

NEWTEK BUSINESS SERVICES INC
Form 10-Q
May 16, 2005
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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 March 31, 2005

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
(State or other jurisdiction of

11-3504638
(I.R.S. Employer

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incorporation or organization)

Identification No.)

100 Quentin Roosevelt Boulevard, Garden City, NY
(Address of principal executive offices)

11530
(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

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

As of May 13, 2005, 33,907,172 shares of Common Stock were issued and outstanding.

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Table of Contents**ITEM 1. FINANCIAL STATEMENTS****NEWTEK BUSINESS SERVICES, INC., AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004**

	March 31,	December 31,
	2005	2004
	<u> </u>	<u> </u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 48,295,721	\$ 50,921,982
Restricted cash	2,402,427	2,181,675
Credits in lieu of cash	85,779,300	88,883,335
SBA loans receivable (net of reserve for loan losses of \$981,305 and \$1,621,259, respectively)	35,804,300	34,186,047
Accounts receivable (net of allowance of \$91,716 and \$72,062, respectively)	1,474,635	1,561,252
Receivable from bank	7,479,851	1,799,537
SBA loans held for sale	5,455,957	2,262,035
Accrued interest receivable	362,829	375,411
Investments in qualified businesses cost method investments	300,000	300,000
Investments in qualified businesses held to maturity debt investments	3,009,186	2,909,097
Structured insurance product	3,256,464	3,216,112
Prepaid insurance	14,844,347	15,505,326
Prepaid expenses and other assets (net of accumulated amortization of deferred financing costs and other intangibles of \$592,162 and \$404,105, respectively)	7,269,533	4,708,865
Capitalized servicing asset (net of accumulated amortization of \$749,891 and \$486,799, respectively)	2,041,620	2,084,763
Furniture, fixtures and equipment (net of accumulated depreciation and amortization of \$1,270,196 and \$1,025,672, respectively)	2,977,767	1,958,927
Customer merchant accounts (net of accumulated amortization of \$1,620,463 and \$1,226,741, respectively)	6,079,388	4,393,226
Goodwill	7,892,508	11,150,326
	<u> </u>	<u> </u>
Total assets	\$ 234,725,833	\$ 228,397,916
	<u> </u>	<u> </u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 7,039,240	\$ 9,725,690
Notes payable certified investors	3,934,047	3,925,946
Notes payable insurance	7,185,226	7,877,195
Notes payable other	8,440,000	520,000
Bank notes payable	35,227,301	27,987,696
Deferred revenue	1,159,783	1,160,286
Notes payable in credits in lieu of cash	75,119,731	76,258,728
Mandatorily redeemable preferred stock	1,500,000	1,500,000
Deferred tax liability	15,071,075	16,626,577
	<u> </u>	<u> </u>
Total liabilities	154,676,403	145,582,118
	<u> </u>	<u> </u>
Minority interest	5,421,257	5,720,950
	<u> </u>	<u> </u>

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Commitments and contingencies		
Shareholders' equity:		
Preferred stock (par value \$0.02 per share; authorized 1,000,000 shares, no shares issued and outstanding)		
Common stock (par value \$0.02 per share; authorized 39,000,000 shares, issued and outstanding 33,907,172 and 33,873,333, not including 582,980 shares held in escrow)		
	678,144	677,467
Additional paid-in capital	53,206,615	52,858,400
Unearned compensation	(2,288,325)	(2,297,459)
Retained earnings	23,031,739	25,856,440
	<u>74,628,173</u>	<u>77,094,848</u>
Total shareholders' equity	74,628,173	77,094,848
	<u>\$ 234,725,833</u>	<u>\$ 228,397,916</u>
Total liabilities and shareholders' equity	\$ 234,725,833	\$ 228,397,916

See accompanying notes to these unaudited consolidated financial statements

Table of Contents**NEWTEK BUSINESS SERVICES, INC., AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****FOR THE THREE MONTHS ENDED MARCH 31, 2005, AND 2004**

	<u>2005</u>	<u>2004</u>
Revenue:		
Income from tax credits	\$ 1,061,341	\$ 2,023,525
Electronic payment processing	6,010,983	3,232,504
Servicing fee and premium income	812,965	1,177,372
Web hosting	2,248,876	
Interest and dividend income	1,073,133	1,028,948
Other income	1,883,087	473,149
Insurance commissions	221,099	
	<u>13,311,484</u>	<u>7,935,498</u>
Expenses:		
Interest	3,697,291	3,764,774
Payroll and consulting fees	4,096,982	2,185,449
Electronic payment processing costs	4,481,074	2,100,986
Professional fees	1,738,822	994,609
Insurance	720,737	714,962
Provision for loan losses	100,762	104,681
Depreciation and amortization	1,089,395	290,321
Other	1,960,021	968,260
	<u>17,885,084</u>	<u>11,124,042</u>
Loss before minority interest and benefit for income taxes	(4,573,600)	(3,188,544)
Minority interest	259,857	300,314
	<u>(4,313,743)</u>	<u>(2,888,230)</u>
Benefit for income taxes	1,489,042	1,184,174
	<u>\$ (2,824,701)</u>	<u>\$ (1,704,056)</u>
Weighted average common shares outstanding		
Basic	33,892,252	26,471,248
Diluted	33,892,252	26,471,248
Net loss per share		
Basic	\$ (.08)	\$ (.06)
Diluted	\$ (.08)	\$ (.06)

See accompanying notes to these unaudited consolidated financial statements.

Table of Contents**NEWTEK BUSINESS SERVICES, INC., AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net loss	\$ (2,824,701)	(1,704,056)
Adjustments to reconcile net loss to net cash used in operating activities:		
Income from tax credits	(1,061,341)	(2,023,525)
Deferred income taxes	(1,555,502)	(1,184,174)
Depreciation and amortization	1,089,395	290,321
Provision for loan losses	100,762	104,681
SBA loans originated for sale	(8,850,505)	(8,111,992)
Proceeds from sale of SBA loans held for sale	5,656,583	9,449,200
Accretion of interest income	(40,352)	(43,904)
Accretion of interest expense	3,034,048	3,021,416
Stock compensation	413,991	261,588
Minority interest	(259,857)	(300,314)
Changes in assets and liabilities		
Prepaid insurance	660,979	(1,290,456)
Prepaid expenses, accounts receivable, receivable from bank and other assets	(7,697,701)	(1,345,423)
Accounts payable and accrued expenses	(2,451,997)	(162,715)
	<u> </u>	<u> </u>
Net cash used in operating activities	(13,786,198)	(3,039,353)
	<u> </u>	<u> </u>
Cash flows from investing activities:		
Investment in qualified businesses - held to maturity debt investments	(438,000)	
Return of investments held to maturity debt investments	337,911	136,122
Purchase of furniture, fixtures and equipment	(1,342,252)	(216,482)
SBA Loans originated for investment	(2,818,820)	(2,873,160)
Payments received on SBA loans	1,212,027	2,353,900
Other investments	(37,813)	(15,449)
	<u> </u>	<u> </u>
Net cash used in investing activities	(3,086,947)	(615,069)
	<u> </u>	<u> </u>

Table of Contents**NEWTEK BUSINESS SERVICES, INC., AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (CONTINUED)**

	<u>2005</u>	<u>2004</u>
Cash flows from financing activities:		
Proceeds from issuance of notes payable to certified investors	\$	\$ 10,895,850
Cash paid for Coverage A (Syndication of Notes)		(2,149,684)
Principal payments of note payable-insurance	(691,969)	(778,716)
Proceeds from note payable - other	8,000,000	
Repayments of note payable - other	(80,000)	(120,000)
Change in restricted cash	(220,752)	(573,209)
Net proceeds from SBA bank notes payable	7,239,605	3,651,980
Net proceeds from exercise of stock options		546,069
Net proceeds from issuance of common stock		1,301,592
	<u>14,246,884</u>	<u>12,773,882</u>
Net cash provided by financing activities		
	<u>14,246,884</u>	<u>12,773,882</u>
Net (decrease) increase in cash and cash equivalents	(2,626,261)	9,119,460
Cash and cash equivalents - beginning of period	50,921,982	33,444,611
	<u>50,921,982</u>	<u>33,444,611</u>
Cash and cash equivalents - end of period	<u>\$ 48,295,721</u>	<u>\$ 42,564,071</u>
	<u>\$ 48,295,721</u>	<u>\$ 42,564,071</u>
Supplemental disclosure of cash flow activities:		
Reduction of credits in lieu of cash and notes payable in credits in lieu of cash balances due to delivery of tax credits to Certified Investors	\$ 4,165,376	\$ 4,820,604
	<u>\$ 4,165,376</u>	<u>\$ 4,820,604</u>
Issuance of notes in partial payment for insurance	\$	\$ 3,000,000
	<u>\$</u>	<u>\$ 3,000,000</u>
Issuance of warrant in connection with purchase of Coverage A Insurance	\$	\$ 250,000
	<u>\$</u>	<u>\$ 250,000</u>