

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

NEWTEK CAPITAL INC
Form 10QSB
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10QSB

(Mark One)

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

For the quarterly period ended June 30, 2002

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

Commission File Number: 001-16123

NEWTEK CAPITAL, INC.

(Exact name of registrant as specified in its charter)

NEW YORK

11-3504638

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

100 Quentin Roosevelt Boulevard, Garden City, NY

11530

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (516) 390-2260

Check whether the registrant has (1) filed all documents and reports required to
be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12
months (or for such shorter period that the registrant was required to file such
reports), and (2) has been subject to such filing requirements for the past
ninety days.

Yes No

As of August 13, 2002, 24,698,542 shares of Common Stock were issued and
outstanding.

CONTENTS

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets (Unaudited) as of June 30, 2002
and December 31, 2001

Condensed Consolidated Statements of Operations (Unaudited) for the Three and
Six Month Periods Ended June 30, 2002 and 2001

Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Month
Periods Ended June 30, 2002 and 2001

Notes to Unaudited Condensed Consolidated Financial Statements

Item 2. Management's Discussion and Analysis

PART II - OTHER INFORMATION

Item 4. Submission of Matters to Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

Signatures

Exhibits

1

ITEM 1. FINANCIAL STATEMENTS

NEWTEK CAPITAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2002

ASSETS	
Cash and cash equivalents	\$ 43,402,592
Credits in lieu of cash	26,411,972
Investments in qualified businesses	5,857,705
Structured insurance product	2,812,597
Prepaid insurance	13,128,123
Prepaid expenses and other assets	1,192,055
Furniture, fixtures and equipment, net	355,504
Goodwill	2,656,517
Asset held for sale	-

Total assets	\$ 95,817,065
	=====

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:

Accounts payable and accrued expenses	\$ 2,356,618
Notes payable - certified investors	3,851,285
Notes payable - insurance	9,970,699
Note payable - bank	-
Mortgage payable	-
Interest payable	59,071,128
Deferred tax liability	1,293,673

Total liabilities 76,543,403

Minority interest 2,265,285

Stockholders' equity:

Common Stock (par value \$0.02 per share: authorized 39,000,000 shares, issued and outstanding 24,559,681 and 22,212,517	491,193
Additional paid-in Capital	19,452,253
Accumulated deficit	(2,935,069)

Total stockholders' equity 17,008,377

Total liabilities and stockholders' equity \$ 95,817,065

=====

See accompanying notes to these unaudited condensed consolidated financial statements.

2

NEWTEK CAPITAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002, AND 2001

	Three Months Ended June 30,		
	2002	2001	2000
	-----	-----	-----
Revenue:			
Income from tax credits	\$ 4,871,278	\$ 8,621,115	\$ 10,2
Consulting fee income	52,617	-	4
Interest and dividend income	219,739	574,875	6
Other income	207,223	80,603	6
	-----	-----	-----
Total revenue	5,350,857	9,276,593	11,4
	-----	-----	-----
Expenses:			
Interest	2,914,776	2,849,622	5,5
Payroll and consulting fees	789,320	564,685	2,5

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

Professional fees	434,470	702,768	1,1
Insurance	307,877	367,432	8
Other	1,185,939	284,096	1,8
	-----	-----	-----
Total expenses	5,632,382	4,768,603	11,9
	-----	-----	-----
(Loss) income before other than temporary decline in value of investments, gain on sale of property, equity in net losses of affiliates, minority interest, extraordinary gain and provision for income taxes	(281,525)	4,507,990	(5
Other than temporary decline in value of investments (net of \$28,705 recovery in 2002)	(369,692)	(225,000)	(9
Gain on sale of property	-	-	
Equity in net losses of affiliates	(71,631)	(661,938)	(6
	-----	-----	-----
(Loss) income before provision for income taxes, extraordinary gain and minority interest	(722,848)	3,621,052	(2,1
Minority interest in (income)loss	(156,888)	(948,207)	1,0
	-----	-----	-----
(Loss) income before provision for income taxes and extraordinary gain	(879,736)	2,672,845	(1,1
Benefit from (provision for) income taxes	334,300	(1,448,421)	4
	-----	-----	-----
(Loss) income before extraordinary gain on conversion of minority interest into Newtek stock	(545,436)	1,224,424	(7
Extraordinary gain on acquisition of minority interest, net of taxes of \$162,778 for 2002	-	-	2
	-----	-----	-----
Net (loss) income	\$ (545,436)	\$ 1,224,424	\$ (4
	=====	=====	=====
Weighted average common shares outstanding:			
Basic	24,428,414	21,731,384	23,6
Diluted	24,428,414	21,731,384	23,6
Income per share:			
Basic	\$ (.02)	\$.06	\$
Diluted	\$ (.02)	\$.06	\$
(Loss) income per share before extraordinary items:			
Basic	\$ (.02)	\$.06	\$
Diluted	\$ (.02)	\$.06	\$

See accompanying notes to these unaudited condensed consolidated financial statements.

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

	June 30, 2002

Cash flows from operating activities:	
Net (loss) income	\$ (439,457)
Adjustments to reconcile net (loss) income to net cash used in operating activities:	
Other than temporary decline in value of investments	987,605
Gain on sale of property	(16,841)
Equity in net losses of affiliates	672,875
Extraordinary gain	(265,584)
Income from tax credits	(10,258,105)
Deferred Income Taxes	(432,122)
Depreciation and other amortization	57,669
Accretion of interest income	(87,807)
Accretion of interest expense	5,179,474
Non-cash compensation - options vested	380,000
Issuance of stock options to non-employees	-
Issuance of stock for services performed	80,789
Minority interest included in loss	(1,048,638)
Changes in assets and liabilities:	
Prepaid insurance	(307,282)
Prepaid expenses and other assets	(135,647)
Accounts payable and accrued expenses	562,405

Net cash used in operating activities	(5,070,666)

Cash flows from investing activities:	
Proceeds from sale of asset held for sale	348,770
Investments in qualified businesses	(7,912,762)
Return of principal - qualified investments	10,869,121
Consolidation of majority owned investments	3,984,764
Other investments	-
Purchase of furniture, fixtures and equipment	(150,627)

Net cash provided by (used in) investing activities	7,139,266

See accompanying notes to these unaudited condensed consolidated financial statements.

NEWTEK CAPITAL, INC. AND SUBSIDIARIES

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

FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001

June 30,
2002

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

Cash flows from financing activities:	
Proceeds from issuance of note payable insurance	-
Proceeds from issuance of long-term debt	22,719,496
Payments for defeasance of long-term debt	(11,640,982)
Payments of line-of-credit	(575,000)
Payments of note payable insurance	(1,433,333)
Payments on mortgage payable	(306,929)
Net proceeds from issuance of common stock	1,299,999
Distributions to CAPCO members	(7,867)
Cash received from Exponential acquisition	106,642

Net cash provided by financing activities	10,162,026

Net increase (decrease) in cash and cash equivalents	12,230,626
Cash and cash equivalents - beginning of period	31,171,966

Cash and cash equivalents - end of period	\$ 43,402,592
	=====
Supplemental disclosure of non-cash financing activities:	
Reduction of credits in lieu of cash and interest payable balances due to delivery of tax credits to certified investors:	\$ 5,656,909
	=====
Consolidation of investments previously accounted for under the equity method	\$ 537,083
	=====
Acquisition of Exponential (net liabilities assumed)	\$ 10,978
	=====
Issuance of common stock in connection with acquisition of Exponential	\$ 920,000
	=====
Issuance of warrants in partial payment for insurance	\$ 572,298
	=====
Issuance of common stock in connection with acquisition of minority interest in Wilshire Investors	\$ -
	=====
Acquisition of five Capcos minority interests Newtek Capital common stock issued Less, minority interests acquired	\$ 1,325,385 452,212

Goodwill recognized	\$ 873,173
	=====
Acquisition of three Capcos minority interests Minority interests acquired Less, Newtek Capital common stock issued	\$ 1,369,156 940,794

Extraordinary gain recognized	\$ 428,362
	=====

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

See accompanying notes to these unaudited condensed consolidated financial statements.

5

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation and description of business

The unaudited condensed consolidated financial statements of Newtek Capital, Inc. and Subsidiaries (the "Company") included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations. The unaudited condensed consolidated financial statements of the Company reflect, in the opinion of management, all adjustments necessary to present fairly the financial position of the Company at June 30, 2002, the results of its operations for the three month periods ended June 30, 2002 and 2001, and the results of its operations and cash flows for the six month periods ended June 30, 2002 and June 30, 2001. All adjustments are of a normal recurring nature. These financial statements should be read in conjunction with the annual financial statements and notes thereto for the year ended December 31, 2001. The results of operations for the three months ended June 30, 2002 and the six months ended June 30, 2002 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2002.

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

Capco -----	State of Certification -----	Date of -----
Wilshire Advisers, LLC	New York	May 1998
Wilshire Partners, LLC	Florida	December
Wilshire Investors, LLC	Wisconsin	October
Wilshire Louisiana Advisers, LLC	Louisiana	October
Wilshire New York Advisers II, LLC	New York	April 20
Wilshire New York Partners III, LLC	New York	December
Wilshire Colorado Partners, LLC	Colorado	October
Exponential of New York, LLC	New York	April 19

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

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

quantified, defined investment percentage thresholds and time requirements. In order for the capcos to maintain their state-issued certifications, the capcos must make Investments in Qualified Businesses in accordance with these requirements. Each capco also has separate, legal contractual arrangements with the Certified Investors obligating the capco to pay interest on the aforementioned debt instruments whether or not it meets the statutory requirements for Investments in Qualified Businesses. The capco can satisfy this interest payment, at the capco's discretion, by delivering tax credits in lieu of paying cash. The capcos legally have the right to deliver the tax credits to the Certified Investors. The Certified Investors legally have the right to receive and use the tax credits and would, in turn, use these tax credits to reduce their respective state tax liabilities in an amount usually

6

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

equal to 100% (Louisiana - 110%) of their certified investment. The tax credits can be utilized over a ten-year period at a rate of 10% (Louisiana - 11%) per year and in some instances are transferable and can be carried forward.

NOTE 2 - PRIVATE PLACEMENT OF COMMON STOCK:

In the first quarter of 2002, the Company sold 433,333 shares of common stock in private transactions, with gross and net cash proceeds totaling approximately \$1,300,000.

NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES:

The following table is a summary of Qualified Business investments as of June 30, 2002, shown separately between their debt and equity components, \$4,545,931 and \$1,311,774, respectively, for a total non-consolidated investment in Qualified Businesses of \$5,857,705.

In accordance with the provisions of "Financial Accounting Standards Board No. 115", the Company's debt investments are considered held to maturity and recorded at cost. The Company periodically assesses these investments for impairment.

DEBT INVESTMENTS

	Type	Date of Investments	Maturity Dates	Stated Interest Rates	Original Principal Amount	Cumulative other than temporary decline in the value of its investment since original investment date
Total Debt Investments at June 30, 2002	Debt	11/99 - 6/02	Various	Various	\$ 28,080,826	\$ (1,706,6

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

EQUITY INVESTMENTS

	Date of Investments	Type of Investments	Common Stock Equivalents	Percentage of Ownership	Original Investment Amount
Total Equity Investments at June 30, 2002	11/98-3/02	Various	Various	Various	\$ 4,169,000 =====
Total Debt and Equity Investments as of June 30, 2002					\$ 32,249,826 =====

	Equity in Income (Losses) and/or Return of Capital since original investment date	Equity method investment balance at June 30, 2002
Total Equity Investments at June 30, 2002	\$ (2,123,634) =====	\$ 1,311,774 =====
Total Debt and Equity Investments as of June 30, 2002		\$ 5,857,705 =====

7

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES: (CONTINUED)

In addition, the Company consolidates nine of its investments. The Company's total investments made in these consolidated entities was \$23,063,950, as of June 30, 2002.

The Company has not guaranteed any obligations 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 provide such additional financial support which, as of June 30, 2002, was not significant. Periodically, the Company evaluates each of its individual investments for potential impairment in value. Should the Company determine that an impairment

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

exists and it is deemed to be other than temporary, the Company will write down the recorded value of the asset to its estimated fair value and record a corresponding charge in the statement of operations. During the six month period ended June 30, 2002, the Company determined that there was \$733,592 of other than temporary decline in the value of its investments for Starphire Technologies, LLC, \$44,000 of other than temporary decline in the value of its investments for Gino's Seafood, and a \$76,718 other than temporary decline in the value of its investments for Embosser's Sales and Service. In addition, the Company determined an impairment existed for certain non-capco investments (included in prepaid expenses and other assets on the balance sheet), and recorded a charge of \$162,000. In 2002, the Company also recovered \$28,705 of cash on two of its investments written down in 2000. These items aggregate \$987,605 which is shown on the statement of operations as other than temporary decline in value of investments.

NOTE 4 - EARNINGS PER SHARE:

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. The dilutive effect of common stock equivalents is included in the calculation of diluted earnings per share only when the effect of their inclusion would be dilutive. The effect of common stock equivalents were anti-dilutive for the three and six months ended June 30, 2002 and the three and six months ended June 30, 2001 and, therefore, have been excluded from the calculation of diluted earnings per share for that period.

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

	THREE MONTHS ENDED JUNE 30,		SIX M J
	2002	2001	2002
Basic			
Net income (loss)	\$ (545,436)	\$ 1,224,424	\$ (439,457)
Weighted average shares basic	24,428,414	21,731,384	23,634,712
Dilutive effect of stock options	-	-	-
Weighted average shares - diluted	24,428,414	21,731,384	23,634,712
Basic and diluted	\$ (.02)	\$.06	\$ (.02)

8

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS:

Principles of Accounting for Ownership Interests in Qualified Investments

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

Investments in which the Company directly or indirectly owns more than 50% of the outstanding voting securities or those the Company has effective control over are generally accounted for under the consolidation method of accounting. Under this method, an investment's financial position and results of operations are reflected within the Company's Balance Sheet and Consolidated

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

Statements of Operations. All significant inter-company accounts and transactions have been eliminated. The results of operations and cash flows of a consolidated Partner Company are included through the latest interim period in which the Company owned a greater than 50% direct or indirect voting interest for the entire interim period or otherwise exercised control over the Partner Company. Upon dilution of control below 50%, the accounting method is adjusted to the equity or cost method of accounting, as appropriate, for subsequent periods.

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

Cost Method. Investees not accounted for under the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Under this method, the Company's share of the earnings or losses of such companies is not included in the Balance Sheet and Consolidated Statements of Operations. However, cost method impairment charges are recognized, as necessary, in the Consolidated Statement of Operations. If circumstances suggest that the value of the investee has subsequently recovered, such recovery is not recorded until realized.

On a monthly basis, Newtek Capital Investment Committee meets to evaluate the Company's investments. The Company considers several factors in determining whether an impairment exists on the investment, such as the investee's net book value, cash flow, revenue growth and net income. In addition, the Investment Committee looks at larger variables, such as the economy and the investee company's industry, to determine if an other than temporary decline in value exists in the Company's investments.

The following table is an unaudited summary of the investments which the Company accounts for under either the equity method or by consolidation. These financial statements also reflect the degree to which the Company's partner companies interact with each other to provide and market needed goods or, particularly, services to each other. Such activity has been quantified within the accompanying summary within the caption "intercompany items included in above".

9

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED ENTITIES

NEWTEK STRATEGIES

NEWTEK MERCHANT

NEWTEK MERCHANT

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

	SOLUTIONS - NY				SOLUTIONS - LA	
	June 30, 2002	December 31, 2001	June 30, 2002	December 31, 2001	June 30, 2002	December 31, 2001
Cash	\$ 1,450,988	\$ 1,605,753	\$ 22,347	\$ 2,969,774	\$ 921,792	\$ 1,259,089
Other Assets	\$ 177,359	\$ 117,588	\$ 432,012	\$ 486,632	\$ 39,118	\$ 19,251
Total Assets	\$ 1,628,347	\$ 1,723,341	\$ 454,359	\$ 3,456,406	\$ 960,910	\$ 1,278,340
Current Liabilities	\$ 999,936	\$ 53,026	\$ 62,440	\$ 51,630	\$ 52,714	\$ 7,251
Total Liabilities	\$ 999,936	\$ 970,028	\$ 537,440	\$ 3,451,630	\$ 52,714	\$ 7,251
Total Equity (Deficit)	\$ 628,411	\$ 753,313	\$ (83,081)	\$ 4,776	\$ 908,196	\$ 1,271,089

PPM LINK

	June 30, 2002	December 31, 2001
Cash	\$ 1,361,581	\$ 1,700,109
Other Assets	\$ 278,405	\$ 130,558
Total Assets	\$ 1,639,986	\$ 1,830,667
Current Liabilities	\$ 45,672	\$ 46,553
Total Liabilities	\$ 1,895,672	\$ 1,896,553
Total Equity (Deficit)	\$ (255,686)	\$ (65,886)

CONSOLIDATED ENTITIES

	Newtek Financial Information Services, LLC		Transworld Business Brokers - NY		Newtek
	June 30, 2002	December 31, 2001	June 30, 2002	December 31, 2001	June 30, 2002
Netek IT Services, LLC					

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

Cash	\$ 43,556	(a)	\$ 117,296	(a)	\$ 3,369,055	(a)	\$ 3,15
Other Assets	\$ 197,809	(a)	\$ 121,299	(a)	\$ 45,447	(a)	
Total Assets	\$ 241,365	(a)	\$ 238,595	(a)	\$ 3,414,502	(a)	\$ 3,15
Current Liabilities	\$ 74,310	(a)	\$ 19,019	(a)	\$ 57,116	(a)	
Total Liabilities	\$ 86,244	(a)	\$ 169,020	(a)	\$ 358,867	(a)	
Total Equity	\$ 155,121	(a)	\$ 69,575	(a)	\$ 3,055,635	(a)	\$ 3,15

10

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED ENTITIES

	Newtek Strategies		Newtek Merchant Solutions - NY		Newtek Merchant Solutions - LA		Newtek Solution
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001	June 30, 2002
Revenue	\$ 323,864	--	\$ 163,108	\$ 37,506	\$ 22,082	(a)	\$ 50,652
Cost of Sales & SG&A	\$ 423,219	\$ 30,748	\$ 292,343	\$ 47,179	\$ 279,920	(a)	\$ 433,654
Depreciation and Amortization	\$ 1,352	--	\$ 21,650	\$ 1,608	\$ 1,135	(a)	\$ 3,875
Interest Expense	\$ 23,750	--	\$ 12,008	\$ 52,123	\$ 51,550	(a)	\$ 45,063
Net Loss	\$ (124,457)	\$ (30,748)	\$ (162,893)	\$ (63,404)	\$ (310,523)	(a)	\$ (431,940)

INTERCOMPANY ITEMS INCLUDED IN ABOVE

Revenue	\$ 201,948	--	\$ 2,500	\$ 795	--	(a)	--
Cost of Sales & SG&A	\$ 28,126	--	\$ 54,093	\$ 3,955	\$ 38,946	(a)	\$ 42,137
Interest Expense	\$ 23,750	--	\$ 12,008	\$ 52,123	\$ 51,550	(a)	\$ 45,063

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

CONSOLIDATED ENTITIES

	NEWTEK IT SERVICES, LLC		NEWTEK FINANCIAL INFORMATION SERVICES, LLC		TRANSWORLD BUSINESS BROKERS - NY	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Revenue	\$ 226,336	\$ 131,151	\$ 245,532	\$158,918		(a)
Cost of Sales & SG&A	\$ 408,064	\$ 290,692	\$ 272,068	\$219,937	\$ 71,242	(a)
Depreciation & Amortization	\$ 7,820	\$ 3,720	\$ 9,278	\$ 4,137	\$ 2,081	(a)
Interest Expense	\$ 53,050	\$ 50,312	\$ 15,951	\$24,774	\$ 26,094	(a)
Net Loss	\$ (242,598)	\$ (213,573)	\$ (51,765)	\$ (89,930)	\$ (99,417)	(a)

INTERCOMPANY ITEMS INCLUDED IN ABOVE

Revenue	\$ 7,757	\$ 9,794	\$136,810	\$20,868	--	(a)
Cost of Sales & SG&A	\$59,811	\$ 2,985	\$ 14,251	\$ 795	\$11,000	(a)
Interest Expense	\$53,050	\$50,312	\$ 15,951	\$24,774	\$26,094	(a)

11

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

ENTITIES UNDER THE EQUITY METHOD

	STARPHIRE		NICHE DIRECTORIES		TRANSWORLD BUSINESS BROKERS - FL	
	June 30,	December 31,	June 30,	December 31,	June 30,	December 31,

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

	2002	2001	2002	2001	2002	2001
Cash	\$ 135,195	\$ 1,352,823	\$ 466,008	\$ 556,741	\$ 187,131	\$ 245,515
Other Assets	\$ 407,301	\$ 460,508	\$ 141,934	\$ 273,328	\$ 331,572	\$ 334,854
TOTAL ASSETS	\$ 542,496	\$ 1,813,331	\$ 607,942	\$ 830,069	\$ 518,703	\$ 580,369
Current Liabilities	\$ 92,234	\$ 85,652	\$ 371,166	\$ 354,861	\$ 33,307	\$ 22,457
Total Liabilities	\$ 92,234	\$ 1,085,652	\$ 371,166	\$ 354,861	\$ 273,306	\$ 262,457
Total Equity	\$ 450,262	\$ 727,679	\$ 236,776	\$ 475,208	\$ 245,397	\$ 317,912

ENTITIES UNDER THE EQUITY METHOD

	STARPHIRE		NICHE DIRECTORIES		TRANSWORLD BUSINESS BROKERS - FL	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Revenues	\$ 59,247	\$ 216,302	\$ 372,737	\$ 315,276	\$ 935,073	(a)
Cost of Sales & SG&A	\$ 306,615	\$ 609,826	\$ 533,581	\$ 593,137	\$ 981,006	\$ 2,150
Depreciation & Amortization	\$ 14,125	\$ 20,088	\$ 8,917	\$ 10,092	\$ 1,222	--
Interest Expense	\$ 13,364	--	--	--	\$ 6,000	--
Net Loss	\$ (274,857)	\$ (413,612)	\$ (169,761)	\$ (287,953)	\$ (53,155)	\$ (2,150)

INTERCOMPANY ITEMS INCLUDED IN ABOVE

Revenue	\$ (1,915)	\$ 7,500	--	--	--	--
Cost of Sales & SG&A	\$ 27,580	\$ 6,275	\$ 44,697	--	\$ 11,265	--
Interest Expense	\$ 13,364	--	--	--	\$ 6,000	--

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

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Current assets (including cash of \$106,642)	\$	138,013
Other Assets		10,001

Total assets acquired		148,014
		=====
Current liabilities		52,350

Total liabilities assumed		52,350
		=====
Net assets acquired	\$	95,664
		=====

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

NOTE 7 - ACQUISITIONS OF CAPCO MINORITY INTERESTS:

In March and May 2002, the Company issued 1,028,576 and 149,910 shares, respectively, of its common stock to the minority members of certain Capcos in exchange for substantially all of such members' minority interests. These have been accounted for as purchase transactions. The fair value of the Company's common stock was determined based upon the quoted market price of the Company's common stock, less a discount due to certain restrictions on the stock. Such value exceeded the book value of the minority interest by approximately \$873,000 for five of the Capcos, and the Company has recorded such amount as goodwill. For three other Capcos, the fair value of the Company's common stock was less than the book value of the minority interest by approximately \$428,000, and the

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

Company has recorded such amount as an extraordinary gain.

13

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - NEW ACCOUNTING PRONOUNCEMENTS:

In 2002, the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Intangible Assets" (SFAS 142). SFAS 142 includes requirements to annually test goodwill and indefinite lived intangible assets for impairment rather than amortize them; accordingly, the Company no longer amortizes goodwill. The Company did not record any transition intangible asset impairment loss upon adoption of SFAS 142.

In August 2001, the Financial Accounting Standards Board issued Statement No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 is effective for the Company's fiscal year beginning January 1, 2003, and requires the Company to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The Company is in the process of evaluating what impact, if any, this standard will have on the Company's Consolidated Financial Statements.

On October 3, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 (SFAS No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144, however, retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS No. 144 supersedes the accounting and reporting provisions of APB Opinion No. 30 ("Opinion 30"), "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for segments of a business to be disposed of. SFAS No. 144, however, retains the requirement of Opinion 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held for sale. The Company adopted SFAS No. 144 on January 1, 2002 and did not record any impairment charges upon adoption.

On May 1, 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145 (SFAS No. 145), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 is effective for the Company's fiscal year beginning January 1, 2003. The Company is in the process of evaluating what impact, if any, this standard will have on the Company's Consolidated Financial Statements.

In June 2002, the Financial Accounting Standards Board issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 is effective for the Company's fiscal year beginning January 1, 2003. The Company is in the process of evaluating what impact, if any, this standard will have on the Company's Consolidated Financial Statements.

NOTE 9 - NEW CAPCO:

In April 2002, the Company raised approximately \$22 million of certified capital for the Company's ninth CAPCO fund, Wilshire Colorado Partners, LLC. The

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

new CAPCO will target early stage, high growth businesses providing products and services to the small business market within the State of Colorado.

14

NOTE 10- SUBSEQUENT EVENT:

On August 12, 2002, the Company signed a definitive agreement to acquire Commercial Capital Corporation. See Item 5, below, and Exhibit 99.1.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Three Months Ended June 30, 2002 compared to Three Months Ended June 30, 2001

Revenues decreased by approximately \$3,926,000 to \$5,351,000 for the three months ended June 30, 2002, from \$9,277,000 for the three months ended June 30, 2001. Income from tax credits decreased by approximately \$3,750,000 to \$4,871,000 for the three months ended June 30, 2002, from \$8,621,000 for the three months ended June 30, 2001 due to the Company's meeting different and, in certain cases, less investment thresholds mandated by the various state Capco statutes in 2002 versus 2001. Interest and dividend income decreased by approximately \$355,000 to \$220,000 for the three months ended June 30, 2002, from \$575,000 for the three months ended June 30, 2001 This decrease was primarily due to additional investments made in consolidated entities. The additional investments reduced cash available to earn interest and dividends. Consulting fee income increased by approximately \$53,000 due to the increase in consulting related activity. Other income increased by approximately \$126,000 to \$207,000 for the three months ended June 30, 2002, from \$81,000 for the three months ended June, 2001. This decrease was due to the consolidation of revenues with additional entities now consolidated into the Company.

Interest expense increased by approximately \$65,000 to \$2,915,000 for the three months ended June 30, 2002 from \$2,850,000 for the three months ended June 30, 2001. The increase was due primarily to the new Capco funded in April 2002. Payroll and consulting fees increased by \$224,000 to \$789,000 for the three months ended June 30, 2002 from \$565,000 for the three months ended June 30, 2001. The increase was due to the consolidation of expenses with additional entities now consolidated into the Company.

Professional fees decreased by approximately \$269,000 to \$434,000 for the three months ended June 30, 2002 from \$703,000 for the three months ended June 30, 2001. The decrease was due primarily to the decreased legal expenses incurred by the Company.

Other expenses increased by approximately \$902,000 to \$1,186,000 for the three months ended June 30, 2002 from \$284,000 for the three months ended June 30, 2001. The increase was due primarily to expenses from additional entities now consolidated into the Company.

15

ITEM 2. MANAGEMENT'S DISCUSSION AD ANALYSIS (CONTINUED)

Six Months Ended June 30, 2002 compared to Six Months Ended June 30, 2001

Revenues decreased by approximately \$4,575,000 to \$11,423,000 for the six months ended June 30, 2002, from \$15,998,000 for the six months ended

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

June 30, 2001. Income from tax credits decreased by approximately \$4,393,000 to \$10,258,000 for the six months ended June 30, 2002, from \$14,651,000 for the six months ended June 30, 2001, due to the Company's meeting different and, in certain cases, less investment thresholds mandated by the various state Capco statutes in 2002 versus 2001. Interest and dividend income decreased by approximately \$753,000 to \$460,000 for the six months ended June 30, 2002, from \$1,213,000 for the six months ended June 30, 2001. This decrease was primarily due to additional investments made in consolidated entities. The additional investments reduced cash available to earn interest and dividends. Consulting fee income increased by approximately \$91,000 to \$99,000 for the six months ended June 30, 2002 from \$8,000 for the six months ended June 30, 2001 due to the increase in consulting related activity. Other income increased by approximately \$479,000 to \$605,000 for the six months ended June 30, 2002, from \$126,000 for the six months ended June, 2001. This increase was due to the consolidation of revenues with additional entities now consolidated into the Company.

Interest expense decreased by approximately \$617,000 to \$5,568,000 for the six months ended June 30, 2002 from \$6,185,000 for the six months ended June 30, 2001. The decrease was due primarily to the reduction of interest payable due to delivery of tax credits to certified investors. Payroll and consulting fees increased by \$1,166,000 to \$2,546,000 for the six months ended June 30, 2002 from \$1,380,000 for the six months ended June 30, 2001. The increase was due to the consolidation of expenses with additional entities now consolidated into the Company.

Other expenses increased by approximately \$1,361,000 to \$1,811,000 for the six months ended June 30, 2002 from \$450,000 for the six months ended June 30, 2001. The increase was due primarily to expenses from additional entities now consolidated into the Company.

LIQUIDITY AND CAPITAL RESOURCES

The Company has funded its operations primarily through the issuance of notes to Certified Investors through the Capco program. To date, the Company has received approximately \$159,000,000 in proceeds from the issuance of long-term debt through the Capco programs. The Company's principal capital requirements have been to fund the defeasance of the principal amount of notes issued to the Certified Investors, the acquisition of Capco insurance policies, the acquisition of partner companies interests, funding of other investments, and working capital needs resulting from increased operating and business development activities of its partner companies.

Net cash used in operating activities for the six months ended June 30, 2002 of approximately \$5,071,000 resulted primarily from net loss of \$439,000, decreased by the non-cash interest expense of approximately \$5,179,000. It was also affected by the approximately \$673,000 in non-cash equity in net losses of affiliates, approximately \$1,049,000 of minority interest and the approximately \$10,258,000 in non-cash income from tax credits, and the non-cash income tax benefit of \$432,000.

Net cash provided by investing activities for the six months ended June 30, 2002 of approximately \$7,139,000 resulted primarily from return of principal of qualified investments of

\$10,869,000, offset by approximately \$7,913,000 in additional qualified investments made during the period. In addition, the Company consolidated approximately \$3,985,000 of its investments.

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

Net cash provided by financing activities for the six months ended June 30, 2002 was approximately \$10,162,000, primarily attributable to approximately \$22,719,000 of proceeds from the issuance of long-term debt and \$1,300,000 from the private placement of common stock, offset by approximately \$11,641,000 of payments for defeasance of long-term debt, \$575,000 for payment of line of credit, \$1,433,000 for payments of note payable - insurance, and \$307,000 in payments on a mortgage payable, during the six months ended June 30, 2002.

The Company believes that its cash and cash equivalents, its anticipated cash flow from operations, its ability to access private and public debt and equity markets, and the availability of funds under its existing credit agreements will provide it with sufficient liquidity to meet its short and long-term capital needs.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10 QSB contains forward-looking statements. Additional written or oral forward-looking statements may be made by the Company from time to time in filings with the Securities and Exchange Commission or otherwise. The words "believe," "expect," "seek," and "intend" and similar expressions identify forward-looking statements, which speak only as of the date the statement is made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but are not limited to, projections of income or loss, expenditures, acquisitions, plans for future operations, financing needs or plans relating to services of the Company, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements.

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

PART II - OTHER INFORMATION

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) On June 5, 2002 the Company held its annual meeting of shareholders.
- (b) All six of the incumbent directors were reelected for one year terms:

John Cox
Jeffrey G. Rubin
Jeffrey M. Schottenstein
Steven A. Shenfeld
Barry Sloane

17

Brian A. Wasserman

- (c) With respect to the election of directors, at which a total of 21,268,941, or 86.60 percent, were present in person or by proxy, with

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

the vote for each of the nominees the same:

For:	21,266,791 votes, or 86.00 percent
Withheld	2,150 votes, or 0.01 percent

In addition, an amendment to the Registrant's 2000 Stock Incentive and Deferred Compensation Plan was voted upon by the shareholders and was approved by the following vote:

For;	14,129,068 votes, or 57.00 percent
Withheld:	84,798 votes, or 0.4 percent
Abstain	6,100 votes, or 0.02 percent
Unvoted	7,048,975, or 33.12 percent

ITEM 5 - OTHER INFORMATION

On August 12, 2002, the Registrant issued a press release to announce the signing of a definitive agreement to acquire Commercial Capital Corporation ("CCC") and its parent, Comcap Holding Corp. Headquartered in New York City, CCC began operations in 1994 and in 1999 was ranked as the fifteenth largest SBA lender in the U.S. and the second largest in the New York metropolitan area by dollar volume. John Cox is expected to step down from his position as a member of the Company's Board of Directors to join Michael Dowd, both long-time SBA employees, in managing the small business lender. Charles Freeman will remain as the President of CCC.

Prior to this agreement, the Company had been exploring investment in other small business lenders with marketing strategies similar to its own. The acquisition of CCC and its addition to the business being organized by the Company will be an important step in this strategy. The transaction is subject to the approval by the SBA and the stockholders of Comcap Holdings. The Company has offered to exchange 463,450 of its shares for those of Comcap in an entirely stock-for-stock exchange.

The Company is currently in discussions with CCC's warehouse lenders and other potential financial partners to provide additional capital and assist in the implementation of the direct loan origination strategy. CCC has a portfolio of loans under management of approximately \$247 million, in which it owns approximately \$67 million. In 2000 and 2001, CCC originated approximately \$45 and \$29 million in SBA guaranteed loans, respectively. If all required approvals are timely received, the Company expects to close the investment in the small business lender by late September or early October. A copy of the Press Release is attached as Exhibit 99.1 to this Quarterly Report on Form 10-Q and incorporated by reference in this Item 5.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

Exhibit 99.1 Press Release: August 12, 2002: Newtek Capital Signs Definitive Agreement to Acquire 50 State SBA 7(A) Lender; Newtek Small Business Finance to be Launched Soon

Exhibit 99.2 Pursuant to the provisions of section 906 of The Sarbanes-Oxley Act of 2002, the Chief Executive and Chief Financial Officers of Registrant have provided to the Securities and Exchange

Commission their certifications, attached hereto as an exhibit, conforming to the requirements of said section 906; to wit, that the within report on behalf

Edgar Filing: NEWTEK CAPITAL INC - Form 10QSB

of the Registrant on Form 10-QSB, for the period ended June 30, 2002, fully complies with the requirements of the Securities Exchange Act of 1934, as amended.

19

SIGNATURES

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

NEWTEK CAPITAL, INC.

Date: August 14, 2002 /s/ Barry Sloane

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

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

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

Date: August 14, 2002 /s/ Giuseppe Soccodato

Giuseppe Soccodato
Controller and Chief Accounting Officer

20