	$ 80,468	$2,969,774	$1,072,718	$1,259,089	$1,506,328
Other Assets	$ 136,359	$ 117,588	$ 485,477	$ 486,632	$ 47,520	19,251	$ 100,212
Total Assets	$1,696,660	$1,723,341	$ 565,945	$3,456,406	$1,120,238	$1,278,340	$1,606,540
Current Liabilities	$ 65,832	$ 53,026	$ 75,767	$ 51,630	$ 26,304	$ 7,251	$ 61,465
Total Liabilities	$1,015,832	$ 970,028	$ 625,767	$3,451,630	$ 26,304	$ 7,251	$1,846,464
Total Equity	$ 680,828	$ 753,313	$ (59,822)	$ 4,776	$1,093,934	$1,271,089	$ (239,924)

CONSOLIDATED ENTITIES

Aida, LLC	Group Management Technologies	Transworld Busines Brokers - NY

	2002	2001	2002	2001	2002	200
Cash	$ 143,407	(a)	$ 133,079	(a)	$3,500,667	(a
Other Assets	$ 153,537	(a)	$ 133,230	(a)	--	(a
Total Assets	$ 296,944	(a)	$ 266,309	(a)	$3,500,667	(a
Current Liabilities	$ 34,125	(a)	$ 30,530	(a)	--	(a
Total Liabilities	$ 47,367	(a)	$ 180,530	(a)	$ 325,000	(a
Total Equity	$ 249,577	(a)	$ 85,779	(a)	$3,175,667	(a

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS (UNAUDITED):

	Harvest Strategies		Universal Processing Services - NY		Universal Processing Services - LA		Universal P Services
	2002	2001	2002	2001	2002	2001	2002
Revenue	$ 144,691	(a)	$ 104,221	(a)	$ 13,137	(a)	$ 88,133
Intercompany Eliminated Revenue	$ (104,811)	(a)	$ (5,000)	(a)	--	(a)	--
Consolidated Revenue	$ 39,880	(a)	$ 99,221	(a)	$ 13,137	(a)	$ 88,133
Expenses	$ 210,465	(a)	$ 162,566	(a)	$ 158,989	(a)	$ 235,019
Intercompany Eliminated Expenses	$ (7,344)	(a)	$ (24,812)	(a)	$ (20,193)	(a)	$ (24,231)
Consolidated Expenses	$ 203,121	(a)	$ 137,754	(a)	$ 138,796	(a)	$ 210,788
Net Income (Loss)	$ (163,241)	(a)	$ (38,533)	(a)	$ (125,659)	(a)	$ (122,655)

	Aida, LLC		Group Management Technologies		Transworld Busines Brokers - NY	
	2002	2001	2002	2001	2002	2001
Revenue	$ 62,725	(a)	$ 110,288	(a)	(a)	(a)
Intercompany Eliminated Revenue	$ 5,034	(a)	$ (50,390)	(a)	(a)	(a)
Consolidated Revenue	$ 67,759	(a)	$ 59,898	(a)	(a)	(a)
Expenses	$ 158,645	(a)	$ 145,025	(a)	(a)	(a)
Intercompany Eliminated Expenses	$ (22,621)	(a)	$ (3,247)	(a)	(a)	(a)
Consolidated Expenses	$ 136,024	(a)	$ 141,778	(a)	(a)	(a)
Net Income (Loss)	$ (68,265)	(a)	$ (81,880)	(a)	(a)	(a)

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS (UNAUDITED):

ENTITIES UNDER THE EQUITY METHOD

	Starphire		Nichedirectories		Transworld Business Brokers - F	
	2002	2001	2002	2001	2002	2
Cash	$ 5,012	$1,352,823	$ 510,532	$ 556,741	$ 187,131	$ 24
Other Assets	$ 457,630	$ 460,508	$ 262,813	$ 273,328	$ 331,572	$ 33
Total Assets	$ 462,642	$1,813,331	$ 773,345	$ 830,069	$ 518,703	$ 58
Current	$ 51,939	$ 85,652	$ 436,866	$ 354,861	$ 33,307	$ 2

Liabilities						
Total Liabilities	$ 51,939	$1,085,652	$ 436,866	$ 354,861	$ 273,306	$ 26
Total Equity	$ 410,703	$ 727,679	$ 336,479	$ 475,208	$ 245,397	$ 31

	Starphire		Nichedirectories		Transworld Business Brokers - F	
	2002	2001	2002	2001	2002	2
Gross Revenues	$ 30,636	$ 166,271	$ 197,544	$ 161,343	$ 320,768	
Intercompany Eliminated Revenue	$ (109)	$ 0	$ 0	$ 0	$ 0	
Consolidated Revenue	$ 30,527	$ 166,271	$ 197,544	$ 161,343	$ 320,768	
Expenses	$ 140,651	$ 287,000	$ 283,177	$ 281,369	$ 382,099	
Intercompany Eliminated Expenses	$ (22,464)	$ (4,285)	$ (26,316)	$ (590)	$ (4,985)	
Consolidated Expenses	$ 118,187	$ 282,715	$ 256,861	$ 320,095	$ 377,114	
Net (Loss)	$ (87,660)	$(116,444)	$ (59,317)	$(158,752)	$ (56,346)	

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - ACQUISITION OF EXPONENTIAL BUSINESS DEVELOPMENT COMPANY, INC.:

In January 2002, the Company acquired 100% of the outstanding common stock of Exponential Business Development Company, Inc. (Exponential), of Syracuse, NY. Exponential's primary business was to make non-controlling investments in high growth potential companies. The purchase price consisted of 500,000 shares of Company common stock issued to the sellers. Under the terms of the acquisition, an additional 500,000 shares will be issued over a seven year period if acquired assets result in gains of $2 million in excess of an initial $1 million recovery by the Company. The fair value of the 500,000 common shares issued, $920,000, was determined based on the quoted market price of the Company's common stock on the closing date, less a discount due to certain restrictions on the stock. Since Company management has determined that the issuance of the additional 500,000 shares is currently unlikely due to management's estimation that the payout provision will not be met, the Company has not included the additional shares in the determination of the purchase price. On a quarterly basis, management will assess the payout provision to determine if it is likely it will be met in the future, and if so, the Company will record the additional 500,000 shares as additional purchase price when issued. Exponential directors and officers will remain with that entity and will receive a total of 365,000 options pursuant to the Company's option plan to acquire Company common stock in exchange for future services.

The results of Exponential's operations have been included in the consolidated financial statements since the acquisition date.

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

Current assets (including cash of $106,642)	$ 138,013
Other Assets	10,001
Total assets acquired	148,014
Current liabilities	52,350
Total liabilities assumed	52,350
Net assets acquired	$ 95,664

The difference between the fair value of the net assets acquired, $95,664, and the value of the Company common stock, $920,000, has been recorded as goodwill.

NOTE 7 - ACQUISITIONS OF CAPCO MINORITY INTERESTS:

In March 2002, the Company issued 1,028,576 shares of its common stock to the minority members of certain Capcos in exchange for substantially all of such members' minority interests. These have been accounted for as purchase transactions. The fair value of the Company's common stock was determined based upon the quoted market price of the Company's common stock, less a discount due to certain restrictions on the stock. Such value exceeded the book value of the minority interest by approximately $549,000 for four of the Capcos, and the Company has recorded such amount as goodwill. For three other Capcos, the fair value of the Company's common stock was less than the book value of the minority interest by approximately $428,000, and the Company has recorded such amount as an extraordinary gain.

NOTE 8 - NEW ACCOUNTING PRONOUNCEMENTS:

In 2002, the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Intangible Assets" (SFAS 142). SFAS 142 includes requirements to annually test goodwill and indefinite lived intangible assets for impairment rather than amortize them; accordingly, the Company no longer amortizes goodwill.

The Company did not record any transition intangible asset impairment loss upon adoption of SFAS 142.

NOTE 9 - SUBSEQUENT EVENT:

The Company has raised $22.06 million of certified capital for another Capco fund, Wilshire Colorado Partners, LLC. Newtek has established a Regional Business Development Center in Denver in conjunction with a Colorado-based investment and merchant banking concern.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Three Months Ended March 31, 2002 compared to Three Months Ended March 31, 2001

Revenues decreased by approximately $650,000, to $6,072,000 for the three months ended March 31, 2002, from $6,722,000 for the three months ended March 31, 2001. Income from tax credits decreased by approximately $643,000 to $5,387,000 for the three months ended March 31, 2002, from $6,030,000 for the three months ended March 31, 2001, attributable to the tax credits recognized in 2002, due to the Company's meeting different investment thresholds mandated by the various state Capco statutes in 2002 versus 2001. Interest and dividend income decreased by approximately $397,000 to $241,000 for the three months ended March 31, 2002, from $638,000 for the three months ended March 31, 2001 This decrease was primarily due to additional investments made in consolidated entities. The additional investments reduced cash available to earn interest and dividends. Consulting fee income increased by approximately $38,000 due to the increase in consulting related activity. Other income increased by approximately $352,000 to $397,000 for the three months ended March 31, 2002, from $45,000 for the three months ended March 31, 2001. This increase is primarily due to the consolidated entities' activities.

Interest expense decreased by approximately $682,000 to $2,654,000 for the three months ended March 31, 2002 from $3,336,000 for the three months ended March 31, 2001. The decrease was due primarily to the reduction of interest payable due to delivery of tax credits to certified investors. Payroll and consulting fees increased by $940,000 to $1,756,000 for the three months ended March 31, 2002 from $816,000 for the three months ended March 31, 2001. The increase was due to the consolidation of expenses with additional entities now consolidated into the Company.

Professional fees increased by approximately $269,000 to $740,000 for the three months ended March 31, 2002 from $471,000 for the three months ended March 31, 2001. The increase was due primarily to additional legal fees incurred, which is attributable to the increased size and number of capcos, as well as due to the increase in numbers of consolidated entities.

Other expenses increased by approximately $459,000 to $625,000 for the three months ended March 31, 2002 from $166,000 for the three months ended March 31, 2001. The increase was due primarily to expenses from additional entities now consolidated into the Company.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

LIQUIDITY AND CAPITAL RESOURCES

The Company has funded its operations primarily through the issuance of notes to Certified Investors through the Capco program. To date, the Company has received approximately $136,000,000 in proceeds from the issuance of long-term debt through the Capco programs. The Company's principal capital requirements have been to fund the defeasance 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 three months ended March 31, 2002 of approximately $1,929,000 resulted primarily from net income of $106,000, increased by the non-cash interest expense of approximately $2,455,000. It was also affected by the approximately $601,000 in non-cash equity in net losses of affiliates, approximately $1,206,000 of minority interest and the approximately $5,387,000 in non-cash income from tax credits, and the non-cash income tax benefit of $98,000. In addition, the Company had an increase in components of working capital of $913,000.

Net cash provided by investing activities for the three months ended March 31, 2002 of approximately $5,391,000 resulted primarily from repayments on the debt instruments of $5,696,000, offset by approximately $4,558,000 in additional qualified investments made in the period. In addition, the Company consolidated approximately $3,962,000 of its investments.

Net cash provided by financing activities for the three months ended March 31, 2002 was approximately $629,000, primarily attributable to approximately $1,300,000 from the private placement of common stock, offset by approximately $307,000 in payments on a mortgage payable, and $463,000 in payments on note payable - insurance during the three months ended March 31, 2002.

The Company 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 the Company 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.

The Company 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 the of such statements.

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PART II - OTHER INFORMATION

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

(c) On January 9, 2002 the Company concluded the acquisition of Exponential Business Development Company, Inc. and its subsidiaries in a stock for stock exchange, pursuant to an Agreement and Plan of Merger, dated January 9, 2002 (attached as a Exhibit). In consideration, the Company issued 500,000 shares of its common stock. The sale was in reliance on Section 4(2) of the Securities Act of 1933, as amended. In connection with this sale, the Company agreed to file and maintain the effectiveness of a registration statement under the rules of the Securities and Exchange Commission to permit the resale of a portion of the shares. An additional 500,000 shares of common stock were also issued and are being held in escrow pending the realization of possible gain on the assets acquired as part of the transaction. In the event there is a realization of at least $2 million over seven years, the balance of the shares, 500,000, will be released; if the gain is less, the shares will be released on a proportionate basis.

On January 15, 2002 and January 26, 2002, the Company entered into two consulting agreements with independent parties for the provision of certain consulting services to the Company. Pursuant to these contracts, the Company issued 14,456 and 3,600 shares, respectively, which were valued at $3.30 per share as of the date of issuance. Both transactions were made in reliance on Section 4(2) of the Securities Act of 1933, as amended.

On February 11, 2002 the Company completed the sale of 100,000 shares of its common stock at a price of $3.00, cash, per share. The offering was to an investor in reliance on Section 4(2) of the Securities Act of 1933, as amended. The purchaser had agreed to serve on the Company's Advisory Board to assist in business development efforts.

On March 28, 2002 the Company completed the sale of 333,333 shares of common stock to a single investor at a price of $3.00, cash, per share. The offering was to a single investor in reliance on Section 4(2) of the Securities Act of 1933, as amended.

The same investor, along with two affiliated companies, and four other investors, all of which are insurance companies, also agreed to exchange their respective holdings of warrants for the purchase of membership interests in certain of the Company's subsidiary certified capital companies. These interests were acquired in connection with the initial funding of these entities in the period of 1998 to 2001, and based on the valuation agreed to, were acquired by the Company in exchange for 1,028,576 shares of common stock at a price of $4.00. See, also, Note 7 to the Unaudited Condensed Consolidated Financial Statements. The offerings were in reliance on Section 4(2) of the Securities Act of 1933, as amended.

ITEM 5 - OTHER INFORMATION

Attached hereto as an Exhibit is the Agreement entered into by the Company with Exponential Business Development Company, Inc., which is incorporated herein by reference.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

Exhibit 99.1 Agreement and Plan Merger between Newtek Capital, Inc. Exponential Business Development Company, Inc., and the Stockholders of Exponential Business Development Company, Inc. dated January 9, 2002

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 CAPITAL, INC.

Date: May 14, 2002 /s/ Barry Sloane

Barry Sloane
Chairman of the Board, Chief Executive Officer, and Secretary

Date: May 14, 2002 /s/ Brian A. Wasserman

Brian A. Wasserman
Treasurer, Chief Financial Officer, and Director

Date: May 14, 2002 /s/ Giuseppe Soccodato

Giuseppe Soccodato
Controller and Chief Accounting Officer