

NEWTEK BUSINESS SERVICES INC
Form 10-Q
November 09, 2007
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

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
(State or other jurisdiction of
incorporation or organization)

11-3504638
(I.R.S. Employer
Identification No.)

1440 Broadway, 17th floor, New York, NY
(Address of principal executive offices)

10018
(Zip Code)

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

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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 90 days. Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

As of November 5, 2007, there were 36,857,328 of the Company's Common Shares issued and outstanding.

Table of Contents

CONTENTS

	PAGE
PART I FINANCIAL INFORMATION	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2007 and 2006</u>	3
<u>Condensed Consolidated Balance Sheets as of September 30, 2007 and December 31, 2006</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2007 and 2006</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	33
<u>Item 4. Controls and Procedures</u>	34
PART II OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	34
<u>Item 2. Unregistered Sales of Equity Securities</u>	34
<u>Item 6. Exhibits</u>	35
<u>Signatures</u>	37
Exhibits	

Table of Contents**Item 1. Financial Statements (Unaudited)****NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006****(In Thousands, except for Per Share Data)**

	Three Months ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue:				
Electronic payment processing	\$ 13,923	\$ 11,022	\$ 39,453	\$ 30,964
Web hosting	4,164	3,479	11,984	9,953
Interest income	1,291	1,230	4,329	4,566
Income from tax credits	1,337	1,304	3,958	4,584
Premium income	685	1,071	2,198	2,448
Servicing fee	512	473	1,452	1,459
Insurance commissions	204	210	649	642
Other income	951	2,703	4,264	3,448
Total revenue	23,067	21,492	68,287	58,064
Expenses:				
Electronic payment processing costs	10,393	7,919	29,017	22,381
Consulting, payroll and benefits	5,775	4,321	16,512	12,442
Interest	3,385	3,562	10,721	12,447
Professional fees	1,826	2,119	5,828	6,047
Depreciation and amortization	1,939	1,644	5,470	4,526
Insurance	882	789	2,568	2,492
Provision for loan losses	235	51	607	405
Other general and administrative costs	3,355	2,758	9,351	7,417
Total expenses	27,790	23,163	80,074	68,157
Loss from continuing operations before minority interest, benefit for income taxes, and discontinued operations	(4,723)	(1,671)	(11,787)	(10,093)
Minority interest	91	58	271	388
Loss from continuing operations before benefit for income taxes and discontinued operations	(4,632)	(1,613)	(11,516)	(9,705)
Benefit for income taxes	669	595	2,758	3,316
Loss from continuing operations before discontinued operations	(3,963)	(1,018)	(8,758)	(6,389)
(Loss) income from discontinued operations, net of taxes	(4)	(36)	(495)	320
Net loss	\$ (3,967)	\$ (1,054)	\$ (9,253)	\$ (6,069)
Weighted average common shares outstanding:				
Basic and diluted	35,950	34,883	35,824	34,805
Loss per share from continuing operations:				
Basic and diluted	\$ (0.11)	\$ (0.03)	\$ (0.25)	\$ (0.18)

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(Loss) income per share from discontinued operations, net of taxes:

Basic and diluted	(0.00)	(0.00)	(0.01)	0.01
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Basic and diluted loss per share	\$ (0.11)	\$ (0.03)	\$ (0.26)	\$ (0.17)
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See accompanying notes to these unaudited condensed consolidated financial statements

Table of Contents**NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****SEPTEMBER 30, 2007 AND DECEMBER 31, 2006**

(In Thousands, except for Per Share Data)

	September 30, 2007 (Unaudited)	December 31, 2006 (Note 1)
<u>ASSETS</u>		
Cash and cash equivalents	\$ 28,165	\$ 26,685
Restricted cash	12,293	11,275
U.S. Treasury notes		5,016
Asset held for sale		1,530
Credits in lieu of cash	96,237	106,425
SBA loans held for investment (net of reserve for loan losses of \$2,567 and \$2,332, respectively)	26,813	27,746
Accounts receivable (net of allowance of \$396 and \$23, respectively)	4,945	1,568
SBA loans held for sale	1,351	1,786
Accrued interest receivable	526	519
Investments in qualified businesses cost method investments	504	542
Investments in qualified businesses held to maturity debt investments	533	5,301
Prepaid and structured insurance	15,428	17,497
Prepaid expenses and other assets (net of accumulated amortization of deferred financing costs of \$1,450 and \$832, respectively)	5,688	7,682
Servicing assets (net of accumulated amortization and allowance of \$2,802 and \$2,081, respectively)	2,921	2,991
Fixed assets (net of accumulated depreciation and amortization of \$5,961 and \$4,065, respectively)	4,800	4,458
Intangible assets (net of accumulated amortization of \$8,025 and \$5,919, respectively)	9,572	9,141
Goodwill	13,159	10,575
Total assets	\$ 222,935	\$ 240,737
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 10,051	\$ 8,509
Notes payable	5,975	10,651
Bank notes payable	18,901	16,391
Deferred revenue	2,239	2,761
Notes payable in credits in lieu of cash	81,099	86,332
Deferred tax liability	20,657	24,428
Total liabilities	138,922	149,072
Minority interest	5,155	4,596
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 35,992 and 35,479 not including 474 and 583 shares held in escrow and 473 shares held by affiliate)	720	710
Additional paid-in capital	56,032	54,949
Retained earnings	22,211	31,464

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Treasury stock, at cost (61 and 32 shares at September 30, 2007 and December 31, 2006, respectively)	(105)	(54)
Total shareholders' equity	78,858	87,069
Total liabilities and shareholders' equity	\$ 222,935	\$ 240,737

See accompanying notes to these unaudited condensed consolidated financial statements

Table of Contents**NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006****(In Thousands)**

	2007	2006
Cash flows from operating activities:		
Net loss	\$ (9,253)	\$ (6,069)
Adjustments to reconcile net loss to net cash used in operating activities:		
Income from tax credits	(3,958)	(4,584)
Deferred income taxes	(3,771)	(3,103)
Depreciation and amortization	5,470	4,740
Capitalization of servicing asset	(650)	(606)
Gain on sale/recoveries of investments in qualified businesses	(1,073)	(1,706)
Accretion of interest expense	8,947	9,845
Loss on redemption of U.S. Treasury notes	10	
Provision for loan losses	607	405
Accretion of interest income	(150)	(103)
Equity in earnings of investee	(329)	(96)
Loss on sale of other real estate owned	279	
Gain on sale of land and building		(308)
Gain on sale of asset held for sale	(198)	
Loss on disposal of fixed assets		44
Gain on sale of loans held for investment	(93)	(370)
Stock-based compensation	418	463
Amortization of deferred loan origination fees, net	(249)	(201)
Minority interest	181	(329)
Changes in assets and liabilities, net of the effect of business acquisitions:		
Originations of SBA loans held for sale	(22,791)	(22,759)
Proceeds from sale of SBA loans held for sale	23,227	22,296
Premium on repurchase of portfolio		44
Prepaid insurance	2,219	2,227
Prepaid expenses, accounts receivable, accrued interest receivable from bank and other assets	1,392	1
Restricted cash	(474)	2,834
Accounts payable, accrued expenses and deferred revenue	(1,838)	(1,212)
Net cash (used in) provided by operating activities	(2,077)	1,453
Cash flows from investing activities:		
Investments in qualified businesses	(1,031)	(7,588)
Return of investments in qualified businesses	3,787	7,497
Purchase of fixed assets	(2,447)	(2,099)
Purchase of customer merchant accounts	(2,436)	(2,755)
Acquisition of minority interest		(750)
Contingent consideration for acquisition		(500)
Cash addition from acquired interests	233	
Cash reduction from deconsolidation of acquired interests	(56)	
SBA loans originated for investment, net	(6,832)	(7,323)
Cash paid for repurchase of SBA loans		(1,214)
Proceeds from sale of SBA loans held for investment	2,144	8,863
Payments received on SBA loans	5,047	5,503
Proceeds from sale of other real estate owned	687	

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Proceeds from sale of land and building		1,300
Proceeds from sale of asset held for sale and insurance recoveries	1,572	
Proceeds from sale/recoveries of investments in qualified businesses	1,032	2,094
Change in restricted cash	(545)	4,675
Proceeds from sale of U.S. Treasury Notes, marketable securities and certificates of deposit	5,042	13,973
Other investments		(5)
Net cash provided by investing activities	6,197	21,671

Table of Contents**NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 (CONTINUED)**

	2007	2006
Cash flows from financing activities:		
Proceeds from note payable	5,073	300
Repayments of notes payable	(8,766)	(10,231)
Change in restricted cash related to CDS financing	2,050	
Net repayments on bank notes payable	(755)	(6,679)
Distributions to minority member	(597)	
Payments for deferred financing costs	(166)	
Purchase of treasury stock	(52)	(54)
Net proceeds from option exercise	141	
Net proceeds from issuance of common stock and other	432	(250)
Net cash used in financing activities	(2,640)	(16,914)
Net increase in cash and cash equivalents	1,480	6,210
Cash and cash equivalents beginning of period	26,685	23,940
Cash and cash equivalents end of period	\$ 28,165	\$ 30,150
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	\$ 14,146	\$ 14,091
Conversion of note payable to minority interest	\$ 1,000	\$
Stock issued in exchange for minority interest	\$	\$ 500
Shares held in escrow released to former shareholders of wholly owned subsidiary	\$ 104	\$
Acquisition of minority interest resulting in goodwill:		
Newtek Business Services, Inc. common shares issued	\$	\$ 186
NMS Wisconsin purchase of minority interest allocation:		
Additions to customer merchant accounts	\$	\$ 1,271
Newtek Business Services common shares issued to minority member		(500)
Increase in deferred tax liability		(771)
Net effect on purchase price	\$	\$
Contingent consideration for Crystaltech acquisition	\$	\$ 475
Additions to assets and liabilities as a result of consolidation of acquired interests:		
Cash	\$ 233	\$
Accounts receivable	3,579	
Prepaid expenses and other assets	94	

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Total assets		\$ 3,906	\$
Accounts payable and accrued expenses		\$ 3,127	\$
Notes payable		3,259	
Total liabilities		6,386	
Goodwill recognized		\$ 2,480	\$
<u>Reduction of assets and liabilities as a result of deconsolidation of acquired interests:</u>			
Cash		\$ 56	\$
Accounts receivable		30	
Prepaid expenses and other assets		21	
Fixed assets, net		80	
Total assets		\$ 187	\$
Accounts payable and accrued expenses		\$ 143	\$
Deferred revenue		2	
Notes payable		16	
Minority interest		26	
Total liabilities		\$ 187	\$

See accompanying notes to these unaudited condensed consolidated financial statements

Table of Contents

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. Newtek is a direct distributor of business services, acting through its wholly and majority-owned subsidiaries, to the small and medium-sized business market.

The Company's principal business segments are:

Electronic Payment Processing: Marketing, credit card processing and check approval services.

Web Hosting: CrystalTech Web Hosting, Inc., which offers shared and dedicated web hosting and related services.

SBA Lending: 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.

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 and insurance expenses.

The consolidated financial statements of Newtek Business Services, Inc., its subsidiaries and FIN 46 consolidated entities, (Financial Accounting Standards Board (FASB) issued Interpretation (FIN) No. 46R Consolidation of Variable Interest Entities), (the Company or Newtek) 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 several portfolio companies in which the Capcos own non-controlling minority interest in, or those which Newtek is considered to be the primary beneficiary of (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 return to profitability, the losses will be restored to the Company prior to allocation of profits to minority interest holders.

The accompanying notes to the condensed consolidated financial statements should be read in conjunction with Newtek's 2006 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 the 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.

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

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,

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allowance for loan losses, valuation of servicing assets, chargeback reserves and tax valuation allowances. Actual results could differ from those estimates.

Revenue Recognition

The Company operates in a number of different segments. Such revenues are recognized as services are rendered and are summarized as follows:

Table of Contents

Electronic payment processing revenue: Electronic payment processing and fee 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 services fees for the use of its 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 September 30, 2007, as summarized earlier in this note, the Company had Capcos in seven states and the District of Columbia. Each 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 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.

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 generally 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, 2007, gain on sale of the guaranteed portion of the loans is recognized at the date of settlement, 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. Prior to January 1, 2007, gain on sale of the guaranteed portion of loans was recognized under the provisions of SFAS No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities a replacement of

Table of Contents

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. Such loans are designated as impaired non-accrual loans. All other loans are defined as performing loans. 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 investments. Revenue is recorded when there is pervasive 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.

Restricted Cash

Restricted cash includes cash collateral relating to a letter of credit; monies due on loan related remittances 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

U.S. Treasury Notes and Marketable Securities

The Company accounts for U.S. Treasury notes and other marketable securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The Company determines the appropriate classification of all marketable securities as held-to-maturity, available-for-sale or trading at the time of purchase. The Company invests excess cash not required for

Table of Contents

use in operations primarily in high credit quality securities that the Company believes bear minimal risk. These investments include money market funds. The Company has not experienced any losses due to institutional failure or bankruptcy. In determining the cost basis, the Company accounts for the realized gains and losses on the sale of its available-for-sale securities, on both the specific identification and average cost methods. Realized gains and losses are included in other income. As of September 30, 2007 all of the Company's investments in marketable securities were sold.

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 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 consolidated financial statements; however, the company's share of the earnings or losses of the investee is reflected in the Company's 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 consolidated financial statements. However, cost method impairment charges are recognized, as necessary, in the Company's 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 5 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 this will be counted towards the Capco's minimum investment benchmarks.

Chargebacks and Other Contingencies

The Company records reserves for chargebacks and contingent liabilities when such amounts are deemed to be probable and estimable in accordance with SFAS 5, *Accounting for Contingencies*. The required reserves may change in the future due to new developments, including, but not limited to, changes in litigation or increased chargeback exposure as the result of merchant insolvency, liquidation, or other reasons. The required reserves are reviewed periodically to determine if adjustments are required.

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.

In November 2005, the FASB issued FASB Staff Position No. FAS 123R-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. The Company has elected to adopt the alternative transition method provided in the FASB Staff Position for

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calculating the tax effects of share-based compensation pursuant to SFAS 123R. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies subsequent to the adoption of SFAS 123R.

Table of Contents

As of September 30, 2007, the Company had two share-based compensation plans. The compensation cost that has been charged to operations for those plans was \$30,000 and \$201,000, for the three and nine months ended September 30, 2007, respectively, and is included in consulting, payroll and benefits in the accompanying condensed consolidated statements of operations. The total income tax benefit recognized in the consolidated statements of operations for share-based compensation arrangements was \$11,000 and \$80,000, for the three and nine months ended September 30, 2007, respectively. There were no options granted during the nine months ended September 30, 2007 and 2006.

In the nine months ended September 30, 2007, Newtek granted seven employees an aggregate of 80,404 shares of restricted stock valued at \$150,000 which vest between three and 28 months. The Company also granted an officer 10,121 shares, valued at \$25,000 which immediately vested. The fair market values of these grants were determined using the fair value of the common shares at the grant date. The restricted shares are forfeitable upon early voluntary or involuntary termination of the employee. Upon vesting, the grantee will receive one common share for each restricted share vested.

As of September 30, 2007, there was \$88,000 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 June 30, 2009.

Fair value of financial instruments

SFAS No. 107, Disclosures about Fair Value of Financial Instruments, requires the disclosure of the estimated fair values of financial instruments. Excluding property and equipment, substantially all of the Company's assets and liabilities are considered financial instruments as defined by SFAS No. 107. Fair value is defined as the price at which a financial instrument could be liquidated in an orderly manner over a reasonable time period under present market conditions. Fair value estimates are subjective in nature and are dependent on a number of significant assumptions associated with each instrument or group of similar instruments, including estimates of discount rates, risks associated with specific financial instruments, estimates of future cash flows and relevant available market information. Fair value information is supposed to represent estimates of the amounts at which financial instruments could be exchanged in current transactions between willing buyers and sellers engaging in exchange transactions. However, since there are no established trading markets for a significant portion of the Company's financial instruments, the Company's may not be able to settle their financial instruments immediately; as such, the fair values are not necessarily indicative of the amounts that could be realized through immediate settlements. In addition, the majority of the Company's financial instruments, such as loans receivable held for investment and bank notes payable, are held to maturity and are realized or paid according to the contractual agreements with the customers or counterparties.

SFAS No. 107 requires that, where available, quoted market prices be used to estimate fair values. However, because of the nature of the Company's financial instruments, in many instances quoted market prices are not available. Accordingly, the Company has estimated fair values on the basis of other valuation techniques permitted by SFAS No. 107, such as discounting estimated future cash flows at rates commensurate with the risks involved or other acceptable methods. Fair values are required to be estimated without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible income tax ramifications, or estimated transaction costs. Fair values are also estimated at a specific point in time and are based on interest rates and other assumptions at that date. As the assumptions underlying these estimates change, the fair values of financial instruments will change.

Because SFAS No. 107 permits many alternative calculation techniques and because numerous assumptions have been used to estimate the Company's fair values, reasonable comparisons of the Company's fair value information with other financial institutions' fair value information cannot necessarily be made.

The methods and assumptions used to estimate fair values are set forth in the following paragraphs for each major grouping of the Companies' financial instruments.

The carrying values of the following balance sheet items approximate their fair values primarily due to their liquidity and short-term or adjustable yield nature:

Cash and cash equivalents

Bank notes payable

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Accrued interest receivable and payable

The carrying values of accounts payable and accrued expenses approximate fair value because of the short term maturity of these instruments. The carrying value of investments in qualified businesses, servicing assets, loans receivable, prepaid and structured insurance, notes payable, credits in lieu of cash, and notes payable in credits in lieu of cash approximate fair value based on management's estimates.

Table of Contents***New Accounting Pronouncements***

We adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with FASB Statement 109, Accounting for Income Taxes , and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements. Our evaluation was performed for the tax years ended December 31, 2003, 2004, 2005 and 2006, the tax years which remain subject to examination by major tax jurisdictions as of September 30, 2007.

We may from time to time be assessed interest and/or penalties by major taxing jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. In the event we have received an assessment for interest and/or penalties, it has been classified in the statement of operations as other general and administrative costs.

NOTE 3 DIVESTITURE:

In October 2006, the Company decided to discontinue one of its businesses included in the All other segment. The results of the discontinued business have been included in discontinued operations in the consolidated statement of operations in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets .

Summarized results of the Company s discontinued operations are as follows for the nine months ended September 30:

(In thousands):	2007	2006
Total revenues	\$ 335	\$ 1,716
Total expenses	(1,106)	(1,183)
(Loss) income before provision for income taxes	(771)	533
Benefit (provision) for income taxes	276	(213)
(Loss) income from discontinued operations, net of taxes	\$ (495)	\$ 320

The properties were sold in February and March 2007. Gross proceeds from the sales and insurance recoveries were \$1,572,000 and the gain on the sale was \$198,000.

NOTE 4 SBA LOANS:

SBA loans held for investment are 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 loan receivable balance, net of SBA loan loss reserves for the nine months ended September 30, 2007 (In thousands):

Balance as of December 31, 2006	\$ 27,746
Loans originated for investment	7,233
Payments received	(5,046)
Loans held for investment, reclassified as held for sale	(2,051)
Loans foreclosed into real estate owned	(310)
Provision for loan losses	(607)
Discount on loan originations, net	(152)

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Balance as of September 30, 2007 \$ 26,813

Below is a summary of the activity in the reserve for loan losses balance for the nine months ended September 30, 2007 (In thousands):

Balance as of December 31, 2006	\$ 2,332
Loan loss provision	607
Recoveries	24
Loan charge-offs	(396)
Balance as of September 30, 2007	\$ 2,567

Table of Contents

Below is a summary of the activity in the SBA loans held for sale for the nine months ended September 30, 2007 (In thousands):

Balance as of December 31, 2006	\$ 1,786
Loan originations for sale	22,791
Loans held for investment, reclassified as held for sale	2,052
Loans sold	(25,278)
Balance as of September 30, 2007	\$ 1,351

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 September 30, 2007 and December 31, 2006, net SBA loans receivable held for investment with adjustable interest rates amounted to \$25,831,000 and \$26,815,000, respectively.

For the nine months ended September 30, 2007 and 2006, the Company funded approximately \$29,919,000 and \$29,982,000 in loans and sold approximately \$23,421,000 and \$22,296,000 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 September 30, 2007 and December 31, 2006 amounted to \$802,000 and \$516,000, respectively.

As of September 30, 2007 and December 31, 2006, total impaired non-accrual loans amounted to \$5,557,000 and \$5,293,000, respectively. This represented 17% and 16% of the retained portfolio, respectively. For the nine months ended September 30, 2007 and for the year ended December 31, 2006, the average balance of impaired non-accrual loans was \$5,656,000 and \$4,507,000, respectively. Approximately \$1,421,000 and \$1,036,000, respectively, of the allowance for loan losses were allocated against such impaired nonaccrual loans 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):	September 30, 2007	December 31, 2006
Due in one year or less	\$ 9	\$ 15
Due between one and five years	1,507	1,585
Due after five years	29,665	30,127
Total	31,181	31,727
Less : Allowance for loan losses	(2,567)	(2,332)
Less: Discount on loan originations	(1,801)	(1,649)
Balance (net)	\$ 26,813	\$ 27,746

NOTE 5 INVESTMENTS IN QUALIFIED BUSINESSES:**HELD TO MATURITY DEBT INVESTMENTS Summary (In thousands)**

	Total
Principal outstanding as of December 31, 2006	\$ 5,301
Investments in qualified businesses	1,031
Return of principal	(3,749)
Consolidation of CDS pursuant to FIN 46R	(2,050)

Table of Contents**COST INVESTMENTS Summary (In thousands)**

Total cost investments as of December 31, 2006	\$ 542
Return of investments	(38)
Total cost investments as of September 30, 2007	\$ 504

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 September 30, 2007 was zero. Should the Company determine that an impairment exists upon its periodic review, and it is deemed to be other than temporary, the Company will reduce the recorded value of the asset to its estimated fair value and record a corresponding charge in the condensed consolidated statements of operations.

NOTE 6 SERVICING ASSETS:

Servicing rights are recognized as assets when SBA loans are sold and the rights to service those loans are retained. Through December 31, 2006, the Company recorded its servicing rights under FASB Statement of Financial Standards No. 140 (SFAS No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities a replacement of FASB Statement No. 125), at their relative fair values on the date the loans were sold and were carried at the lower of the initial recorded value, adjusted for amortization, or fair value. As of January 1, 2007, the Company adopted the provisions of SFAS No. 156 which requires all separately recognized servicing assets to be initially measured at fair value, if practicable. SFAS No. 156 permits a choice of subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities between the current amortization method and the fair value measurement method. As of January 1, 2007, the Company identified its entire balance in servicing rights as one class of servicing assets for this measurement and continued to use the amortization method. 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 nine months ended September 30, 2007 were as follows: (In thousands):

(In Thousands):	
Balance as of December 31, 2006	\$ 3,252
Servicing assets capitalized	650
Servicing assets amortized	(720)
 Balance as of September 30, 2007	 3,182
Reserve for impairment of servicing assets:	
Balance as of December 31, 2006	(261)
Additions	
 Balance as of September 30, 2007	 (261)
 Balance as of September 30, 2007 (net of reserve)	 \$ 2,921

The estimated fair value of capitalized servicing rights was \$2,921,000 and \$2,991,000 as of September 30, 2007 and December 31, 2006, respectively. The estimated fair value of servicing assets at both balance sheet dates was determined using a discount rate of 13.3%, weighted average annual prepayment speeds ranging from 1% to 23% depending upon certain characteristics of the loan portfolio, a weighted average life of 3.3 years, and an average annual default rate of 3%.

The unpaid principal balances of the sold portions of loans the Company originated and currently services for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were \$158,014,000 and \$163,277,000 as of

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September 30, 2007 and December 31, 2006, respectively.

Table of Contents**NOTE 7 GOODWILL/CONSOLIDATION OF CDS BUSINESS SERVICES, INC:**

In January 2007, it was determined that the Company would consolidate one of its qualified investments, CDS Business Services, Inc. (CDS) under the provisions of FIN 46 (R). At the time of consolidation, the opening balance sheet of CDS was as follows (inclusive of intercompany accounts):

(In thousands):	
Cash	\$ 233
Restricted cash	2,050
Accounts receivable, net	3,579
Prepaid expenses and other assets	94
Intangible assets, net	800
Total assets	\$ 6,756
Accounts payable and accrued expenses	\$ 3,127
Notes payable	6,109
Total liabilities assumed	9,236
Goodwill recognized	\$ 2,480

The difference between the assets and liabilities has been recorded as goodwill. The Company's purchase price allocations are preliminary and have not been finalized.

NOTE 8 BANK NOTES PAYABLE:

In February 2007, CDS Business Services, Inc., one of the Company's FIN 46 subsidiaries, closed a two year \$10,000,000 line of credit with Wells Fargo. This new facility will be used to purchase receivables and for other working capital purposes. As of September 30, 2007, CDS had \$1,412,000 outstanding on the line of credit. The interest rate is prime plus 2% with interest on the line being paid monthly in arrears and on a minimum outstanding line balance of \$2,000,000. Total interest expense for the nine months ended September 30, 2007 was approximately \$146,000. The line is collateralized by the receivables purchased, as well as all other assets of the company. Through September 30, 2007, CDS has capitalized \$148,000 of deferred financing costs attributable to the Wells Fargo line. Such costs are being amortized over two years and are included in prepaid expenses and other assets in the accompanying consolidated balance sheet. Amortization for the nine months ended September 30, 2007 was \$43,000. The agreement includes such financial covenants as minimum tangible net worth, minimum quarterly net income and minimum quarterly net cash flow.

NOTE 9 COMMITMENTS AND CONTINGENCIES:

Under the rules of Visa® and MasterCard®, when a merchant processor acquires card transactions, it has certain contingent liabilities for the transactions processed. This contingent liability arises in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor. In such a case, the transaction is charged back to the merchant and the disputed amount is credited or otherwise refunded to the cardholder. If the Company is unable to collect this amount from the merchant's account, and if the merchant refuses or is unable to reimburse the Company for the chargeback due to liquidation or other reasons, the Company will bear the loss for the amount of the refund paid to the cardholder. In most cases, a contingent liability for chargebacks is unlikely to arise, as most products or services are delivered when purchased, and credits are issued on returned items.

In late August 2007 the Company became aware that one of its merchant processing customers was experiencing difficulty in meeting its financial obligations to various parties, including failure to provide services to its customers. As this merchant does not provide services until some time after the purchase, the potential for contingent liability increases. Late in September 2007, the merchant stopped providing services altogether including services for which it had been advanced payment on credit card transactions processed by the Company. The Company terminated its processing agreement with the merchant on October 17, 2007. The

Table of Contents

merchant has not been honoring requests made by the Company for payments of chargebacks generated by their customers as they are required to under their agreement. As a result, the Company has become liable for these chargebacks under the Visa® and MasterCard® rules.

In the event services are not rendered by the merchant and cardholders pursue the chargeback process, then the resulting chargebacks not reimbursed by the merchant create a potential liability for the Company. At this time the Company cannot estimate this total potential liability. Through November 8, 2007, the Company has incurred a liability for chargebacks to cardholders in excess of amounts previously reimbursed to it by the merchant in the amount of approximately \$300,000. The Company has expensed this amount in its financial statements for the quarter ended September 30, 2007.

At the present time the Company has initiated legal action against the merchant and a financial guarantor of the merchant's obligations to the Company seeking compensation of chargebacks paid to date and all future chargebacks that may occur. The Company is not able to estimate the total potential loss relating to chargebacks that may not be recovered from present and future actions taken against the merchant and its guarantor. The Company believes that its risk of not being repaid by the merchant for these chargebacks is potentially mitigated by the possibility of the merchant's acquisition, recapitalization or liquidation, although there can be no assurance of any such mitigation.

NOTE 10 COMMON STOCK:

On January 26, 2007, in connection with a legal settlement, the Company issued 171,795 shares valued at \$344,000 to a former employee. Of the 171,795 shares issued, 86,290 shares are registered under the Company's 2003 Stock Incentive Plan and 85,505 shares are unregistered. The fair market value was determined using the fair value of the underlying common stock at the date of the stipulation of settlement.

Additionally, in 2004 two officers of the Company elected to receive their bonus, aggregating \$325,000, as deferred compensation. In connection with such agreement, the compensation was to be delivered in the form of Company stock in March 2007. On March 30, 2007, the Company issued a total of 72,394 shares of common stock with a fair market value of \$177,000 to such officers. The shares were issued in reliance on Section 4(2) of the Securities Act of 1933, as amended.

Pursuant to the terms of the Company's directors' compensation program, during the nine months ended September 30, 2007, Newtek issued an aggregate of 77,787 unregistered common shares to the board of directors, valued at \$144,250. The fair market values of these grants were determined using the average of the high and low price for the three days preceding the grant date. The shares were issued in exchange for the services of the directors on the Board of Directors and its committees in reliance on Section 4(2) of the Securities Act of 1933, as amended.

NOTE 11 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 Consolidated Balance Sheet. 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. During the nine months ended September 30, 2007, the Company purchased an additional 29,111 of treasury shares for a total purchase price of \$52,000 under that authorization.

NOTE 12 EARNINGS (LOSS) PER SHARE:

Basic earnings (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 earnings (loss) per share only when the effect of their inclusion would be dilutive.

The calculations of earnings (loss) per share were:

Table of Contents

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
(In thousands except per share data):				
Numerator:				
Numerator for basic and diluted EPS loss from continuing operations	\$ (3,963)	\$ (1,018)	\$ (8,758)	\$ (6,389)
Numerator for basic and diluted EPS (loss) income from discontinued operations	(4)	(36)	(495)	320
Numerator for basic and diluted EPS loss available to common shareholders	\$ (3,967)	\$ (1,054)	\$ (9,253)	\$ (6,069)
Denominator:				
Denominator for basic and diluted EPS- weighted average shares	35,950	34,883	35,824	34,805
Net loss per share from continuing operations: Basic and diluted	\$ (0.11)	\$ (0.03)	\$ (0.25)	\$ (0.18)
Net (loss) income per share from discontinued operations: Basic and diluted	(0.00)	(0.00)	(0.01)	0.01
Loss per share: Basic and diluted	\$ (0.11)	\$ (0.03)	\$ (0.26)	\$ (0.17)

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

Stock options and restricted stock	703	1,743	617	1,743
Warrants	216	216	216	216
Contingently issuable shares	474	583	474	583

NOTE 13 SUBSEQUENT EVENTS:

On October 18, 2007, a wholly owned subsidiary of Newtek Business Services, Inc., CrystalTech Webhosting, Inc. (CrystalTech) repaid the outstanding balance of \$1,000,000 of the note payable to Technology Investment Capital Corp. (TICC) for \$1,000,000 in principal plus accrued interest of approximately \$14,000. In conjunction with the payoff, the Company expensed the remaining capitalized closing costs associated with the TICC note of approximately \$90,000 during the quarter ended September 30, 2007.

On October 19, 2007, CrystalTech entered into a Loan and Security Agreement with North Fork Bank which provides for a revolving credit facility of up to \$10,000,000 available to both CrystalTech and the Company, for a term of two years. The line may be used for working capital and acquisition needs within the Company's business lines; loans for acquisitions having a five year repayment term. The interest rate is LIBOR plus 2.5%. The agreement includes such financial covenants as a minimum fixed charge coverage ratio and a maximum funded debt to EBITDA. In connection with the loan, on October 19, 2007 Newtek Business Services, Inc. entered into a Guaranty of Payment and Performance with North Fork Bank and entered into a Pledge Agreement with North Fork Bank pledging all CrystalTech stock as collateral.

NOTE 14 SEGMENT REPORTING:

Operating segments are organized internally primarily by the type of services provided, and in accordance with SFAS 131, Disclosures About Segments of an Enterprise and Related Information, the Company has aggregated similar operating segments into six reportable segments: SBA lending, electronic payment processing, web hosting, Capcos, corporate activities and all other.

Effective in the fourth quarter of 2005, the Company increased the number of operating segments from four to six. 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.

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The SBA lending segment is NSBF, a 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.

Table of Contents

As an SBA lender, 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 also generates expenses such as interest, professional fees, payroll and consulting, depreciation and amortization, and provision for loan losses, all of which are included in the respective caption on the condensed consolidated statement 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 electronic payment processing segment is a marketer of credit card and check approval services to the small business market. Revenue generated from electronic payment processing is included on the condensed consolidated statements of income as a separate line item. Expenses include direct costs (included in a separate line captioned electronic payment processing direct costs), professional fees, payroll and consulting, and other general and administrative costs, all of which are included in the respective caption on the condensed consolidated statements of operations.

The web hosting segment consists of CrystalTech, acquired in July 2004. CrystalTech's revenues are derived primarily from web hosting services and set up fees. CrystalTech generates expenses such as professional fees, payroll and consulting, 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 general and administrative costs caption in the respective caption on the condensed consolidated statements of operations.

The Capco segment, which consists of the fifteen 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, professional fees consisting of management fees paid to Newtek, legal and auditing fees and losses from investments in qualified businesses.

The All Other segment includes revenue and expenses from businesses formed from qualified investments made through the Capco programs which cannot be aggregated with other operating segments.

Corporate activities represent revenue and expenses not allocated to our segments. Revenue includes interest income and management fees earned from Capcos. 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.

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.

Table of Contents

(In thousands)

	For the three months ended September 30, 2007	For the three months ended September 30, 2006	For the nine months ended September 30, 2007	For the nine months ended September 30, 2006
Third Party Revenue				
Electronic payment processing	\$ 14,011	\$ 11,236	\$ 39,638	\$ 31,273
Web hosting	4,173	3,481	12,011	10,001
SBA lending	2,157	2,783	7,081	7,266
Capcos	1,570	1,743	4,926	5,687
All Other	1,273	2,520	4,980	4,176
Corporate activities	760	993	2,992	3,499
Total reportable segments	23,944	22,756	71,628	61,902
Eliminations	(877)	(1,264)	(3,341)	(3,838)
Consolidated Total	\$ 23,067	\$ 21,492	\$ 68,287	\$ 58,064
Inter-Segment Revenue				
Electronic payment processing	\$ 115	\$ 106	\$ 344	\$ 290
Web hosting	36	15	131	47
SBA lending				
Capcos	510	338	1,662	975
All Other	316	362	756	1,010
Corporate activities	306	531	1,564	1,600
Total reportable segments	1,283	1,352	4,457	3,922
Eliminations	(1,283)	(1,352)	(4,457)	(3,922)
Consolidated Total	\$	\$	\$	\$
Income (loss) before benefit for income taxes and discontinued operations				
Electronic payment processing	\$ 868	\$ 935	\$ 2,572	\$ 2,072
Web hosting	440	996	2,463	3,047
SBA lending	(17)	510	193	352
Capcos	(2,913)	(3,572)	(9,785)	(10,899)
All Other	(685)	1,195	(858)	(348)
Corporate activities	(2,325)	(1,677)	(6,101)	(3,929)
Totals	\$ (4,632)	\$ (1,613)	\$ (11,516)	\$ (9,705)
Depreciation and Amortization				
Electronic payment processing	\$ 519	\$ 395	\$ 1,409	\$ 1,034
Web hosting	893	676	2,448	1,848
SBA lending	392	419	1,171	1,229
Capcos	15	28	43	80
All Other	53	79	212	210
Corporate activities	67	47	187	125
Totals	\$ 1,939	\$ 1,644	\$ 5,470	\$ 4,526

Table of Contents

	As of September 30, 2007	As of December 31, 2006
Identifiable assets		
Electronic payment processing	\$ 15,813	\$ 12,302
Web hosting	14,710	14,687
SBA Lending	39,831	39,028
Capcos	129,465	146,992
All Other	18,027	21,220
Corporate activities	5,089	6,508
Consolidated total	\$ 222,935	\$ 240,737

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations is intended to assist in the understanding and assessment of significant changes and trends related to the results of operations and financial position of the Company together with its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and the accompanying notes.

This Quarterly Report on Form 10-Q contains forward-looking statements. Additional written or oral forward-looking statements may be made by Newtek from time to time in filings with the Securities and Exchange Commission or otherwise. The words believe, expect, seek, and intend and similar expressions identify forward-looking statements, which speak only as of the date the statement is made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but are not limited to, projections of income or loss, expenditures, acquisitions, plans for future operations, financing needs or plans relating to our services, 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.

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

We also need to point out that our Capcos operate under a different set of rules in each of the 8 jurisdictions and that these place varying requirements on the structure of our investments. In some cases, particularly in Louisiana, we don't control the equity or management of a qualified business but that cannot always be presented orally or in written presentations.

We are a direct distributor of business services to the small and medium-sized business market through our wholly and majority owned subsidiaries. Our target market represents a very significant marketplace in the United States gross domestic product or GDP. According to statistics published by the U.S. Small Business Administration, approximately 51% of the GDP in the United States comes from small-to medium-size businesses and 99% of businesses in the United States which have one or more employees fit into this market segment. As of September 30, 2007, we had over 84,000 business accounts. We use state of the art Web-based proprietary technology to be a low cost acquirer and provider of products and services to our small and medium- size business clients. We partner with AIG, Merrill Lynch, Morgan Stanley, UBS, IntegraSys a Fiserv Company, the Credit Union National Association with its 8,700 credit unions and 80 million members, the Navy Federal Credit Union with 2.7 million members, PSCU Financial Services, Inc., the nation's largest credit union service organization, General Motors Minority Dealers Association and Daimler Chrysler Minority Dealers Association, all of whom have elected to offer certain of our business services and financial products rather than provide some or all of them directly for their customers. We have deemphasized our Capco business in favor of growing our operating businesses and do not anticipate creating any new Capcos in the foreseeable future.

The Company's reportable business segments are:

Electronic Payment Processing: Marketing, credit card processing and check approval services.

Web Hosting: CrystalTech Web Hosting, Inc., which offers shared and dedicated web hosting and related services.

SBA Lending: 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.

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

Table of Contents

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 and insurance expenses.

Comparison of the three months ended September 30, 2007 and September 30, 2006

Revenue and expenses which are specific to a segment are discussed in Segment Results, which follows. Electronic payment processing revenue and electronic payment processing costs are included in the Electronic payment processing segment. Web hosting revenue is included in the Web hosting segment. Premium income revenue, servicing fee revenue and provision for loan losses expense are included in the SBA lending segment. Income from tax credits revenue is included in the Capco segment.

Total revenues increased by \$1,575,000, or 7%, to \$23,067,000 for the three months ended September 30, 2007, from \$21,492,000 for the three months ended September 30, 2006 primarily due to the increase in revenues in the Electronic payment processing and Web hosting segments of \$2,775,000 and \$692,000, respectively, offset by a decrease in the revenues of the SBA lending, Capcos, All Other and Corporate activities segments.

Interest income increased by \$61,000, or 5%, to \$1,291,000 for the three months ended September 30, 2007 from \$1,230,000 for the three months ended September 30, 2006. NSBF (SBA Lender) interest income represents earnings on SBA loan receivables. Other interest income consists of investment income on money market accounts, U.S. treasury notes, non-cash accretions of structured products and interest income on qualified investments.

Other income decreased by \$1,752,000, or 65%, to \$951,000 for the three months ended September 30, 2007 from \$2,703,000 for the three months ended September 30, 2006 primarily due to a one time gain on the sale of a qualified investment of \$1,706,000 and the recovery of an investment in qualified businesses of \$161,000 during the three months ended September 30, 2006, offset by an increase in other income from the consolidation of CDS Business Services, Inc. as of January 2007, which produced \$420,000 in revenue for the three months ended September 30, 2007. Other income generally represents revenues from entities that cannot be aggregated into any of our other major operating segments.

Consulting, payroll and benefits increased by \$1,454,000, or 34%, to \$5,775,000 for the three months ended September 30, 2007 from \$4,321,000 for the three months ended September 30, 2006 primarily due to the increasing employee headcount and the consolidation of CDS Business Services, Inc. as of January 2007.

Interest expense decreased by \$177,000, or 5%, to \$3,385,000 for the three months ended September 30, 2007 from \$3,562,000 for the three months ended September 30, 2006. The decrease in Capco interest expense relates to the decrease in the principal outstanding on the notes payable to AI Credit from \$7,312,000 as of September 30, 2006, to \$1,019,000 as of September 30, 2007. The decrease in SBA interest expense is attributable to a decrease in the average outstanding balance under the Company's credit facility. The average outstanding balance in the three month period ended September 30, 2007 was \$16,961,000 as compared with \$19,904,000 in the same period in the prior year. The decrease in other interest expense is primarily attributable the decrease in principal outstanding on the note payable to TICC.

Professional fees decreased by \$293,000, or 14%, to \$1,826,000 for the three months ended September 30, 2007 from \$2,119,000 for the three months ended September 30, 2006 primarily due to a decrease in audit and consulting fees, offset by increased residual payments to independent sales agents and offices.

Depreciation and amortization expense increased by \$295,000, or 18%, to \$1,939,000 for the three months ended September 30, 2007 from \$1,644,000 for the three months ended September 30, 2006. This is due to the purchase of \$3,038,000 of fixed assets during the twelve months ended June 30, 2007.

Other general and administrative costs (consisting of occupancy, selling, general and administrative) increased by \$597,000, or 22%, to \$3,355,000 for the three months ended September 30, 2007 from \$2,758,000 for the three months ended September 30, 2006. The increase in overall other general and administrative costs relates to additional expenses incurred in connection with the growth of our business and employee head count.

The effective tax benefit for the three months ended September 30, 2007 and 2006 was 14% and 37%, respectively. The Company did not record a tax benefit for the losses of NSBF (in both 2007 and 2006) and CDS Business Services, Inc. (2007 only), as those subsidiaries are not included

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in the consolidated tax group. In addition the Company recorded a current tax provision for the first time this quarter which further reduced the tax benefit. The current tax provision is a result of certain of the Company's subsidiaries producing taxable income that could not be offset with NOLs and suspended losses from other entities. There were no material permanent differences in either year.

Table of Contents

Net loss increased by \$2,913,000 or 276%, to \$3,967,000 for the three months ended September 30, 2007 from \$1,054,000 for the three months ended September 30, 2006, due to an increase in total expenses of \$4,627,000, offset by the increase in revenue of \$1,575,000, an increase in minority interest of \$33,000, an increase in the tax benefit of \$74,000, and an increase in discontinued operations of \$32,000.

Comparison of the nine months ended September 30, 2007 and September 30, 2006

Revenue and expenses which are specific to a segment are discussed in Segment Results, which follows. Electronic payment processing revenue and electronic payment processing costs are included in the Electronic Payment Processing segment. Web hosting revenue is included in the Web hosting segment. Premium income revenue, servicing fee revenue and provision for loan losses expense are included in the SBA Lending segment. Income from tax credits revenue is included in the Capco segment.

Total revenues increased by \$10,223,000, or 18%, to \$68,287,000 for the nine months ended September 30, 2007, from \$58,064,000 for the nine months ended September 30, 2006 primarily due to the increase in revenues in the Electronic payment processing, Web hosting and All Other segments of \$8,365,000, \$2,010,000 and \$804,000, respectively.

Interest income is generated from SBA lending activities, excess cash balances that are invested in money market accounts, U.S. Treasury notes, federal government backed securities mutual funds, etc., non-cash accretions of structured insurance product and on held to maturity investments. The following table details the changes in these different forms of interest:

(In thousands)	2007	2006	Change
SBA lending	\$ 2,767	\$ 2,831	\$ (64)
Other interest income	1,562	1,735	(173)
	\$ 4,329	\$ 4,566	\$ (237)

Other income increased by \$816,000, or 24%, to \$4,264,000 for the nine months ended September 30, 2007 from \$3,448,000 for the nine months ended September 30, 2006. In 2007 other income primarily consisted of a gain on the sale/recoveries of an investment in qualified businesses of \$1,073,000, equity earnings on an investment of \$329,000, NSBF recoveries of \$132,000 and the consolidation of CDS Business Services, Inc., which produced revenues of \$1,435,000 during 2007. In 2006, other income consisted of a gain on the sale/recoveries of investments in a qualified businesses of \$1,840,000, equity earnings of \$96,000 and NSBF recoveries of \$345,000. Other income generally represents revenues from entities that cannot be aggregated into any of our other major operating segments.

Consulting, payroll and benefits increased by \$4,070,000, or 33%, to \$16,512,000 for the nine months ended September 30, 2007 from \$12,442,000 for the nine months ended September 30, 2006 primarily due to an increased employee headcount and the consolidation of CDS Business Services, Inc. as of January 2007.

Changes in interest expense by segment are summarized as follows for the nine months ended September 30:

(In thousands)	2007	2006	Change
Capco interest expense	\$ 9,011	\$ 9,845	\$ (834)
SBA lending	1,332	1,618	(286)
Other interest expense	378	984	(606)
	\$ 10,721	\$ 12,447	\$ (1,726)

The decrease in Capco interest expense relates to the decrease in the principal outstanding on the notes payable to AI Credit from \$7,312,000 as of September 30, 2006, to \$1,019,000 as of September 30, 2007. The decrease in SBA interest expense is attributable to a decrease in the average outstanding balance under the Company's credit facility. The average outstanding balance in the nine month period ended September 30, 2007 was \$19,151,000 as compared with \$22,978,000 in the same period in the prior year. The decrease in other interest expense is primarily attributable the decrease in principal outstanding on the note payable to TICC.

Table of Contents

Professional fees decreased by \$219,000, or 4%, to \$5,828,000 for the nine months ended September 30, 2007 from \$6,047,000 for the nine months ended September 30, 2006 primarily due to a decrease in audit and consulting fees, offset by increased residual payments to independent sales agents and offices.

Depreciation and amortization expense increased by \$944,000, or 21%, to \$5,470,000 for the nine months ended September 30, 2007 from \$4,526,000 for the nine months ended September 30, 2006. This is due to the purchase of \$3,038,000 of fixed assets during the twelve months ended June 30, 2007.

Other general and administrative costs (consisting of occupancy, selling, general and administrative) increased by \$1,934,000, or 26%, to \$9,351,000 for the nine months ended September 30, 2007 from \$7,417,000 for the nine months ended September 30, 2006. The increase in overall other general and administrative costs relates to additional expenses incurred in connection with the growth of our business and employee head count.

The effective tax benefit for the nine months ended September 30, 2007 and 2006 was 24% and 34%, respectively. The Company did not record a tax benefit for the losses of NSBF (in both 2007 and 2006) and CDS Business Services, Inc. (2007 only), as those subsidiaries are not included in the consolidated tax group. In addition, the Company recorded a current tax provision for the first time this quarter which further reduced the tax benefit. The current tax provision is a result of certain of the Company's subsidiaries producing taxable income that could not be offset with NOLs and suspended losses from other entities. There were no material permanent differences in either year.

Net loss increased by \$3,184,000, or 52%, to \$9,253,000 for the nine months ended September 30, 2007 from \$6,069,000 for the nine months ended September 30, 2006, due an increase in total expenses of \$11,917,000, a decrease in minority interest of \$117,000, a decrease in the tax benefit of \$558,000 and a decrease in discontinued operations of \$815,000, offset by an increase in revenue of \$10,223,000.

The results of the Company's reportable segments for the three and nine months ended September 30, 2007 as compared to the three and nine months ended September 30, 2006 are discussed below.

Electronic Payment Processing**For the three months ended September 30, 2007 and 2006:**

(In thousands):	2007	2006	\$ Change	% Change
Revenue	\$ 14,011	\$ 11,236	\$ 2,775	25%
Expenses	(13,143)	(10,291)	(2,852)	(28)%
Income from continuing operations before minority interest, benefit for income taxes and discontinued operations	868	945	(77)	(8)%
Minority interest		(10)	10	
Income from continuing operations before benefit for income taxes and discontinued operations	\$ 868	\$ 935	\$ (67)	(7)%

Revenues increased by \$2,775,000, or 25%, to \$14,011,000 due to a \$2,828,000 increase in electronic payment processing revenue, offset by a \$53,000 decrease in interest and other income. The increase in electronic payment processing revenue was primarily due to organic sales growth. Gross total processing volume increased 21% to \$647,520,000 for the three months ended September 30, 2007, from \$535,892,000 for the three months ended September 30, 2006.

Expenses increased by \$2,852,000, or 28%, to \$13,143,000 due primarily to a \$2,433,000 increase in electronic payment processing costs, a \$242,000 increase in professional fees, which consist principally of residual payments to independent sales agents and offices, and a \$121,000 increase in depreciation and amortization. The Company estimated and recorded \$300,000 in additional chargeback expense which is included in electronic payment processing costs for the three months ended September 30, 2007 (see Note 9). The increase in electronic payment processing costs, excluding the \$300,000 additional chargeback expense, approximated the increase in revenue between periods. Excluding the \$300,000 additional chargeback expense, an increase in higher volume customers which generate higher direct processing costs as a percentage of revenue

between periods was substantially offset by a lower rate of increase in other costs.

Table of Contents**For the nine months ended September 30, 2007 and 2006:**

(In thousands):	2007	2006	\$ Change	% Change
Revenue	\$ 39,638	\$ 31,273	\$ 8,365	27%
Expenses	(37,066)	(29,191)	(7,875)	(27)%
Income from continuing operations before minority interest, benefit for income taxes and discontinued operations	2,572	2,082	490	24%
Minority interest		(10)	10	
Income from continuing operations before benefit for income taxes and discontinued operations	\$ 2,572	\$ 2,072	\$ 500	24%

Revenues increased by \$8,365,000, or 27%, to \$39,638,000 due to a \$8,416,000 increase in electronic payment processing revenue and a \$51,000 decrease in interest and other income. The \$8,416,000 increase in electronic payment processing revenue was almost entirely due to an increase in organic sales growth. Gross total processing volume increased by 26% to \$1,861,426,000 for the nine months ended September 30, 2007, from \$1,480,980,000 for the nine months ended September 30, 2006.

Expenses increased by \$7,875,000, or 27%, to \$37,066,000 due primarily to a \$6,548,000 increase in electronic payment processing costs, a \$784,000 increase in professional fees, which consist principally of residual payments to independent sales agents and offices, a \$372,000 increase in depreciation and amortization, and a \$51,000 increase in consulting, payroll and benefits. The Company estimated and recorded \$300,000 in additional chargeback expense which is included in electronic payment processing costs for the nine months ended September 30, 2007 (see Note 9). The rate of increase in electronic payment processing costs, excluding the \$300,000 additional chargeback expense, was less than the rate of growth in revenues despite an increase in higher volume customers which generate higher direct processing costs as a percentage of revenue due to other costs increasing at a slower rate of increase between years.

Web Hosting**For the three months ended September 30, 2007 and 2006:**

(In thousands):	2007	2006	\$ Change	% Change
Revenue	\$ 4,173	\$ 3,481	\$ 692	20%
Expenses	(3,733)	(2,485)	(1,248)	(50)%
Income from continuing operations before benefit for income taxes and discontinued operations	\$ 440	\$ 996	\$ (556)	(56)%

Revenue is derived primarily from monthly recurring fees from hosting dedicated and shared websites.

Revenues increased by \$692,000, or 20%, to \$4,173,000 for the three months ended September 30, 2007 from \$3,481,000 for the three months ended September 30, 2006 due to a \$685,000 increase in web hosting revenue and \$7,000 increase in interest income. The increase in web hosting revenue is due to the overall growth in the number of customers the Company provided services to and an increase in dedicated hosting customers which generate higher revenue per customer, than shared website customers.

The average number of total websites for the three months ended September 30, 2007 increased 18% to 65,000 from 55,000 for the three months ended September 30, 2006. The average number of dedicated websites, which generate a higher monthly fee, increased 25% to 2,000 in 2007, from 1,600 in 2006. The average number of shared websites increased 17% to 63,000, per month in 2007, from 54,000, in 2006.

The \$1,248,000, or 50% increase in expenses in 2007 compared with 2006 was primarily due to a \$143,000 increase in consulting, payroll and benefits, a \$218,000 increase in depreciation and amortization, and a \$953,000 increase in other expenses, offset, in part, by a \$90,000 decrease

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in interest expense due to lower borrowings from TICC during 2007. Consulting, payroll and benefits increased due to additional personnel added to service the increased customer base and to extend the hours of operation in customer service. Depreciation and amortization increased due to additional capital expenditures of \$2,167,000 over the past twelve months primarily for additional servers. Other expenses increased primarily due to \$222,000 in additional software licenses required for additional servers, a \$648,000 increase in rent and utilities related to a new space, and a \$90,000 increase in internet and telephone costs due to the growth of the company and the acquisition of additional space.

Table of Contents**For the nine months ended September 30, 2007 and 2006:**

(In thousands):	2007	2006	\$ Change	% Change
Revenue	\$ 12,011	\$ 10,001	\$ 2,010	20%
Expenses	(9,548)	(6,954)	(2,594)	(37)%
Income from continuing operations before benefit for income taxes and discontinued operations	\$ 2,463	\$ 3,047	\$ (584)	(19)%

Revenue is derived primarily from monthly recurring fees from hosting dedicated and shared websites.

Revenue increased by \$2,010,000, or 20%, to \$12,011,000 for the nine months ended September 30, 2007 from \$10,001,000 for the nine months ended September 30, 2006 due to a \$2,030,000 increase in web hosting revenue offset by a \$20,000 decrease in interest income and other revenue. The increase in web hosting revenue is due to the overall growth in the number of customers the Company provided services to and an increase in dedicated hosting customers which generate higher revenue per customer.

The average number of total websites increased 21% to 63,000 in 2007, from 52,000 in 2006. The average number of dedicated websites, which generate a higher monthly fee, increased 43%, to 2,000 per month in 2007, from 1,400 in 2006. The average number of shared websites increased 20% to 61,000, per month in 2007, from 51,000, in 2006.

The \$2,594,000, or 37% increase in expenses for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006 was primarily due to a \$655,000 increase in consulting, payroll and benefits, a \$601,000 increase in depreciation and amortization, and a \$1,810,000 increase in other expenses, offset, in part, by a \$352,000 decrease in interest expense due to lower principal outstanding on the TICC debt during 2007. Consulting, payroll and benefits increased due to additional personnel added to service the increased customer base and to extend the hours of operation in customer service. Depreciation and amortization increased due to additional capital expenditures of \$2,167,000 over the past twelve months primarily for additional servers. Other expenses increased primarily due to \$665,000 in additional software licenses required for additional servers, an \$812,000 increase in rent and utilities, a \$44,000 increase in marketing costs, and a \$146,000 increase in internet and telephone costs due to the growth of the company and the acquisition of additional space.

SBA Lending**For the three months ended September 30, 2007 and 2006:**

(In thousands):	2007	2006	\$ Change	% Change
Revenue	\$ 2,157	\$ 2,783	\$ (626)	(22)%
Expenses	(2,174)	(2,273)	99	4%
Income (loss) from continuing operations before benefit, provision for income taxes and discontinued operations	\$ (17)	\$ 510	\$ (527)	(103)%

Revenue is derived primarily from premium income generated by the sale of the guaranteed and unguaranteed portions of SBA loans, interest income on SBA loans and servicing fee income on SBA loans previously sold.

Total revenues decreased by \$626,000, or 22%, primarily due to a decrease in premium and interest income.

Premium income related to SBA loans decreased by \$387,000 to \$684,000 for the three months ended September 30, 2007 from \$1,071,000 for the three months ended September 30, 2006. The decrease in premium income was primarily attributable to the decrease in the sale of loans previously classified as held for investment and the discount recognized thereon. In the three months ended September 30, 2007, NSBF did not sell any loans previously classified as held for investment. In the three months ended September 30, 2006, NSBF sold \$4,510,000 of loans previously classified as held for investment, for aggregate proceeds of \$4,690,000. The carrying value above the amounts sold of \$180,000 was recorded as premium income. Also, in connection with this sale, included in premium income for the three months ended September 30, 2006

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was \$335,000, representing the allocated portion of the remaining discount recorded at the time of loan origination, for total premium recognized of \$516,000.

Table of Contents

The decrease in premium income discussed above was partially offset by NSBF selling \$9,714,000 of guaranteed loans in the three months ended September 30, 2007 as compared to \$7,970,000 guaranteed loans sold in the same period for the prior year, an increase of \$1,744,000. These sales resulted in premium income of \$684,000 and \$556,000, respectively. In the third quarter of 2007, NSBF experienced a reduction in the pricing of the guaranteed portion of SBA loans. This reduction resulted in reduced premium recognized on the sale of the guaranteed portion of SBA loans for the three months ended September 30, 2007. However, such decrease did not have a material impact on the Company.

Servicing fee income related to SBA loans increased by \$39,000 to \$512,000 for the three months ended September 30, 2007 from \$473,000 for the three months ended September 30, 2006. The increase in servicing fee income was attributable to NSBF recognizing \$51,000 in servicing income associated with the servicing of an SBA portfolio for a savings bank in New York. This increase was partially offset as a result of a decrease in the NSBF servicing portfolio year over year. The average NSBF portfolio in which we earned servicing fee income for the quarter ended September 30, 2007 was \$133,938,000 compared with \$144,130,000 at September 30, 2006.

Interest income decreased by \$183,000 to \$813,000 for the three months ended September 30, 2007 from \$996,000 for the three months ended September 30, 2006. This decrease was attributable to a decrease in the average loan portfolio to \$32,889,000 from \$34,779,000 as well as the average performing portfolio to \$27,232,000 from \$30,690,000 for the three months ended September 30, 2007 and 2006, respectively. Additionally, the Company recognized an additional \$36,000 in deferred loan origination costs as a result of prepaids for the three month period ended September 30, 2006 as compared to the three month period ended September 30, 2007.

Other income decreased by \$95,000 to \$148,000 for the three months ended September 30, 2007 from \$243,000 for the same period in 2006. A majority of this decrease was attributable to a reduction in prepayment and late payment fees as well as a decrease in packaging fee income.

Expenses decreased by \$99,000, or 4%, to \$2,174,000 for the three months ended September 30, 2007 from \$2,273,000 for the same period in 2006, primarily due to a decrease in interest expense, salaries and benefits and professional fees, offset by the increase in the provision for loan loss. Interest expense decreased by \$91,000 to \$403,000 for the three months ended September 30, 2007 from \$494,000 for the same period in 2006 as a result of a decrease in the average outstanding balance under the Company's credit facility. The average outstanding balance in the three month period ended September 30, 2007 was \$16,961,000 as compared with \$19,904,000 in the same period in the prior year. Additionally, the fees being charged to the unused portion of the line decreased as a result of the 2nd amendment entered into in December 2006, reducing the overall line from \$75,000,000 to \$50,000,000. Salaries and benefits decreased by \$69,000 due to a reduction in headcount of 4.5 employees. Professional fees decreased by \$90,000 due to a reduction in audit and tax expense. The Company increased its provision for loan losses by \$184,000 as a result of incurring a larger number of charge-offs in the third quarter of 2007 as compared with the same period in 2006.

Management's ongoing estimates of the allowance for loan losses are particularly affected by the changing composition of the loan portfolio over the last few years. The loans acquired from CCC in December 2002, which are more seasoned than those originated by NSBF, comprise 17% of total loans held for investment as of September 30, 2007. Other portfolio characteristics, such as industry concentrations and loan collateral, which also impacts management's estimates of the allowance for loan losses, have also changed since the acquisition. The changing nature of the portfolio and the limited past loss experience on the newly originated portfolio has resulted in management's estimates of the allowance for loan losses being based more on subjective factors and less on empirically derived loss rates. Such estimates could differ from actual results, which may have a material effect on the Company's results of operations or financial condition.

For the nine months ended September 30, 2007 and 2006:

(In thousands):	2007	2006	\$ Change	% Change
Revenue	\$ 7,081	\$ 7,266	\$ (185)	(3)%
Expenses	(6,888)	(6,914)	26	0%
Income from continuing operations before benefit for income taxes and discontinued operations	\$ 193	\$ 352	\$ (159)	(45)%

Revenue is derived primarily from premium income generated by the sale of the guaranteed and unguaranteed portions of SBA loans, interest income on SBA loans and servicing fee income on SBA loans previously sold.

Total revenues decreased \$185,000, or 3%, primarily due to a decrease in premium and interest income.

Table of Contents

Premium income related to SBA loans decreased by \$250,000 to \$2,198,000 for the nine months ended September 30, 2007 from \$2,448,000 for the nine month period ended September 30, 2006. The decrease in premium income was primarily attributable to the decrease in the sale of loans previously classified as held for investment and the discount recognized thereon. In the nine months ended September 30, 2007, NSBF sold \$1,911,000 of loans previously classified as held for investment, for aggregate proceeds of \$2,007,000. The carrying value above the amounts sold of \$96,000 was recorded as premium income. Also, in connection with this sale, included in premium income for the nine months ended September 30, 2007 was \$133,000, representing the allocated portion of the remaining discount recorded at the time of loan origination, for total premium income recognized of \$228,000. In the nine months ended September 30, 2006, NSBF sold \$7,324,000 of loans previously classified as held for investment, for aggregate proceeds of \$7,650,000. The carrying value above the amounts sold of \$326,000 was recorded as premium income. Also, in connection with this sale, included in premium income for the nine months ended September 30, 2006 was \$356,000, representing the allocated portion of the remaining discount recorded at the time of loan origination, for total premium recognized of \$681,000.

The decrease in premium income discussed above was partially offset by NSBF selling \$23,421,000 guaranteed loans in the nine months ended September 30, 2007 as compared to \$22,296,000 guaranteed loans sold in the same period for the prior year, an increase of \$1,125,000. These sales resulted in premium income of \$1,970,000 and \$1,767,000, respectively. In the third quarter of 2007, NSBF experienced a reduction in the pricing of the guaranteed portion of SBA loans. This reduction resulted in reduced premium recognized on the sale of the guaranteed portion of SBA loans for the nine months ended September 30, 2007. However, such decrease did not have a material impact on the Company.

Servicing fee income related to SBA loans decreased by \$7,000 to \$1,452,000 for the nine months ended September 30, 2007 from \$1,459,000 for the nine month period ended September 30, 2006. This decrease was attributable to a decrease in the NSBF servicing portfolio year over year. The average NSBF portfolio in which we earned servicing fee income for the nine months ended September 30, 2007 was \$134,615,000 compared with \$147,732,000 for the nine months ended September 30, 2006. This decrease was partially offset by NSBF recognizing \$146,000 in servicing income associated with the servicing of an SBA portfolio for a savings bank in New York.

Interest income decreased by \$64,000 to \$2,767,000 from \$2,831,000 for the nine months ending September 30, 2007 and 2006, respectively. This decrease is attributable to a decrease in the average loan portfolio to \$35,596,000 from \$37,942,000 as well as the average performing portfolio to \$29,940,000 from \$33,897,000 in the nine months ended September 30, 2007 and 2006, respectively. The Company also recognized an additional \$47,000 in deferred loan origination costs as a result of an increase in prepays for the nine month period ended September 30, 2007 as compared to the nine month period ended September 30, 2006.

Other income increased by \$136,000 to \$664,000 for the nine months ended September 30, 2007 from \$528,000 for the same period in 2006. A majority of this increase was attributable to a recovery on a loan that was charged off several years ago under the old ownership of Commercial Capital Corp. as well as an additional \$59,000 of income being recognized in connection with the recovery of expenses associated with the sale of OREO properties.

Expenses increased by \$26,000 to \$6,888,000 for the nine months ended September 30, 2007 from \$6,914,000 for the same period in 2006. This increase was primarily due to an increase in other general and administrative costs, specifically the write-down of the fair value of Other Real Estate Owned (OREO) as well as an increase in the provision for loan loss. As a result of incurring significant costs associated with maintaining its interests in OREO property the Company incurred total write downs of OREO property in the nine month period ended September 30, 2007 of \$271,000. Provision for loan loss increased by \$202,000 as a result of an increase in charge-offs as well as an increase in the non-performing portfolio for the nine months ended September 30, 2007 as compared to the same period in 2006. These additional costs were offset by the reduction in interest expense and professional fees. Interest expense decreased by \$286,000 to \$1,332,000 for the nine months ended September 30, 2007 from \$1,618,000 for the same period in 2006 as a result of a decrease in the average outstanding balance under the Company's credit facility. The average outstanding balance in the nine month period ended September 30, 2007 was \$19,151,000 as compared with \$22,978,000 in the same period in the prior year. Additionally, the fees being charged to the unused portion of the line decreased as a result of the 2nd amendment entered into in December 2006, reducing the overall line from \$75,000,000 to \$50,000,000. Professional fees decreased by \$246,000 due to a reduction in audit, tax and legal accruals.

Capco

For the three months ended September 30, 2007 and 2006:

(In thousands):	2007	2006	\$ Change	% Change
Revenue	\$ 1,570	\$ 1,743	\$ (173)	(10)%
Expenses	(4,599)	(5,383)	784	15%

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Loss from continuing operations before minority interest, benefit for income taxes and discontinued operations	(3,029)	(3,640)	611	17%
Minority interest	116	68	48	71%
Loss from continuing operations before benefit for income taxes and discontinued operations	\$ (2,913)	\$ (3,572)	\$ 659	18%

Table of Contents

Revenue is derived primarily from non-cash income from tax credits recorded when a Capco achieves defined investment percentage thresholds and from non-cash accretion of income from tax credits between the time the thresholds are achieved and the tax credits are utilized by the certified investor. Income from tax credits increased by \$33,000 to \$1,337,000 for the three months ended September 30, 2007 from \$1,304,000 for the three months ended September 30, 2006. Income from tax credits for the three months ended September 30 are as follows:

(In thousands):	2007	2006
From investment percentage thresholds	\$	\$
From accretion of income from thresholds	1,337	1,304
Total	\$ 1,337	\$ 1,304

Expenses consist primarily of non-cash accretion of interest expense and the amortization of the prepaid insurance purchased at the funding date. Expenses for the three months ended September 30 are as follows:

(In thousands):	2007	2006
Accretion of interest expense	\$ 2,865	\$ 3,182
Amortization of prepaid insurance	739	740
Total	\$ 3,604	\$ 3,922

In summary, the non-cash loss which is represented by the income from tax credits, less interest expense and amortization of prepaid insurance, for the three months ended September 30 is as follows:

(In thousands):	2007	2006
Non-cash loss	\$ (2,267)	\$ (2,618)

In addition, other interest relating to notes payable – AI Credit, totaling \$0 and \$127,000, was incurred in the three month periods ended September 30, 2007 and 2006, respectively, and management fees, which were payable to Newtek and included as revenue in the corporate activities segment, totaled \$762,000 and \$1,117,000, for the three month periods ended September 30, 2007 and 2006, respectively.

Since the Company does not anticipate creating any new Capcos in the foreseeable future, we anticipate incurring losses going forward. Income from tax credits will consist solely of accretion of income from thresholds previously achieved since we have achieved all investment percentage thresholds as of December 31, 2006. We will continue to incur non-cash expenses consisting of accretion of interest expense and amortization of prepaid insurance on our existing Capcos.

For the nine months ended September 30, 2007 and 2006:

(In thousands):	2007	2006	\$ Change	% Change
Revenue	\$ 4,926	\$ 5,687	\$ (761)	(13)%
Expenses	(15,006)	(16,984)	1,978	12%
Loss from continuing operations before minority interest, benefit for income taxes and discontinued operations	(10,080)	(11,297)	1,217	11%
Minority interest	295	398	(103)	(26)%
	\$ (9,785)	\$ (10,899)	\$ 1,114	10%

Loss from continuing operations before benefit for income taxes
and discontinued operations

Table of Contents

Revenue is derived primarily from non-cash income from tax credits recorded when a Capco achieves defined investment percentage thresholds and from non-cash accretion of income from tax credits between the time the thresholds are achieved and the tax credits are utilized by the certified investor. Income from tax credits decreased by \$626,000 to \$3,958,000 for the nine months ended September 30, 2007 from \$4,584,000 for the nine months ended September 30, 2006. Income from tax credits for the nine months ended September 30 are as follows:

(In thousands):	2007	2006
From investment percentage thresholds	\$	\$ 746
From accretion of income from thresholds	3,958	3,838
Total	\$ 3,958	\$ 4,584

Expenses consist primarily of non-cash accretion of interest expense and the amortization of the prepaid insurance purchased at the funding date. Expenses for the six months ended September 30 are as follows:

(In thousands):	2007	2006
Accretion of interest expense	\$ 8,947	\$ 9,845
Amortization of prepaid insurance	2,219	2,227
Total	\$ 11,166	\$ 12,072

In summary, the non-cash loss which is represented by the income from tax credits, less interest expense and amortization of prepaid insurance, for the nine months ended September 30 is as follows:

(In thousands):	2007	2006
Non-cash loss	\$ (7,208)	\$ (7,488)

In addition, other interest relating to notes payable – AI Credit, totaling \$64,000 and \$439,000, was incurred during the nine month periods ended September 30, 2007 and 2006, respectively, and management fees, which were payable to Newtek and included as revenue in the corporate activities segment, totaled \$2,996,000 and \$3,838,000, for the nine month periods ended September 30, 2007 and 2006, respectively.

Since the Company does not anticipate creating any new Capcos in the foreseeable future, we anticipate incurring losses going forward. Income from tax credits will consist solely of accretion of income from thresholds previously achieved since we have achieved all investment percentage thresholds as of December 31, 2006. We will continue to incur non-cash expenses consisting of accretion of interest expense and amortization of prepaid insurance on our existing Capcos.

All Other

The All Other segment includes revenues and expense primarily from businesses formed from investments in qualified businesses made through Capco programs which cannot be aggregated with other operating segments. Revenues and expenses associated with Phoenix Development Group, LLC were reclassified to discontinued operations.

For the three months ended September 30, 2007 and 2006:

(In thousands):	2007	2006	\$ Change	% Change
Revenue	\$ 1,273	\$ 2,520	\$ (1,247)	(49)%
Expenses	(1,933)	(1,325)	(608)	(46)%

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(Loss) income from continuing operations before minority interest, benefit for income taxes and discontinued operations	(660)	1,195	(1,855)	(155)%
Minority interest	(25)		(25)	
(Loss) income from continuing operations before benefit for income taxes and discontinued operations	\$ (685)	\$ 1,195	\$ (1,880)	(157)%

Table of Contents

The revenue decrease of \$1,247,000 for the three months ended September 30, 2007, as compared with 2006, is primarily due to an increase in revenue of \$420,000 due to the consolidation of CDS Business Services, Inc. which has been consolidated with the Company since January 2007, offset by a one time gain on the sale of a qualified business of \$1,706,000 for the prior period.

Income (loss) before benefit for income taxes decreased by \$1,880,000 in 2007 to \$(685,000) from \$1,195,000 in 2006 primarily reflecting the previous period's one time gain on the sale of an investment in a qualified business of \$1,706,000. An overall decrease in losses from other entities included in the All Other segment were offset by a loss from CDS Business Services, Inc. of \$226,000, which has been consolidated with the Company since January 2007.

For the nine months ended September 30, 2007 and 2006:

(In thousands):	2007	2006	\$ Change	% Change
Revenue	\$ 4,980	\$ 4,176	\$ 804	19%
Expenses	(5,814)	(4,524)	(1,290)	(29)%
Loss from continuing operations before minority interest, benefit for income taxes and discontinued operations	(834)	(348)	(486)	(140)%
Minority interest	(24)	(24)	(24)	
Loss from continuing operations before benefit for income taxes and discontinued operations	\$ (858)	\$ (348)	\$ (510)	(147)%

The revenue increase of \$804,000 for the nine months ended September 30, 2007 as compared with 2006 is primarily due to the consolidation of CDS Business Services, Inc., which has been consolidated with the Company since January 2007, which generated \$1,447,000 of revenues for the period. Additionally, the Company recognized a gain on the sale of a qualified business of \$907,000, recoveries on previously written off investments of \$166,000 and equity earnings on an investment of \$329,000 for the nine months ended September 30, 2007 as compared to a one time gain on the sale of an investment of \$1,706,000 and equity earnings on an investment of \$96,000 during the same period last year.

Loss before benefit for income taxes increased by \$510,000 in 2007 to \$(858,000) from \$(348,000) in 2006 primarily due to a loss from CDS Business Services, Inc. of \$642,000, consolidated as of January 2007, offset by a gain on sale/recoveries of investments in qualified businesses and equity earnings totaling \$1,402,000. This is compared to \$1,802,000 in gains and equity earnings for the prior period and a reduction of \$556,000 of losses incurred in 2006 from Where Eagles Fly, a Washington D.C. Capco investment.

Corporate activities**For the three months ended September 30, 2007 and 2006:**

(In thousands):	2007	2006	\$ Change	% Change
Revenue	\$ 760	\$ 993	\$ (233)	(23)%
Expenses	(3,085)	(2,670)	(415)	(16)%
Loss from continuing operations before benefit for income taxes and discontinued operations	\$ (2,325)	\$ (1,677)	\$ (648)	(39)%

Revenue is derived primarily from management fees earned from the Capcos, which amount to 2.5% of certified capital. The management fee revenue is included in the segment revenues, but eliminated on the consolidated statement of operations. Management fee revenue totaled \$731,000 and \$964,000 for the three month period ended September 30, 2007 and 2006, respectively. If a Capco does not have current or projected cash sufficient to pay management fees then such fees are not accrued.

Table of Contents

The decrease in management fee revenue of \$233,000 for the three months ended September 30, 2007 as compared with the three months ended September 30, 2006 is primarily attributable to a reduction in management fees being accrued for a New York and Wisconsin Capco totaling \$43,000 and \$104,000, respectively, and the reversal of the first two quarters Wisconsin Capco management fees totaling \$208,000. These decreases were offset in part by management fees being accrued in 2007 for the first time for one of our subsidiaries totaling \$115,000 for the quarter.

The \$415,000 increase in expenses in 2007 as compared to 2006 was primarily due to an \$892,000 increase in consulting, payroll, and benefits and offset by a \$232,000 decrease in professional fees. In addition, other expenses decreased by \$250,000 primarily due to \$428,000 expensed in 2006 for a lawsuit settlement, offset by additional expenses in 2007 related to the consolidation of our New York City offices.

For the nine months ended September 30, 2007 and 2006:

(In thousands):	2007	2006	\$ Change	% Change
Revenue	\$ 2,992	\$ 3,499	\$ (507)	(14)%
Expenses	(9,093)	(7,428)	(1,665)	(22)%
Loss from continuing operations before benefit for income taxes and discontinued operations	\$ (6,101)	\$ (3,929)	\$ (2,172)	(55)%

Revenue is derived primarily from management fees earned from the Capcos, which amount to 2.5% of certified capital. The management fee revenue is included in the segment revenues, but eliminated on the consolidated statement of operations. Management fee revenue totaled \$2,902,000 and \$3,399,000 for the nine month period ended September 30, 2007 and 2006, respectively. If a Capco does not have current or projected cash sufficient to pay management fees then such fees are not accrued.

The decrease in management fee revenue of \$497,000 for the nine months ended September 30, 2007 as compared with the nine months ended September 30, 2006 is due to a reduction in management fees being accrued for three New York Capcos totaling \$530,000 and the Wisconsin Capco of \$104,000, and the reversal of the Wisconsin Capco first two quarters 2007 management fees totaling \$208,000, offset in part by management fees being accrued in 2007 for the first time for one of our subsidiaries totaling \$345,000 for the period.

The \$1,665,000 increase in expenses in 2007 as compared to 2006 was primarily due to a \$2,097,000 increase in consulting, payroll, and benefits, a \$233,000 increase in other expenses which includes \$106,000 of expenses related to the consolidation of our New York City offices, offset, in part, by a \$705,000 decrease in professional fees and a \$85,000 decrease in insurance expense.

A summary of the Company's cash flows provided by (used in) operating activities by segment is as follows:

NEWTEK BUSINESS SERVICES INC. AND SUBSIDIARIES**Cash Flows from Operating Activities by Segment****For the nine months ended September 30, 2007 (In thousands)**

Business Services Segments						Total Business Services Segments	CAPCO Segment	Eliminations	Total
SBA Lending	Electronic Payment Processing	Web Hosting	All Other	Corporate Activities					
\$7,081	\$ 39,638	\$ 12,011	\$ 4,980	\$ 2,992	Net Revenue	\$ 66,702	\$ 4,926	\$ (3,341)	\$ 68,287
6,888	37,066	9,548	5,838	9,093	Total Expenses and minority interest	68,433	14,711	(3,341)	79,803
193	2,572	2,463	(858)	(6,101)	Income (loss) before (provision) benefit for income taxes and	(1,731)	(9,785)		(11,516)

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discontinued operations								
	(631)	(959)	(141)	1,371	(Provision) benefit for income taxes	(360)	3,118	2,758
193	1,941	1,504	(999)	(4,730)	Income (loss) before discontinued operations	(2,091)	(6,667)	(8,758)
			(495)		Discontinued operations, net of taxes	(495)		(495)
193	1,941	1,504	(1,494)	(4,730)	Net income (loss)	(2,586)	(6,667)	(9,253)
Non-Cash:								
					Income from tax credits	(3,958)		(3,958)
	631	784	(136)	(1,932)	Deferred income taxes	(653)	(3,118)	(3,771)
1,171	1,409	2,448	212	187	Depreciation and amortization	5,427	43	5,470
(650)					Capitalization of servicing assets	(650)		(650)
			(1,073)		Gain on sale/recoveries of investments in qualified businesses	(1,073)		(1,073)
					Accretion of interest expense		8,947	8,947
607					Provision for loan losses	607		607
(93)					Gain on sale of loans held for investment	(93)		(93)
33		5	(45)	410	Other non-cash net	403	(441)	(38)
Change in assets and liabilities:								
Proceeds from sale of SBA loans over								
436					originations	436		436
(369)			(105)		Prepaid insurance		2,219	2,219
(347)	(239)	(184)	1,035	(2,768)	Restricted cash change	(474)		(474)
					Other net	(2,503)	2,057	(446)
\$981	\$ 3,742	\$ 4,557	\$ (1,606)	\$ (8,833)	Net cash provided by (used in) operations	\$ (1,159)	\$ (918)	\$ (2,077)

Table of Contents

Our operating businesses are dependent on the health of the small and medium-sized segments of the U.S. economy. The reduction in the availability in credit, along with the rise in gas and commodity prices, could have a negative impact on consumer spending which could adversely impact our customers. This could also negatively impact the value of commercial and residential real estate, which could adversely impact the loan portfolio of our SBA Lending segment.

Critical Accounting Policies and Estimates:

The Company's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in its Form 10-K for the fiscal year ended December 31, 2006. A discussion of the Company's critical accounting policies, and the related estimates, are included in Management's Discussion and Analysis of Results of Operations and Financial Position in its Form 10-K for the fiscal year ended December 31, 2006. There have been no significant changes in the Company's existing accounting policies or estimates since its fiscal year ended December 31, 2006.

Liquidity and Capital Resources

(Dollars in thousands)

	For the Nine Months Ended September 30,	
	2007	2006
Net cash (used in) provided by operating activities	\$ (2,077)	\$ 1,453
Net cash provided by investing activities	6,197	21,671
Net cash used in financing activities	(2,640)	(16,914)
Net increase in cash and cash equivalents	1,480	6,210
Cash and cash equivalents, beginning of period	26,685	23,940
Cash and cash equivalents, end of period	\$ 28,165	\$ 30,150

Table of Contents

Cash requirements and liquidity needs in 2007 and the foreseeable future are primarily funded through available cash and cash equivalents and the Company's capacity to borrow from the Company's \$50 million GE line of credit to originate and warehouse the guaranteed and unguaranteed portion of loans of our SBA lending unit. The availability of the lending facility is subject to the compliance with certain covenants and collateral requirements as set forth in the agreement. At September 30, 2007, our unused sources of liquidity consisted of \$40,458,000 of unrestricted cash and cash equivalents and \$1,796,000 available through the GE lending facility. In addition, as discussed in Note 13, the Company closed on a revolving credit facility of up to \$10,000,000 with North Fork Bank on October 19, 2007.

While Newtek is aware of the changing conditions occurring nationally in the residential real estate market, loans within the portfolio are typically repaid by the business' cash flow and secured by business collateral and personal assets of the business owner and/or guarantors which may include residential real estate as supplemental collateral. Newtek believes its loan loss reserves, which are evaluated monthly on a loan by loan basis, along with its collateral monitoring practices are adequate. We follow the SBA standard operating procedure with respect to obtaining collateral on our loans. This typically includes all business assets and frequently includes personal assets of the owners and/or guarantors.

Our recent bids for the guaranteed portion of our loans have slightly decreased from prior periods, yet the market for such portions remains active in the current environment. This decrease in pricing has not had a material impact on the Company. From time to time we may sell the unguaranteed portion of our loans. We do not depend on such sales to fund our operations. Should the pricing for the un-guaranteed portions become less attractive and we elect not to sell them, funds available under our credit facility will be sufficient to permit us to make loans.

Restricted cash totaling \$12,293,000 which is primarily held in the Capcos, can be used in managing and operating the Capcos, making qualified investments, to repay debt obligations and for the payment of income taxes.

Net cash provided by investing activities primarily includes the purchase or sale of fixed assets and customer accounts, activity regarding the unguaranteed portions of SBA loans and changes in restricted cash and investments. During 2007, cash was used to purchase \$2,447,000 in fixed assets primarily to support increased customers in our web hosting segment and to acquire \$2,436,000 in customer merchant accounts. A net decrease in the unguaranteed portion of SBA loans increased cash by \$359,000. We also received net proceeds of \$5,042,000 through the sale of U.S. Treasury Notes, \$3,787,000 from the return of investments in qualified businesses, \$1,572,000 from the sale of asset held for sale and insurance recoveries, and proceeds of \$1,032,000 from the recovery of investments in qualified businesses previously written off. In addition the Company used cash to make \$1,031,000 in qualified investments.

Net cash used in financing activities primarily includes net repayments on notes payable of \$3,693,000, net repayments on bank notes payable of \$755,000, offset by a \$2,050,000 reduction in restricted cash in CDS.

Historically Newtek has funded its operations through the issuance of notes to insurance companies through the Capco programs. We are not anticipating any cash flow from new Capco programs for the foreseeable future. We believe our cash flow generated by our operating companies, available borrowing capacity, existing cash and cash equivalents, and other investments should provide adequate funds for continuing operations and principal and interest payments on our debt.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Because Newtek Small Business Finance, Inc., our SBA lender, borrows money to make loans and investments, our net operating income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds. The Company had \$17,467,000 outstanding on the GE line of credit as of September 30, 2007. Interest rates on such notes are variable at prime plus 0.25 or base LIBOR plus 2.50%. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our interest income. In periods of sharply rising interest rates, our cost of funds would increase, which would reduce our net operating income. We have analyzed the potential impact of changes in interest rates on interest income net of interest expense. Assuming that the balance sheet were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates would have the effect of a net increase (decrease) in assets by less than 1% for the third quarter of 2007. Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet, and other business developments that could affect a net increase (decrease) in assets. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by this estimate.

Additionally, we do not have significant exposure to changing interest rates on invested cash and cash equivalents, restricted cash and U.S. Treasury notes (for December 31, 2006 only) which was approximately \$40,458,000 and \$42,976,000 as of September 30, 2007 and

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December 31, 2006, respectively. The Company invests cash mainly in money market accounts and other investment-grade securities and does not purchase or hold derivative financial instruments for trading purposes.

Table of Contents**Item 4. Controls and Procedures.**

- (a) **Evaluation of Disclosure Controls and Procedures.** As of the end of the period covered by this report, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures as of the end of the period covered by this report have been designed and are functioning effectively to provide reasonable assurance that the information we (including our consolidated subsidiaries) are required to disclose in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. However, because we had previously determined the existence of a material weakness in our disclosure controls and procedures as of December 31, 2005 and March 31, 2006, and despite the remediation efforts discussed below, and given the relatively short time since the remediation efforts have taken place, there can be no assurance that we have identified and corrected all matters which would constitute, or might lead to future, disclosure control weaknesses.
- (b) **Changes in Internal Controls.** We have placed significant emphasis on remediation of the previously disclosed material weakness and have added a senior legal officer responsible for internal control development and five professional positions in our accounting and finance staff during the quarters ended June 30, 2006, September 30, 2006 and December 31, 2006.
- (c) **Limitations.** A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurances that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with its policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. We periodically evaluate our internal controls and make changes to improve them.

PART II OTHER INFORMATION**Item 1. Legal Proceedings**

We are not involved in any material pending litigation. We and/or one or more of our investee companies are involved in lawsuits regarding wrongful termination claims by employees or consultants, none of which are individually or in the aggregate material to Newtek.

Item 2. Unregistered Sales of Equity Securities

(a) On September 21, 2007, pursuant to the terms of the Company's directors' compensation program, the Company issued to its five independent directors a total of 33,105 unregistered common shares with a market valuation as of that date of \$52,250. The shares were issued in exchange for the services of the directors on the Board of Directors and its committees in reliance on Section 4(2) of the Securities Act of 1933, as amended.

(c) 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 September 30, 2007, the Company purchased 60,611 treasury shares under that authorization.

Table of Contents

The following table summarizes the repurchase of common stock under the stock buy-back program:

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the program
08-01-07 through 08-31-07	3,800	\$ 1.59	3,800	952,435
09-01-07 through 09-30-07	13,046	\$ 1.65	13,046	939,389

(1) All shares were purchased pursuant to the publicly announced Stock Buy-Back Program, which was effective as of March 2006 and has no set expiration. We are authorized to purchase up to one million shares of our common stock under the Program.

Item 6. Exhibits

Exhibit No.	Description
2.1	Asset Purchase Agreement, dated April 28, 2004, between Newtek Business Services, Inc., and CrystalTech Web Hosting, Inc. (including a listing of omitted schedules). (Incorporated by reference to Exhibit 2.1 to Newtek's Report on Form 8-K dated April 30, 2004.)
3.1	Certificate of Incorporation of Newtek Business Services, Inc., as revised and restated through November 21, 2005. (Incorporated by reference to Exhibit 3.1 to Newtek's Report on Form 10-K filed May 10, 2006.)
3.2	Bylaws of Newtek Business Services, Inc. (Incorporated by reference to Exhibit No. 3.2 to Registration Statement No. 333-115615.)
10.1	Employment Agreement with Barry Sloane, June 30, 2005. (Incorporated by reference to Exhibit 10.1 to Newtek's Report on Form 10-K filed May 10, 2006.)
10.2	Employment Agreement with Jeffrey G. Rubin, June 30, 2005. (Incorporated by reference to Exhibit 10.2 to Newtek's Report on Form 10-K filed May 10, 2006.)
10.3	Employment Agreement with Craig J. Brunet dated July 13, 2006. (Incorporated by reference to Exhibit 10.3 to Newtek's Report on Form 10-Q filed July 14, 2006.)
10.4	Lease Agreement dated March 15, 2007 between CrystalTech Web Hosting, Inc. and i/o Data Centers for Phoenix lease (Incorporated by reference to Exhibit 10.4 to Newtek's Report on Form 10-Q filed May 15, 2007.)
10.5	Fourth Amendment to the Amended and Restated Master Loan and Security Agreement, dated December 31, 2002 between Newtek Small Business Finance, Inc. and DB Structured Products, Inc., dated June 29, 2005. (Incorporated by reference to Exhibit 10.1 to Newtek's Report on Form 8-K, dated June 29, 2005.)
10.6	Credit Agreement between Newtek Business Services, Inc., Newtek Small Business Finance, Inc., Small Business Lending, Inc., CCC Real Estate Holding Co., LLC and General Electric Capital Corporation, dated August 31, 2005. (Incorporated by reference to Exhibit 10.1 to Newtek's Report on Form 8-K, filed September 7, 2005.)
10.7	First Amendment and Waiver to Credit Agreement, dated February 28, 2006, to the Credit Agreement dated August 31, 2005, between Newtek Business Services, Inc., the other credit parties signatory thereto and General Electric Capital Corporation. (Incorporated by reference to Exhibit 99.1 to Newtek's Report on Form 8-K, filed March 2, 2006.)

Table of Contents

- 10.7.1 Second Amendment and Waiver to Credit Agreement, dated February 28, 2006, to the Credit Agreement dated December 28, 2006, between Newtek Business Services, Inc., the other credit parties signatory thereto and General Electric Capital Corporation. (Incorporated by reference to Newtek's Report on Form 10-K filed March 2, 2006.)
- 10.8 Guaranty between Newtek Business Services, Inc. Small Business Lending, Inc., CCC Real Estate Holding Co., LLC and General Electric Capital Corporation, dated August 31, 2005. (Incorporated by reference to Exhibit 10.2 to Newtek's Report on Form 8-K, filed September 7, 2005.)
- 10.9 Credit and Security Agreement by and between CDS Business Services, Inc. and Wells Fargo Bank, National Association dated February 27, 2007. (Incorporated by reference to Exhibit 10.9 to Newtek's Report on Form 10-Q filed August 14, 2007.)
- 10.9.1 Waiver under Credit and Security Agreement by and between CDS Business Services, Inc. and Wells Fargo Bank, National Association dated February 27, 2007. (Incorporated by reference to Exhibit 10.9.1 to Newtek's Report on Form 10-Q filed August 14, 2007.)
- 10.10 Loan and Security Agreement dated October 19, 2007, between Crystaltech Web Hosting, Inc. and Northfork Bank. (Incorporated by reference to Exhibit 99.2 to Newtek's Report on Form 8-K, filed October 23, 2007.)
- 10.11 Guaranty of Payment and Performance dated October 19, 2007, between Newtek Business Services, Inc. and Northfork Bank. (Incorporated by reference to Exhibit 99.3 to Newtek's Report on Form 8-K, filed October 23, 2007.)
- 10.12 Pledge Agreement dated October 19, 2007, between Newtek Business Services, Inc. and Northfork Bank. (Incorporated by reference to Exhibit 99.4 to Newtek's Report on Form 8-K, filed October 23, 2007.)
- 31.1 Certification of the Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

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

NEWTEK BUSINESS SERVICES, INC.

Date: November 9, 2007

By: /s/ Barry Sloane
Barry Sloane
Chairman of the Board, Chief Executive Officer and
Secretary

Date: November 9, 2007

By: /s/ Seth A. Cohen
Seth A. Cohen
Chief Financial Officer

Date: November 9, 2007

By: /s/ Eyal Amsalem
Eyal Amsalem
Chief Accounting Officer and Controller