

NEWTEK BUSINESS SERVICES, INC.

Form 10-Q

November 10, 2011

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**UNITED STATES**  
**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, 2011

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)

<b>New York</b> (State or other jurisdiction of incorporation or organization)	<b>11-3504638</b> (I.R.S. Employer Identification No.)
<b>212 West 35<sup>th</sup> Street, Second Floor, New York, NY</b> (Address of principal executive offices)	<b>10123</b> (Zip Code)
<b>Registrant's telephone number, including area code: (212) 356-9500</b>	

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>

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 10, 2011, there were 35,769,473 of the Company's Common Shares outstanding.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

(In Thousands, except for Per Share Data)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Operating revenues	\$ 30,657	\$ 29,202	\$ 93,502	\$ 83,061
Net change in fair value of:				
SBA loans	(870)	50	(4,729)	2,076
Credits in lieu of cash and notes payable in credits in lieu of cash	(46)	(44)	30	130
Total net change in fair value	(916)	6	(4,699)	2,206
Operating expenses:				
Electronic payment processing costs	17,761	17,456	52,483	50,580
Salaries and benefits	5,247	4,677	15,956	14,365
Interest	749	1,023	2,608	3,307
Depreciation and amortization	1,021	1,155	3,080	3,586
Provision for loan losses	215	658	301	1,511
Other general and administrative costs	4,413	3,991	13,071	12,030
Total operating expenses	29,406	28,960	87,499	85,379
Income (loss) before income taxes	335	248	1,304	(112)
Benefit (provision) for income taxes	502	(590)	(301)	77
Net income (loss)	837	(342)	1,003	(35)
Net loss attributable to non-controlling interests	43	24	98	181
Net income (loss) attributable to Newtek Business Services, Inc.	\$ 880	\$ (318)	\$ 1,101	\$ 146
Weighted average common shares outstanding - basic	35,716	35,659	35,703	35,651
Weighted average common shares outstanding - diluted	36,544	35,659	36,397	35,795
Earnings (loss) per share - basic and diluted	\$ 0.02	\$ (0.01)	\$ 0.03	\$ 0.00

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, 2011 AND DECEMBER 31, 2010**

(In Thousands, except for Per Share Data)

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
	Unaudited	(Note 1)
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 13,678	\$ 10,382
Restricted cash	6,979	10,747
Broker receivable	10,666	12,058
SBA loans held for investment, net (includes \$16,779 and \$19,092, respectively, related to securitization trust VIE; net of reserve for loan losses of \$2,853 and \$3,560, respectively)	20,048	23,742
SBA loans held for investment, at fair value (includes \$3,250 and \$0, respectively, related to securitization trust VIE )	15,484	2,310
Accounts receivable (net of allowance of \$630 and \$193, respectively)	10,139	9,990
SBA loans held for sale, at fair value	938	1,014
Prepaid expenses and other assets, net (includes \$799 and \$866, respectively, related to securitization trust VIE)	7,636	7,809
Servicing asset (net of accumulated amortization and allowances of \$5,769 and \$5,189, respectively)	3,226	2,225
Fixed assets (net of accumulated depreciation and amortization of \$16,074 and \$14,719, respectively)	2,820	3,210
Intangible assets (net of accumulated amortization of \$12,812 and \$11,881, respectively)	1,680	2,753
SBA loans transferred, subject to premium recourse (\$1,392 and \$21,212, respectively, at fair value)	1,392	31,189
Credits in lieu of cash	19,219	35,494
Goodwill	12,092	12,092
 Total assets	 \$ 125,997	 \$ 165,015
<b><u>LIABILITIES AND EQUITY</u></b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 12,815	\$ 10,321
Notes payable (includes \$13,260 and \$15,104, respectively, related to securitization trust VIE)	32,987	28,053
Deferred revenue	1,649	1,768
Liability on SBA loans transferred, subject to premium recourse	1,392	30,783
Notes payable in credits in lieu of cash	19,219	35,494
Deferred tax liability	1,131	3,002
 Total liabilities	 69,193	 109,421
Commitments and contingencies		
Equity:		
Newtek Business Services, Inc. stockholders' 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, 36,701 issued, 35,716 and 35,666 outstanding, respectively, not including 83 shares held in escrow)	734	734
Additional paid-in capital	57,815	57,650
Accumulated deficit	(2,335)	(3,436)
Treasury stock, at cost (985 and 1,035 shares, respectively)	(604)	(663)

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Total Newtek Business Services, Inc. stockholders' equity	55,610	54,285
Non-controlling interests	1,194	1,309
Total equity	56,804	55,594
Total liabilities and equity	\$ 125,997	\$ 165,015

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, 2011 AND 2010****(In Thousands)**

	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Net income (loss)	\$ 1,003	\$ (35)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Income from tax credits	(954)	(1,923)
Accretion of interest expense	984	2,053
Fair value adjustments on SBA loans	4,729	(2,076)
Fair value adjustment of credits in lieu of cash and notes payable in credits in lieu of cash	(30)	(130)
Deferred income taxes	(1,701)	(197)
Depreciation and amortization	3,080	3,586
Provision for loan losses	301	1,511
Other, net	433	168
Changes in operating assets and liabilities:		
Originations of SBA loans held for sale	(52,350)	(554)
Originations of SBA loans transferred, subject to premium recourse	(274)	(19,831)
Originations of SBA loans, achieving sale status		(15,692)
Proceeds from originations of SBA loans, achieving sale status		15,692
Proceeds from sale of SBA loans held for sale	52,783	
Proceeds from sale of SBA loans, achieving sale status	26,638	
Liability on SBA loans transferred, subject to premium recourse	(29,416)	21,972
Broker receivable	1,392	(1,391)
Accounts receivable	(152)	(4,447)
Prepaid expenses, accrued interest receivable and other assets	112	(295)
Accounts payable, accrued expenses and deferred revenue	2,291	1,824
Other, net	(2,104)	(1,472)
Net cash provided by (used in) operating activities	6,765	(1,237)
Cash flows from investing activities:		
Return of investments in qualified businesses		