

NEWTEK BUSINESS SERVICES INC
Form 10QSB/A
February 12, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

OR

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

COMMISSION FILE NUMBER: 001-16123

NEWTEK BUSINESS SERVICES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEW YORK

11-3504638

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

100 QUENTIN ROOSEVELT BOULEVARD, GARDEN CITY, NY

11530

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (516) 390-2260

CHECK WHETHER THE REGISTRANT HAS (1) FILED ALL DOCUMENTS
AND REPORTS REQUIRED TO BE FILED BY SECTION 13 OR
15(D) OF THE EXCHANGE ACT DURING THE PRECEDING 12 MONTHS
(OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS
REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN
SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST
NINETY DAYS.

YES NO
[X] []

AS OF NOVEMBER 12, 2003, 25,097,485 SHARES OF COMMON STOCK WERE ISSUED
AND OUTSTANDING.

CONTENTS

	PAGE

PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets as of September 30, 2003 and December 31, 2002	3
Condensed Consolidated Statements of Income for the Three and Nine Month Periods Ended September 30, 2003 and 2002	4
Condensed Consolidated Statements of Cash Flows for the Nine Month Periods Ended September 30, 2003 and 2002	6
Notes to Unaudited Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis	23
PART II - OTHER INFORMATION	
Item 5. Other Information	28
Signatures	29
Exhibits	30

2

ITEM 1. FINANCIAL STATEMENTS

NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	SEPTEMBER 2003

ASSETS	
Cash and cash equivalents	\$ 35,000,
Credits in lieu of cash	73,411,
SBA loans receivable (net of reserve for possible SBA loan losses of \$1,690,964 as of September 30, 2003)	50,623,
SBA loans held for sale	804,
Accounts receivable (net of allowance of \$169,798 and \$34,466, respectively)	664,

Edgar Filing: NEWTEK BUSINESS SERVICES INC - Form 10QSB/A

Receivable from bank	2,489,
Accrued interest receivable	215,
Investments in qualified businesses - held to maturity investments	2,592,
Investments in qualified businesses - equity investments	300,
Structured insurance product	3,014,
Prepaid insurance	12,673,
Prepaid expenses and other assets	1,774,
Furniture, fixtures and equipment (net of accumulated depreciation of \$327,926 and \$190,590, respectively)	729,
Customer merchant accounts	3,208,
Goodwill	3,225,

Total assets	\$ 190,728,
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:

Accounts payable and accrued expenses	\$ 5,178,
Notes payable - certified investors	3,833,
Notes payable - insurance	3,881,
Notes payable - other	2,365,
Borrowings under line of credit	
Bank notes payable	48,970,
Notes payable in credits in lieu of cash	61,831,
Deferred tax liability	12,582,

Total liabilities	138,644,

Minority interest	8,688,

Commitments and contingencies

Stockholders' equity:

Common Stock (par value \$0.02 per share; authorized 39,000,000 shares, issued and outstanding 25,948,889 and 25,341,428 not including 582,980 shares held in escrow, as of September 30, 2003 and December 31, 2002, respectively)	518,
Additional paid-in Capital	23,262,
Unearned Compensation	(98,
Retained earnings	19,712,

Total stockholders' equity	43,395,

Total liabilities and stockholders' equity	\$ 190,728,
	=====

See accompanying notes to these unaudited condensed consolidated financial statements.

Edgar Filing: NEWTEK BUSINESS SERVICES INC - Form 10QSB/A

	SEPTEMBER 30,	
	2003	2002
Revenue:		
Income from tax credits	\$ 22,067,285	\$ 14,886,087
Credit card processing revenue	1,879,526	519,798
Interest and dividend income	921,507	78,329
Other income	1,141,963	1,250,581
Recovery of investment permanently written off	350,000	--
Gain on sale of property	--	--
Consulting fee income	68,353	168,736
 Total revenue	 26,428,634	 16,903,531
Expenses:		
Interest	3,322,298	3,090,193
Payroll and consulting fees	1,725,050	2,049,085
Credit card processing direct costs	870,932	318,675
Credit card processing administrative costs	1,227,443	431,202
Professional fees	691,991	902,837
Insurance	622,731	471,609
Other than temporary decline in value of investments	257,339	601,025
Equity in net losses of affiliates	--	120,993
Provision for SBA loan losses	(7,429)	--
Other	955,093	812,640
 Total expenses	 9,665,448	 8,798,259
Income before minority interest, provision for income taxes, extraordinary gain on acquisition of minority interest and extraordinary gain on acquisition of a business	16,763,186	8,105,272
Minority interest in (loss) income	(1,231,560)	689,952
Income before provision for income taxes and extraordinary gain	15,531,626	8,795,224
Provision for income taxes	(6,057,334)	(3,342,186)
Income before extraordinary gain on acquisition of minority interest and extraordinary gain on acquisition of a business	9,474,292	5,453,038
Extraordinary gain on acquisition of minority interest, net of taxes of \$162,778 for 2002	--	--
Extraordinary gain on acquisition of a business	--	--
Net income	\$ 9,474,292	\$ 5,453,038

Edgar Filing: NEWTEK BUSINESS SERVICES INC - Form 10QSB/A

See accompanying notes to these unaudited condensed consolidated financial statements.

4

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

	THREE MONTHS ENDED SEPTEMBER 30,		
	2003	2002	
Weighted average common shares outstanding:			
Basic	25,709,700	24,787,535	25,
Diluted	26,110,536	24,847,408	26,
Income per share:			
Basic	\$ 0.37	\$ 0.22	\$
Diluted	\$ 0.36	\$ 0.22	\$
Income per share before extraordinary items:			
Basic	\$ 0.37	\$ 0.22	\$
Diluted	\$ 0.36	\$ 0.22	\$

See accompanying notes to these unaudited condensed consolidated financial statements.

5

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

	SEPTEMBER 30, 2003	SEPTEMBER 2002
Cash flows from operating activities:		
Net income	\$ 14,039,474	\$ 5,01
Adjustments to reconcile net income to net cash used in operating activities:		
Other than temporary decline in value of investments	1,991,040	1,58
Gain on sale of asset held for sale	--	(1
Equity in net losses of affiliates	--	79
Extraordinary gain on acquisition of minority interests	--	(26
Extraordinary gain on acquisition of a business	(186,729)	
Income from tax credits	(43,926,619)	(25,14
Deferred income taxes	8,856,673	2,91

Edgar Filing: NEWTEK BUSINESS SERVICES INC - Form 10QSB/A

Depreciation and amortization	258,940	9
Provision for SBA loan losses	331,371	
Proceeds from sale of SBA loans	2,438,119	
Accretion of interest income	(121,054)	(13)
Accretion of interest expense	8,642,249	8,06
Compensation expense for vested stock options	124,583	57
Issuance of stock for services received	58,388	8
Minority interest	1,911,602	(1,73)
Changes in assets and liabilities:		
Prepaid insurance	1,471,982	10
Prepaid expenses, accounts receivable and other assets	(348,270)	(31)
Accounts payable and accrued expenses	585,422	59
	-----	-----
Net cash used in operating activities	(3,872,829)	(7,80)
	-----	-----
Cash flows from investing activities:		
Proceeds from sale of asset held for sale	--	34
Investments in cost method investments	(55,000)	
Investments in qualified businesses (held to maturity)	(300,000)	(1,20)
Investments in qualified businesses (consolidated entities)	(9,510,000)	(9,29)
Return of principal - held to maturity - investments	469,855	4,90
Return of principal - consolidated entities	4,206,675	8,67
Consolidation of majority owned partner companies	5,303,325	2,83
SBA loans issued	(3,724,500)	
Cash paid for acquisition of AMS	(1,500,000)	
Repayments of SBA loans receivable	5,589,916	
Cash received from AMS and Exponential acquisition, respectively	7,000	10
Purchase of furniture, fixtures and equipment	(320,379)	(22)
	-----	-----
Net cash provided by investing activities	166,892	6,15
	-----	-----

See accompanying notes to these unaudited condensed consolidated financial statements.

6

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

	SEPTEMBER 30, 2003	SEPT
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of debt	\$ 1,000,000	\$ 21
Principal repayments of note payable insurance	(1,488,093)	(11
Principal repayments of mortgage payable	--	
Net proceeds from issuance of common stock	1,393,641	1
Proceeds from exercise of stock options	243,042	
Distributions to CAPCO members	--	
Contributions from members	6,000	
Proceeds from sale of preferred stock of subsidiary	2,000,000	
Principal repayment on notes payable to others	(315,317)	

Edgar Filing: NEWTEK BUSINESS SERVICES INC - Form 10QSB/A

Proceeds from issuance of warrants	--	
Principal repayments of bank notes payable	(4,854,387)	(4
Principal repayments of line of credit	(450,000)	
	-----	-----
Net cash (used in) provided by financing activities	(2,465,114)	6
	-----	-----
Net (decrease) increase in cash and cash equivalents	(6,171,051)	5
Cash and cash equivalents - beginning of period	41,171,358	31
	-----	-----
Cash and cash equivalents - end of period	\$ 35,000,307	\$ 36
	=====	=====
Supplemental disclosure of non-cash financing 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	\$ 12,095,570	\$ 7
	=====	=====
Consolidation of investments previously accounted for under the equity method	--	\$
	=====	=====
Acquisition of Exponential (net liabilities assumed)	--	\$
	=====	=====
Acquisition of Automated Merchant Services (net liabilities assumed)	--	\$
	=====	=====
Issuance of common stock in connection with acquisition of Exponential	--	\$
	=====	=====
Goodwill recognized in connection with acquisition of minority interests	\$ 362,388	\$
	=====	=====
Acquisition of five Capcos minority interests		
Newtek Business Services common stock issued	--	\$ 1
Less, minority interests acquired	--	
	-----	-----
Goodwill recognized	--	\$
	=====	=====
Acquisition of three Capcos minority interests		
Minority interests acquired	--	\$ 1
Less, Newtek Business Services common stock issued	--	
	-----	-----
Extraordinary gain recognized	--	\$
	=====	=====
Issuance of note in partial payment for insurance	--	\$ 2
	=====	=====
Details of AMS acquisition:		
Assets acquired (including customer merchant accounts valued at approximately \$2,910,000)	\$ 3,075,000	
Less: Liabilities assumed	160,000	
Less: Accrued acquisition costs (included in assets acquired)	215,000	
Less: Notes issued to seller	1,200,000	
	-----	-----
Cash paid for acquisition	\$ 1,500,000	
	=====	=====

See accompanying notes to these unaudited condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

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

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

CAPCO -----	STATE OF CERTIFICATION -----	DATE OF CERTIFICATION -----
WA (Wilshire Advisers)	New York	May 1998
WP (Wilshire Partners)	Florida	December 1998
WI (Wilshire Investors)	Wisconsin	October 1999
WLA (Wilshire Louisiana Advisers)	Louisiana	October 1999
WA II (Wilshire New York Advisers, II)	New York	April 2000
WNY III (Wilshire New York Partners, III)	New York	December 2000
WC (Wilshire Colorado Partners)	Colorado	October 2001

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

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

Edgar Filing: NEWTEK BUSINESS SERVICES INC - Form 10QSB/A

(or earn) tax credits from the state upon satisfying quantified, defined investment percentage thresholds and time requirements. In order for the Capcos to maintain their state-issued certifications, the Capcos must make Investments in Qualified Businesses in accordance with these requirements. Each Capco also has separate contractual arrangements with the Certified Investors obligating the Capco to pay interest on the aforementioned debt instruments whether or not it meets the

8

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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

SBA LOANS RECEIVABLE

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

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

The Company originates loans to customers under the SBA program that generally provides for SBA guarantees of 75% for loans greater than \$250,000 and 50% for loans of less than \$250,000, subject to a maximum guarantee amount. The Company typically sells the guaranteed portion of each loan to a third party and retains the unguaranteed principal portion in its portfolio. Loan losses are shared pro rata between the guaranteed and unguaranteed portions.

STOCK - BASED COMPENSATION

Newtek has elected to continue using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for

Edgar Filing: NEWTEK BUSINESS SERVICES INC - Form 10QSB/A

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

9

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE
	2003	2002	2003
As reported			
Net income	\$ 9,474,292	\$ 5,453,038	\$ 14,039,4
Deduct: Total stock based employee Compensation expense determined under fair value based method for all awards, net of related tax effects	(217,945)	(256,659)	(646,0
Pro forma net income	\$ 9,256,347	\$ 5,196,379	\$ 13,393,4
Earnings per share:			
Basic - as reported	\$.037	\$ 0.22	\$ 0.
Basic - pro forma	\$.036	\$ 0.21	\$ 0.
Diluted - as reported	\$.036	\$ 0.22	\$ 0.
Diluted - pro forma	\$.035	\$ 0.21	\$ 0.

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

NOTE 2 - COMMON STOCK:

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

During the third quarter of 2003, in connection with two employment agreements, shares of restricted stock, valued at approximately \$120,000 were

Edgar Filing: NEWTEK BUSINESS SERVICES INC - Form 10QSB/A

issued as part of total compensation. The shares vest over a one year period. Total compensation expense for the third quarter was approximately \$22,000.

NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES:

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

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

10

NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES (CONTINUED):

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

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

During the nine month period ended September 30, 2003, Newtek determined that there was approximately \$943,000 of an other than temporary decline in the value of its investments for Merchant Data Systems, Inc., \$500,000 for 1-800 Gift Certificate, \$271,000 for Direct Creations, LLC,

Edgar Filing: NEWTEK BUSINESS SERVICES INC - Form 10QSB/A

\$145,000 for O.S. Johnson, LLC, \$112,000 for Gerace Auto Parts, LLC, and \$20,000 of an other than temporary decline in the value of its investments in Transworld Business Brokers, LLC. These items aggregated approximately \$1,991,000 which is shown on the statement of income as other than temporary decline in value of investments.

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

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

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

11

NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES (CONTINUED):

DEBT INVESTMENTS						
Investee	Direct Creations, LLC	Merchant Data Systems, Inc.	4G's Truck Renting	Transworld Business Brokers, LLC	Autotask Group	Louisiana BIDCO Debt Invest- ments
Investment Date (s)	Sep-01, Nov-01	Aug-00	Nov-99, Jul- 00, Jun-02	Jun-01	Oct -02	Various
Maturity Date	Jun-04	May-04	Aug-03	Jun-04	Sep-03	Various
Interest Rate	LIBOR	0.00%	7.40%	5.00%	7.75%	Prime +1%

Edgar Filing: NEWTEK BUSINESS SERVICES INC - Form 10QSB/A

Principal outstanding at December 31, 2002	\$373,233	\$942,591	\$100,000	\$140,000	\$200,000	\$1,234,029
Return of principal - 2003	(61,923)	-	(100,000)	(25,000)	(200,000)	(82,932)
Investments in 2003	-	-	-	-	300,000	-
Other than temporary decline in value of its investments	-	(942,591)	-	-	-	(257,339)
Principal outstanding at September 30, 2003	\$311,310	-	-	\$115,000	\$300,000	\$893,758

EQUITY INVESTMENTS

Investee	Direct Creations, LLC	1-800 Gift Certificates, LLC	Distribution Video and Audio	BuySeasons, Inc.	Newtek Financial Info Services of LA, LLC
Investment Date(s)	Dec-00, Aug-02	Jul-99 Jul- 01	Jun-00	Jun-01	Dec-02
Type of Investment	Common Warrants	Common Stock/ Warrants	Stock	Common Stock	Preferred Member
Ownership Interest as of September 30, 2003	3.84%				