

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, 17<sup>th</sup> floor, New York, NY  
(Address of principal executive offices)

10018  
(Zip Code)

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

## Edgar Filing: NEWTEK BUSINESS SERVICES INC - Form 10-Q

---

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**

	<b>PAGE</b>
<b>PART I FINANCIAL INFORMATION</b>	
<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
<b>PART II OTHER INFORMATION</b>	
<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)**

	<b>Three Months ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenue:</b>				
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
<b>Total revenue</b>	<b>23,067</b>	<b>21,492</b>	<b>68,287</b>	<b>58,064</b>
<b>Expenses:</b>				
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
<b>Total expenses</b>	<b>27,790</b>	<b>23,163</b>	<b>80,074</b>	<b>68,157</b>
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
<b>Net loss</b>	<b>\$ (3,967)</b>	<b>\$ (1,054)</b>	<b>\$ (9,253)</b>	<b>\$ (6,069)</b>
<b>Weighted average common shares outstanding:</b>				
Basic and diluted	35,950	34,883	35,824	34,805
<b>Loss per share from continuing operations:</b>				
Basic and diluted	\$ (0.11)	\$ (0.03)	\$ (0.25)	\$ (0.18)

## Edgar Filing: NEWTEK BUSINESS SERVICES INC - Form 10-Q

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

Basic and diluted	(0.00)	(0.00)	(0.01)	0.01
-------------------	--------	--------	--------	------

Basic and diluted loss per share	\$ (0.11)	\$ (0.03)	\$ (0.26)	\$ (0.17)
----------------------------------	-----------	-----------	-----------	-----------

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)**

	<b>September 30, 2007 (Unaudited)</b>	<b>December 31, 2006 (Note 1)</b>
<b><u>ASSETS</u></b>		
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
<b>Total assets</b>	<b>\$ 222,935</b>	<b>\$ 240,737</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>Liabilities:</b>		
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
<b>Total liabilities</b>	<b>138,922</b>	<b>149,072</b>
<b>Minority interest</b>	<b>5,155</b>	<b>4,596</b>
<b>Commitments and contingencies</b>		
<b>Shareholders' equity:</b>		
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

## Edgar Filing: NEWTEK BUSINESS SERVICES INC - Form 10-Q

Treasury stock, at cost (61 and 32 shares at September 30, 2007 and December 31, 2006, respectively)	(105)	(54)
<b>Total shareholders' equity</b>	<b>78,858</b>	<b>87,069</b>
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)**

	<b>2007</b>	<b>2006</b>
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)	