

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-2
REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

(Check appropriate box or boxes)
Pre-Effective Amendment No. 1
Post-Effective Amendment No.

NEWTEK BUSINESS SERVICES CORP.

(Exact name of Registrant as specified in charter)

212 West 35th Street, 2nd Floor
New York, NY 10001
(Address of Principal Executive Offices)

Registrant's telephone number, including Area Code: (212) 356-9500

Barry Sloane
Chief Executive Officer and President
Newtek Business Services, Inc.
212 West 35th Street, 2nd Floor
New York, NY 10001
(Name and address of agent for service)

COPIES TO:

Steven B. Boehm
John J. Mahon
Sutherland Asbill & Brennan LLP
700 Sixth Street NW, Suite 700
Washington, DC 20001
(202) 383-0100
Fax: (202) 637-3593

Thomas S. Gallagher
Laurence S. Markowitz
Baker & Hostetler LLP
45 Rockefeller Plaza
New York, New York 10111
(212) 589-4200
Fax: (212) 589-4201

Approximate date of proposed public offering: As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box):

when declared effective pursuant to section 8(c).

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock, \$0.02 par value per share	\$50,000,000	\$6,440

(1) Estimated pursuant to Rule 457(o) under the Securities Act of 1933 solely for the purpose of determining the registration fee.

(2) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED [•], 2013

PRELIMINARY PROSPECTUS



NEWTEK BUSINESS SERVICES CORP.

[•] Shares

Common Stock

\$ [•] per share

Newtek Business Services, Inc. is a leading national lender that also provides a wide range of business and financial products to small businesses. Prior to completion of this offering, Newtek Business Services, Inc. will merge with and into Newtek Business Services Corp., a Maryland corporation, and thereafter file an election to be regulated as a business development company under the Investment Company Act of 1940, as amended. After the completion of this offering, we intend to operate as an internally managed, non-diversified closed-end investment company and to elect to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code for U.S. federal income tax purposes.

As a business development company, our investment objective will be to generate both current income and capital appreciation primarily through loans originated by our small business finance platform and our equity investments in certain portfolio companies that we control.

We currently expect that the offering price per share of our common stock will be between \$[•] and \$[•]. Newtek Business Services, Inc.'s common shares are currently traded on the NASDAQ Capital Market under the symbol "NEWT," which symbol we intend to apply to transfer to Newtek Business Services Corp. After we elect to be regulated as a business development company, we expect that our net asset value per common share will be approximately \$3.10 (excluding the effect of the proposed reverse stock split and anticipated special dividend, as described herein). As of [•], 2013, the last reported sale price of our common shares on the NASDAQ Capital Market was \$[•].

In preparation for this offering, we intend to conduct a proxy solicitation and hold a special meeting of the existing shareholders of Newtek Business Services, Inc. in order to approve: (i) its merger with Newtek Business Services Corp. for the purpose of reincorporating from New York to Maryland; (ii) a reverse stock split; (iii) our ability to sell shares below our net asset value in one or more offerings, including in connection with this offering; and (iv) the adoption of an equity compensation plan. The disclosure in this prospectus assumes that Newtek Business Services, Inc.'s shareholders will approve each of these proposals.

This prospectus contains important information about us that a prospective investor should know before purchasing our common stock. Please read this prospectus before investing and keep it for future reference. Newtek Business Services, Inc. files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"), and after the completion of this offering, Newtek Business Services Corp. will continue filing such reports and information with the SEC. This information will be available free of charge by contacting us by mail at 212 West 35th Street, New York, New York 10001, by telephone at (212) 356-9500 or on our website at <http://www.thesba.com>. The SEC also maintains a website at <http://www.sec.gov> that contains such information. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

An investment in our common stock is subject to risks and involves a heightened risk of total loss of investment. Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. If our shares trade at a discount to our net asset value, it may increase the risk of loss for purchasers in this offering. In addition, the companies in which we invest are subject to their own risks. See "Risk Factors" beginning on page 21 to read about factors you should consider, including the risk of leverage, before investing in our common stock.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total(1)
Public Offering Price	\$	\$
Sales Load (Underwriting Discounts and Commissions)	\$	\$
Proceeds to Newtek Business Services Corp. (before expenses)(2)	\$	\$

(1) We have granted the underwriters a 30-day option, which we refer to as the overallotment option, to purchase up to an additional [•] shares of common stock at the public offering price, less underwriting discounts and commissions (sales load). If the overallotment option is exercised in full, the total public offering price will be \$ and the total underwriting discounts and commissions (sales load) will be \$.

(2) We estimate that we will incur approximately \$ [•] in offering expenses in connection with this offering.

The underwriters expect to deliver the shares on or about [•], 2013.

JMP Securities

Stifel

William Blair

The date of this prospectus is [•], 2013.

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information or to make representations as to matters not stated in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell, and seeking offers to buy, securities only in jurisdictions where offers and sales are permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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Until _____, 2013 (25 days after the date of this prospectus), federal securities laws may require all dealers that effect transactions in our common stock, whether or not participating in this offering, to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

SUMMARY

This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under “Risk Factors” and the other information included in this prospectus and the documents to which we have referred.

In connection with this offering, Newtek Business Services, Inc., including its subsidiaries and controlled portfolio companies, will merge with and into Newtek Business Services Corp., a newly-formed Maryland corporation, for the purpose of reincorporating in Maryland. Except where the context suggests otherwise, the terms “we,” “us,” “our,” “Company” and “Newtek” refer to Newtek Business Services, Inc. and its successor, Newtek Business Services Corp.

In preparation for this offering, at a special meeting held on [], 2013 and pursuant to a proxy solicitation conducted by us, Newtek Business Services, Inc.’s existing shareholders have been asked to approve: (i) its merger with Newtek Business Services Corp. for the purpose of reincorporating from New York to Maryland; (ii) a reverse stock split, or the “Reverse Stock Split”; (iii) our ability to sell shares below our net asset value in one or more offerings, including in connection with this offering; and (iv) the adoption of an equity compensation plan. The historical financial results included in this prospectus do not account for the Reverse Stock Split.

We consider small- and medium-sized businesses, which we refer to herein as “SMBs,” as companies having revenues between \$1 to \$100 million.

Unless otherwise noted, the information contained in this prospectus assumes that the underwriters’ overallotment option is not exercised.

Our Business

We are a leading national lender and own and control certain portfolio companies (our “controlled portfolio companies,” as defined below) that provide a wide range of business and financial products to SMBs. In particular, we and our controlled portfolio companies provide comprehensive lending, payment processing, managed technology, personal and commercial insurance and payroll solutions to over 100,000 SMB accounts, across all industries. We have an established and reliable platform that is not limited by client size, industry type or location. As a result, we have a strong and diversified client base across every state in the U.S and across a variety of different industries. In addition, we have developed a financial and technology based business model that enables us and our controlled portfolio companies to acquire and process our SMB clients in a very cost effective manner. This capability is supported in large part by NewTracker®, our patented prospect management technology software. We believe that this technology and business model distinguishes us from our competitors.

We and our controlled portfolio companies operate as an integrated operational business with internal management. As a business development company, we will be internally managed and focus on serving the SMB market, which we estimate to be over 27 million businesses in the U.S. These businesses have historically been underserved by traditional financial institutions and typically lack the capital resources to build a competitive business and marketing infrastructure on their own. Further, in today’s economic climate, SMBs have particular difficulty obtaining capital from traditional lending sources. While we do not compete directly with alternative online lenders such as OnDeck Capital, Inc. and Kabbage Inc., we do provide similar financing solutions as an alternative to traditional lending. We believe there is significant demand for such alternative financing among SMBs. Our lending solutions and our controlled portfolio companies’ outsourced business solutions help clients manage and grow their businesses and compete effectively in today’s marketplace. We obtain our customers through referrals from various business partners, such as banks, credit unions and other affinity groups, as well as

through our own direct sales force and advertising campaigns. We source, acquire and process SMB customers in a cost effective manner without reliance on high cost sales staff and time consuming application processes.

In lending, we believe we are a leading capital provider to SMBs based on our loan volume of more than \$600 million through approximately 1,100 transactions since 2003 and we are currently the largest non-financial institution U.S. Small Business Administration (“SBA”) licensed lender under the federal Section 7(a) loan program based on annual origination volume. We originate loans through a variety of sourcing channels and, through a rigorous underwriting process, seek to achieve attractive risk-weighted returns. Our multi-faceted relationships with certain borrowers allows us to closely monitor their credit profile and take an active role in managing our investment. Further, our lending capabilities coupled with the broad outsourced business solutions of our controlled portfolio companies creates attractive cross-selling opportunities within our client base. We believe our business model creates powerful network effects which will help drive growth and operating leverage in our business. In addition, our SBA loans are structured so that the government guaranteed portion can be rapidly sold, which, based on our historic ability to securitize the unguaranteed portions and assuming the continuation of current market conditions, allows us to quickly recover our principal and earn excess capital on each loan, usually in less than a year. We may in the future determine to retain the government guaranteed or unguaranteed portions of loans pending deployment of excess capital.

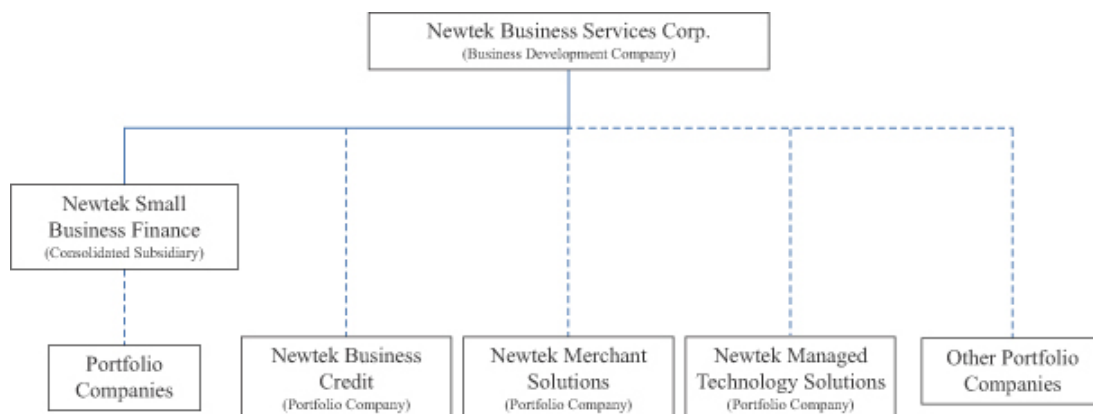
Our proprietary and patented technology platform which we make available to our controlled portfolio companies enables them to provide our clients with a real-time management solution that organizes all of a business’s critical transaction and economic, eCommerce and website traffic data on a smartphone, tablet, laptop or personal computer. This technology provides critical consumer and marketing intelligence, including data mining, and provides a range of differentiated solutions and analytical tools that may be easily customized and integrated within their clients’ existing business processes. It also provides clients with seamless connectivity to a payment and managed technology infrastructure that is secure, fully compliant and regularly updated with the latest capabilities, services and functionalities. The platform is highly scalable to facilitate growth and meet the needs of new clients and consists solely of cloud-based offerings.

For the years 2010, 2011 and 2012 and the nine months ended September 30, 2013, our revenue was \$112.7 million, \$125.3 million, \$131.1 million and \$105.9 million, respectively. In the same periods, our net income attributable to Newtek Business Services, Inc. was \$1.4 million, \$3.3 million, \$5.6 million and \$5.1 million, respectively.

New Business Structure

We intend to file an election to be regulated as a BDC under the 1940 Act prior to the completion of this offering, and we intend to operate subsequently as an internally managed, non-diversified closed-end investment company. We also intend to elect to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code (the “Code”) for U.S. federal income tax purposes.

Set forth below is a diagram of our organizational structure following this offering:



We intend to use the net proceeds of this offering primarily to expand our SMB lending, make direct investments in portfolio companies in accordance with our investment objective and strategies described in this prospectus and for general corporate purposes. We believe that transitioning to a BDC and RIC will provide us with access to lower-cost capital and a business structure conducive to expanding our lending activities and will assist in maximizing our value to shareholders by, among other things, permitting us to value our assets and controlled portfolio companies at fair value. As a BDC, we will seek to generate both current income and capital appreciation primarily through loans originated by our small business finance platform and our equity investments in certain portfolio companies that we control. While our primary investment focus as a BDC will be making loans and providing business services to the SMB market through our controlled portfolio companies, we may also make opportunistic investments in larger or smaller companies. We expect to continue to grow our business organically, both directly and through our controlled portfolio companies, as we have historically. We expect to have the ability to increase our quarterly distributions to our stockholders over time as we invest the proceeds of this offering and increase the size of our investment portfolio. Our transition to a BDC and RIC will have certain consequences on our balance sheet and net asset value. See “Selected Financial and Other Data” and “Capitalization.”

Small Business Finance

Our debt portfolio consists of loans that were made through our small business finance platform, comprised of Newtek Small Business Finance, Inc. (“NSBF”), a nationally licensed SBA lender, and CDS Business Services, Inc. d/b/a Newtek Business Credit (“CDS”). NSBF originates, sells and services loans to qualifying SMBs, which are partially guaranteed by the SBA. The small business finance platform also consists of CDS, a portfolio company, which provides receivables financing and management services to SMBs which may obtain \$10,000 to \$2,000,000 per month through the sale of their trade receivables. In addition, CDS offers back office receivables services for SMBs, such as billing and cash collections. An additional wholly-owned portfolio company, Small Business Lending, Inc., engages in third party loan servicing for SBA and non-SBA loans.

As a BDC, we plan to expand our small business finance platform primarily by making senior secured loans through NSBF. NSBF is one of 14 SBA licensed Small Business Lending Corporations that provide loans nationwide under the federal Section 7(a) loan program (“SBA 7(a) loans”). NSBF has received preferred lender program (“PLP”) status, a designation whereby the SBA authorizes the most experienced SBA lenders to place SBA guarantees on loans without seeking prior SBA review and approval. PLP status allows NSBF to serve its clients in an expedited manner since it is not required to present applications to the SBA for concurrent review and approval. We believe our SBA license, combined with our PLP designation,

provides us with a distinct competitive advantage over other SMB lenders that have not overcome these significant barriers-to-entry in our primary loan market. NSBF has historically originated in excess of \$110 million of SBA 7(a) loans annually and currently manages a portfolio of approximately \$509 million of SBA 7(a) loans, which as of October 31, 2013 includes \$576 million of SBA 7(a) loans that NSBF services on behalf of third parties. NSBF anticipates originating approximately \$175 million of SBA 7(a) loans during 2013 and to select these loans from the large volume of loan proposals we annually receive; in 2012 we received proposals totaling \$2.5 billion and expect to receive double that in 2013. In November 2013, we entered into a Letter of Commitment with Goldman Sachs Bank USA for a new credit facility of \$75 million to be used to support this lending. We believe that we will continue to be introduced to a variety of high-quality investment opportunities through our existing loan sourcing channels and our controlled portfolio companies' relationships with their clients, and that our transition to a BDC will help fuel the growth of our loan portfolio by providing us with better access to lower-cost capital.

The SBA is an independent government agency that facilitates one of the nation's largest source of SMB financing by providing credit guarantees for its loan programs. Under the SBA's 7(a) lending program, a bank or other lender such as NSBF underwrites a loan between \$50,000 and \$5 million for a variety of general business purposes based on the SBA's guidelines and the SBA provides a partial guarantee on the loan. Depending on the loan size, the SBA typically guarantees between 75% and 85% of the principal and interest due. The recoveries and expenses on the unguaranteed portions of these loans are shared *pari passu* between the SBA and the lender, which substantially reduces the loss severity on the unguaranteed portion of a loan for all SBA 7(a) loan investors. SBA 7(a) loans are typically between five and 25 years in maturity, are four to five years in duration and bear interest at the prime rate plus a spread from 2.25% to 2.75%. Since the guaranteed portions of SBA 7(a) loans carry the full faith and credit of the U.S. government, lenders may, and frequently do, sell the guaranteed portion of SBA 7(a) loans in the capital markets, hold the unguaranteed portion and retain all loan servicing rights.

NSBF has a dedicated capital markets team that sells or securitizes the guaranteed and the unguaranteed portions of its SBA 7(a) loans. Historically, NSBF has sold the guaranteed portion of its originated SBA 7(a) loans within two weeks of origination and retained the unguaranteed portion until accumulating sufficient loans for a securitization. The SBA-guaranteed portions of SBA 7(a) loans have historically traded at a premium ranging from 110% to 120% of par value and have never traded below par value. Since inception, NSBF has sold approximately \$412 million of the SBA guaranteed portions of SBA 7(a) loans at premiums ranging from 106% to 120% of par value and typically any portion of the premium that was above 110% of par value was shared equally between NSBF and the SBA. In December 2010, NSBF launched its securitization program for unguaranteed portions of its SBA 7(a) loans and has successfully completed three securitization transactions with Standard & Poor's AA and A ratings and attractive advance rates of approximately 70% of par value. NSBF intends to do additional securitizations in the future which may be on comparable although not necessarily identical terms and conditions. We may determine to retain the government guaranteed or unguaranteed portions of loans pending deployment of excess capital.

NSBF's senior lending team has focused on making smaller loans, approximately \$1 million or less, in order to maintain a diversified pool of loans that are dispersed both geographically and among industries, which limits NSBF's exposure to regional and industry-specific economic downturns. Specifically, NSBF's current loan portfolio consists of 620 loans originated across 43 states in 68 different industries as defined by the North American Industry Classification System. The following charts summarize NSBF's mix of investment concentrations by industry and geography as of September 30, 2013.

<u>Industry Type</u>	<u>Number of Loans</u>	<u>Aggregate Balance (\$'000)</u>	<u>Average Balance (\$'000)</u>	<u>Percentage of Balance</u>
Food Services and Drinking Places	65	6,857	105	7.87%
Amusement, Gambling, and Recreation Industries	32	5,336	167	6.13%
Ambulatory Health Care Services	69	5,142	75	5.90%

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Industry Type	Number of Loans	Aggregate Balance (\$'000)	Average Balance (\$'000)	Percentage of Balance
Fabricated Metal Product Manufacturing	18	4,876	271	5.60%
Truck Transportation	13	4,114	316	4.72%
Professional, Scientific, and Technical Services	33	4,464	135	5.13%
Merchant Wholesalers, Durable Goods	17	3,900	229	4.48%
Repair and Maintenance	32	3,215	100	3.69%
Gasoline Stations	12	3,196	266	3.67%
Food Manufacturing	13	3,035	233	3.49%
Other	339	42,957	127	49.32%
Total	643	\$ 87,092	\$ 135	100.00%

State	Number of Loans	Aggregate Balance (\$'000)	Average Balance (\$'000)	Percentage of Balance
NY	89	\$10,606	\$119	12.18%
FL	76	8,388	110	9.63%
TX	38	6,232	164	7.16%
CA	43	5,991	139	6.88%
GA	28	5,902	211	6.78%
NJ	43	5,883	137	6.75%
CT	35	5,691	163	6.53%
PA	31	5,399	174	6.20%
LA	16	2,811	176	3.23%
OH	15	2,577	172	2.96%
Other	229	27,612	6,236	31.70%
Total	643	\$87,092	\$135	100.0%

NSBF evaluates the credit quality of its loan portfolio by employing a risk rating system that is similar to the Uniform Classification System, which is the asset classification system adopted by the Federal Financial Institution Examinations Council. NSBF's risk rating system is granular with multiple risk ratings in both the Acceptable and Substandard categories. Assignment of the ratings are predicated upon numerous factors, including credit risk scores, collateral type, loan to value ratios, industry, financial health of the business, payment history, other internal metrics/analysis, and qualitative assessments. Risk ratings are refreshed as appropriate based upon considerations such as market conditions, loan characteristics, and portfolio trends. NSBF's gross SBA loans by credit quality indicator are as follows:

Risk Rating	Count	Aggregate Balance (\$'000)	Average Balance (\$'000)	Percentage of Balance
Risk Rating 1-4	563	\$ 79,085	\$ 140	90.81%
Risk Rating 5	16	1,867	1,167	2.14%
Risk Rating 6	42	3,304	79	3.79%
Risk Rating 6/7 and 7	22	2,836	129	3.26%
Total	643	\$ 87,092	\$ 135	100.00%

The weighted average term to maturity and weighted average interest rate of NSBF's loan portfolio as of September 30, 2013 was 178 months and 6.0%, respectively.

As a BDC, using the origination platform and borrower relationships that we have developed over ten years and our experience and knowledge with SBA 7(a) lending, we intend to develop a conventional lending platform that will

be similar to the SBA 7(a) lending program in terms of high credit quality and rigorous underwriting, but without the SBA's guarantee. To compensate for the lack of the SBA's guarantee, we intend to charge higher, double-digit interest rates on our loans. By leveraging our infrastructure in this way, we believe we will be able to grow our lending business at a faster rate than we have done historically and potentially provide better returns to our shareholders.

Controlled Portfolio Companies

In addition to our debt investments in portfolio companies, either directly or through our small business finance platform, we also hold controlling interests in certain portfolio companies that, as of September 30, 2013, represented approximately 50% of our total investment portfolio on a pro forma fair value basis. Specifically, we hold a controlling interest in Universal Processing Services of Wisconsin, LLC, d/b/a Newtek Merchant Solutions ("NMS"), CrystalTech Web Hosting, Inc. d/b/a/ Newtek Managed Technology Solutions® ("NTS"), CDS Business Services, Inc. ("CDS") and Newtek Insurance Agency, LLC ("NIA"). In addition, one of our subsidiaries holds a controlling interest in PMTWorks Payroll, LLC, d/b/a Newtek Payroll Services ("NPS"). We refer to these entities, collectively, as our "controlled portfolio companies." Our controlled portfolio companies provide us with an extensive network of business relationships that supplement our referral sources and that we believe will help us to maintain a robust pipeline of lending opportunities and expand our small business finance platform.

- NMS, our "Electronic payment processing" segment, markets credit and debit card processing services, check approval services and ancillary processing equipment and software to merchants who accept credit cards, debit cards, checks and other non-cash forms of payment. As of September 30, 2013, NMS provided services to approximately 14,500 merchants. NMS's merchant base consists of both eCommerce and brick-and-mortar clients and is principally focused on the SMB market, a segment that offers relatively attractive pricing margins and has been difficult for competitors to penetrate. For the nine months ended September 30, 2013, NMS, on a segment basis, generated \$67.3 million of revenue and \$6.2 million of income before income taxes and for the year ended December 31, 2012, it generated \$85.5 million of revenue and \$7.0 million of income before income taxes.
- NTS, our "Managed technology solutions" segment, provides website hosting, dedicated server hosting, cloud hosting, web design and development, internet marketing, e-commerce, data storage and backup, and other related services to more than 132,000 customer accounts in 120 countries. For the nine months ended September 30, 2013, NTS generated \$13.4 million of revenue and \$2.8 million of income before income taxes and for the year ended December 31, 2012, it generated \$18.2 million of revenue and \$4.3 million of income before income taxes.
- NIA serves as a retail and wholesale agency specializing in the sale of commercial and health/benefits lines insurance products to the SMB market as well as various personal lines of insurance. It is licensed in all 50 states.
- NPS offers an array of industry standard and competitively priced payroll management, payment and tax reporting services to SMBs.
- CDS, which does business as Newtek Business Credit ("NBC") and is a portion of our small business finance segment, offers traditional factoring and receivables purchase services to SMBs as well as back office services such as billing and cash collections.

Our controlled portfolio companies combined with our lending platform provide us with a network of business relationships that allows to cross-sell our financing options and further establishes us as a "one-stop-shop" for SMBs.

The revenues that our controlled portfolio companies generate, after deducting operational expenses, may be distributed to us. As a BDC, our board of directors will determine quarterly the fair value of our controlled portfolio companies in a similar manner as our other investments. In particular, our investments in our controlled portfolio companies are valued using a valuation methodology that incorporates both the market approach (public comparable

company analysis) and the income approach (discounted cash flow analysis). In following these approaches, factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading comparables, the portfolio company's earnings and discounted cash flows, comparisons of financial ratios of peer companies that are public, and enterprise values, among other factors. In addition, the Company has engaged a third party valuation firm to provide valuation consulting services for the valuation of Newtek Merchant Solutions and Newtek Managed Technology Solutions.

As of June 30, 2013, our estimated valuation of Newtek Merchant Solutions was approximately \$45 million, which represents an enterprise value to LTM EBITDA multiple of 4.75x, and our estimated valuation of Newtek Managed Technology Solutions was approximately \$22.5 million, which represents an enterprise value to LTM EBITDA multiple of 3.75x. Such valuations and multiples reflect our current estimates and final valuations will be determined by our board of directors.

Newtek Branding

We have developed our branded line of products and services to offer a full service suite of business and financial solutions for the SMB market. Newtek reaches potential customers through its integrated multi-channel approach featuring direct, indirect and direct outbound solicitation efforts. Although we continue to utilize and grow our primary marketing channel of strategic alliance partners, more recently, and consistent with our intent to elect to be regulated as a BDC, we have initiated a direct marketing strategy to SMB customers through our new "go to market" brand, *The Small Business Authority*[®]. Through a coordinated radio and television advertising campaign built around this brand, and our web presence, www.thesba.com, we are establishing ourselves as a preferred provider of SMB financing and the services offered by our controlled portfolio companies. In addition, we supplement these efforts with extensive efforts to present the Company as the real authority on small businesses. We have developed the SB Authority Index[®], a proprietary, multi-dimensional index of small business activity which we prepare and release monthly and which has appeared in numerous media outlets. We also conduct a Market Sentiment Survey each month on a topic which is or should be of vital concern to the SMB market and release these results each month. Finally, we are an approved contributor to the Forbes.com website and we frequently post content relevant to the SMB and wider business markets and our Chief Executive Officer is a frequent guest on various business related TV programs on the Fox, Fox Business News, CNN, CNBC and MSNBC networks.

We market services through referrals from our strategic alliance partners such as AIG, Credit Union National Association, EInsure, ENT Federal Credit Union, General Motors Minority Dealers Association, Iberia Bank, Legacy Bank, Morgan Stanley Smith Barney, Navy Federal Credit Union, New York Community Bank, Pershing, Sterling National Bank and UBS Bank, among others, (using our patented NewTracker[®] referral management system) as well as direct referrals from our new web presence, www.thesba.com. Our NewTracker[®] referral system has a software application patent covering the systems and methods for tracking, reporting and performing processing activities and transactions in association with referral data and related information for a variety of product and service offerings in a business to business environment. This provides for security and transparency between referring parties and has been material in our ability to obtain referrals from a wide variety of sources. This patented system allows us and our alliance partners to review in real time the status of any referral as well as to provide real time compliance oversight by the respective alliance partner, which we believe creates confidence among the referred business client, the referring alliance partner and us. We own the NewTracker[®] patent, as well as all trademarks and other patented intellectual property used by us or our controlled portfolio companies.

Additional referrals are obtained from individual professionals in geographic markets that have signed up to provide referrals and earn commissions through our BizExec and TechExec Programs. These individuals are traditionally information technology professionals, CPAs, independent insurance agents and sales and/or marketing professionals. In addition, electronic payment processing services are marketed through independent

sales representatives and web technology and ecommerce services are marketed through internet-based marketing and third-party resellers. A common thread across all our business lines and of our controlled portfolio companies relates to acquiring customers at low cost and making strategic alliances primarily where we only pay fees for successful referrals. We seek to bundle our marketing efforts through our brand, our portal, our patented NewTracker® referral system, our new web presence as *The Small Business Authority*® and one easy entry point of contact. We expect that this approach will allow us to continue to cross-sell the financing services of our small business finance platform to customers of our controlled portfolio companies and build upon our extensive deal sourcing infrastructure. The compensation which we pay for referrals is consistent with industry practices.

Senior Lending Team and Executive Committee

The key members of our senior lending team, which includes Barry Sloane, Peter Downs, John Cox, David Leone, Gail Johnstone and Matthew G. Ash (our “senior lending team”), have worked together for more than 10 years, and each have over 25 years of experience in finance-related fields. In particular, they have originated over \$600 million of SBA 7(a) loans over the past ten years and currently manage a portfolio of approximately \$509 million of SBA 7(a) loans, which as of October 31, 2013 includes \$576 million of SBA 7(a) loans serviced on behalf of third parties. These investment professionals have worked together, screening opportunities, underwriting new investments in, and managing a portfolio of, investments in SMBs through two recessions, a credit crunch, the dot-com boom and bust and a historic, leverage-fueled asset valuation bubble. Each member brings a complementary component to a team well-rounded in finance, accounting, operations, strategy, business law and executive management.

Because we will be internally managed by our executive officers, which include Barry Sloane, Craig J. Brunet, Jennifer C. Eddelson and Matthew G. Ash (our “executive committee”), under the supervision of our board of directors, and will not depend on a third party investment advisor, we will not pay investment advisory fees and all of our income will be available to pay our operating costs and to make distributions to our stockholders. Our executive committee will also oversee our controlled portfolio companies and, to the extent that we may make additional equity investments in the future, the executive committee will also have primary responsibility for the identification, screening, review and completion of such investments. We do not expect to focus our resources on investing in additional stand-alone equity investments, but may elect to do so from time to time on an opportunistic basis. Messrs. Sloane, Brunet and Ash have been involved together in the structuring and management of equity investments for the past ten years.

Market Opportunity

We believe that the limited amount of capital and financial products available to SMBs, coupled with the desire of these companies for flexible and partnership-oriented sources of capital and other financial products, creates an attractive investment environment for us to further expand our small business finance platform and overall brand. We believe the following factors will continue to provide us with opportunities to grow and deliver attractive returns to stockholders.

The SMB market represents a large, underserved market. We estimate the SMB market to include over 27 million businesses in the U.S. We believe that SMBs, most of which are privately-held, are relatively underserved by traditional capital providers such as commercial banks, finance companies, hedge funds and collateralized loan obligation funds. Further, we believe that such companies generally possess conservative capital structures with significant enterprise value cushions, as compared to larger companies with more financing options. While the largest originators of SBA 7(a) loans have traditionally been regional and national banks, during 2012 and the first nine months of 2013, NSBF was the largest, independent non-bank originator of SBA 7(a) loans by dollar volume. As a result, we believe we are well positioned to provide financing to the types of SMBs that we have historically targeted and we have the technology and infrastructure to do it cost effectively in all 50 states and across many industries.

Recent credit market dislocation for SMBs has created an opportunity for attractive risk-weighted returns. We believe the credit crisis that began in 2007 and the subsequent exit of traditional capital sources, such as commercial banks, finance companies, hedge funds and collateralized loan obligation funds, has resulted in an increase in opportunities for alternative funding sources such as our SMB lending platform. We believe that the reduced competition in our market and an increased opportunity for attractive risk-weighted returns positions us well for future growth. The remaining lenders and investors in the current environment are requiring lower amounts of senior and total leverage, increased equity commitments and more comprehensive covenant packages than was customary in the years leading up to the credit crisis. We do not expect a reversal of these conditions in the foreseeable future.

Future refinancing activity is expected to create additional investment opportunities. A high volume of financings completed between 2005 and 2008 will mature in the coming years. We believe this supply of opportunities coupled with limited financing providers focused on SMBs will continue to offer investment opportunities with attractive risk-weighted returns.

The increased capital requirements and other regulations placed on banks will reduce lending by traditional large financial institutions and community banks. While many SMBs were previously able to raise debt financing through traditional large financial institutions, we believe this approach to financing will continue to be constrained for several years as implementation of U.S. and international financial reforms, such as Basel III, phase in and rules and regulations are promulgated under the Dodd-Frank Act. We believe that these regulations will increase capital requirements and have the effect of further limiting the capacity of traditional financial institutions to hold non-investment grade loans on their balance sheets. As a result, we believe that many of these financial institutions have de-emphasized their service and product offerings to SMBs, which we believe will make a higher volume of deal flow available to us.

Increased demand for comprehensive, business-critical SMB solutions. Increased competition and rapid technological innovation are creating an increasingly competitive business environment that requires SMBs to fundamentally change the way they manage critical business processes. This environment is characterized by greater focus on increased quality, lower costs, faster turnaround and heightened regulatory scrutiny. To make necessary changes and adequately address these needs, companies are focusing on their core competencies and utilizing cost-effective outsourced solutions to improve productivity, lower costs and manage operations more efficiently. Our controlled portfolio companies provide critical business solutions such as electronic payment processing, managed IT solutions, personal and commercial insurance services and full-service payroll solutions. We believe that each of these market segments are underserved for SMBs and since we are able to provide comprehensive solutions under one platform, we are well positioned to continue to realize growth from these product offerings.

Competitive Advantages

We believe that we are well positioned to take advantage of investment opportunities in SMBs due to the following competitive advantages:

- **Internally Managed Structure and Significant Management Resources.** We are internally managed by our executive officers under the supervision of our board of directors and do not depend on an external investment advisor. As a result, we do not pay investment advisory fees and all of our income is available to pay our operating costs, which include employing investment and portfolio management professionals, and to make distributions to our stockholders. We believe that our internally managed structure provides us with a lower cost operating expense structure, when compared to other publicly traded and privately-held investment firms which are externally managed, and allows us the opportunity to leverage our non-interest operating expenses as we grow our investment portfolio. Our senior lending team has developed one of the largest independent loan origination and servicing platforms that focuses exclusively on SMBs.

- **Business Model Enables Attractive Risk-Weighted Return on Investment in SBA Lending.** Our loans are structured so as to permit rapid sale of the U.S. government guaranteed portions, often within weeks of origination, and the unguaranteed portions have been successfully securitized and sold, usually within a year of origination. The return of principal and premium may result in a very advantageous risk-weighted return on our original investment in each loan. We may determine to retain the government guaranteed or unguaranteed portions of loans pending deployment of excess capital.
- **State of the Art Technology.** Our patented NewTracker® software enables us to board a SMB customer, process the application or inquiry, assemble necessary documents, complete the transaction and create a daily reporting system that is sufficiently unique as to receive a U.S. patent. This system enables us to identify a transaction, similar to a merchandise barcode or the customer management system used by Salesforce.com, then process the business transaction and generate internal reports used by management and external reports for strategic referral partners. It allows our referral partners to have digital access into our back office and follow on a real time, 24/7 basis the processing of their referred customers. This technology has been made applicable to all of the service and product offerings we make directly or through our controlled portfolio companies.
- **Established Direct Origination Platform with Extensive Deal Sourcing Infrastructure.** We have established a direct origination pipeline for investment opportunities without the necessity for investment banks or brokers as well as broad marketing channels that allow for highly selective underwriting. The combination of our brand, our portal, our patented NewTracker® technology, and our new web presence as *The Small Business Authority*® have created an extensive deal sourcing infrastructure. Although we pay fees for loan originations that are referred to us by our alliance partners, our non-commissioned investment team works directly with the borrower to assemble and underwrite loans. We rarely invest in pre-assembled loans that are sold by investment banks or brokers. As a result, we believe that our unique national origination platform allows us to originate attractive credits at a low cost. For example, in 2012 our small business finance platform reviewed over \$2.5 billion in investment opportunities of which we funded approximately 2% of the loans; we expect to review double that amount in 2013. We anticipate that our principal source of investment opportunities will continue to be in the same types of SMBs to which we currently provide financing. Our executive committee and senior lending team will also seek to leverage their extensive network of additional referral sources, including law firms, accounting firms, financial, operational and strategic consultants and financial institutions, with whom we have completed investments. Our current infrastructure and expansive relationships should continue to enable us to review a significant amount of high quality, direct (or non-brokered) investment opportunities.
- **Experienced Senior Lending Team with Proven Track Record.** We believe that our senior lending team is one of the leading capital providers to SMBs. Since we acquired NSBF in 2003 through September 30, 2013, NSBF has invested in excess of \$676 million in 1,182 transactions. We intend to use the net proceeds of this offering primarily to expand the financing activities of NSBF, our small business finance platform. Our senior lending team has expertise in managing the SBA process and has managed a diverse portfolio of investments with a broad geographic and industry mix. While our primary focus after the completion of this offering will be to expand the debt financing activities of NSBF in SBA 7(a) loans, our executive committee also has substantial experience in making debt and equity investments through our Capcos. Since 1999 through September 30, 2013 the Capcos have invested an aggregate of \$164 million in 184 transactions.
- **Flexible, Customized Financing Solutions for Seasoned, Smaller Businesses.** While our primary focus as a BDC will be to expand NSBF's lending by providing SBA 7(a) loans to SMBs, we will also seek to offer SMBs a variety of attractive financing structures, as well as cost effective and efficient business services, to meet their capital needs through our subsidiaries and controlled portfolio companies. In particular, we expect to offer larger loans, between \$5-\$10 million each, than available

with the SBA guarantee, but with a higher interest rate to compensate for the increased risk. Unlike many of our competitors, we believe we have the platform to provide a complete package of service and financing options for SMBs, which allows for cross-selling opportunities and improved client retention. We expect that a large portion of our capital will be loaned to companies that need growth capital, acquisition financing or funding to recapitalize or refinance existing debt facilities. Our lending will continue to focus on making loans to SMBs that:

- ; have 3 to 10 years of operational history;
- ; significant experience in management;
- ; credit worthy owners who provide a personal guarantee for our investment;
- ; show a strong balance sheet to collateralize our investments; and
- ; show sufficient cash flow to be able to service the payments on our investments comfortably.

We generally seek to avoid investing in high-risk, early-stage enterprises that are only beginning to develop their market share or build their management and operational infrastructure with limited collateral.

- ***Disciplined Underwriting Policies and Rigorous Portfolio Management.*** We pursue rigorous due diligence of all prospective investments originated through our platform. Our senior lending team has developed an extensive underwriting due diligence process, which includes a review of the operational, financial, legal and industry performance and outlook for the prospective investment, including quantitative and qualitative stress tests, review of industry data and consultation with outside experts regarding the creditworthiness of the borrower. These processes continue during the portfolio monitoring process, when we will conduct field examinations, review all compliance certificates and covenants and regularly assess the financial and business conditions and prospects of portfolio companies. We are also a Standard & Poor's rated servicer for commercial loans and our exceptional servicing capabilities with a compact timeline for loan resolutions and dispositions has attracted various third-party portfolios. For example, since the banking crisis in 2009, NSBF has been the sole servicer on behalf of the Federal Deposit Insurance Corporation ("FDIC") for its portfolio of approximately \$510 million in SBA 7(a) loans from institutions taken over by the FDIC. NSBF also services a portfolio of approximately \$117 million of SBA 7(a) loans for several commercial banks.

Business Development Company Conversion

On [], 2013, we effectuated the 1-for-[] Reverse Stock Split. Prior to the completion of this offering, we intend to merge with and into Newtek Business Services Corp., a newly-formed Maryland corporation, for the purpose of reincorporating in Maryland. Concurrently, we intend to elect to be regulated as a BDC under the 1940 Act. We refer to the foregoing actions, collectively, as the "BDC Conversion." In connection with the BDC Conversion, we anticipate our board of directors will declare a special dividend of \$[] per share, which may be paid all in cash or partially in cash and partially in our common shares, with such composition to be determined by our board of directors. Immediately following the BDC Conversion, we expect that our net asset value per common share will be approximately \$3.10 (excluding the effect of the proposed reverse stock split and anticipated special dividend). In addition, we expect our quarterly distributions during our first full year of operations as a BDC to be at an annual rate equal to approximately 9%-10% of our estimated net asset value.

As a BDC, we will be required to meet regulatory tests, including the requirement to invest at least 70% of our gross assets in "qualifying assets." Qualifying assets generally include debt or equity securities of private or thinly traded public U.S. companies and cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, as a BDC, we will not be permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our total assets). See "Regulation as a Business Development Company."

In connection with our election to be regulated as a BDC, we intend to elect to be treated for U.S. federal income tax purposes, and intend to qualify annually, as a RIC under Subchapter M of the Code. As a RIC, we generally will not have to pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders. To obtain and maintain our RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See “Price Range of Common Stock and Distributions” and “Material U.S. Federal Income Tax Considerations.”

Summary Risk Factors

The value of our assets, as well as the market price of our shares, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. Investing in Newtek involves other risks, including the following:

- Throughout our 15 year history we have never operated as a BDC.
- We are dependent upon our senior lending team and our executive committee for our future success and if we are unable to hire and retain qualified personnel or if we lose any member of our senior lending team or our executive committee, our ability to achieve our investment objective could be significantly harmed.
- We operate in a highly competitive market for investment opportunities.
- Our portfolio may lack company diversification, which may subject us to a risk of significant loss if one or more of these companies defaults on its obligations under any of its debt instruments.
- Our portfolio may be concentrated in a limited number of industries, which may subject us to a risk of significant loss if there is a downturn in a particular industry in which a number of our investments are concentrated.
- Investing in SMBs involves a high degree of risk and our financial results may be affected adversely if one or more of our significant portfolio investments defaults on its loans or fails to perform as we expect.
- The lack of liquidity in our investments may adversely affect our business.
- An extended disruption in the capital markets and the credit markets could impair our ability to raise capital and negatively affect our business.
- We may borrow money, which would magnify the potential for loss on amounts invested and may increase the risk of investing in us.
- As a BDC, the necessity of raising additional capital may expose us to risks, including the typical risks associated with leverage as well as the inability to raise such funds when needed.
- There will be uncertainty as to the value of our portfolio investments.
- We may experience fluctuations in our quarterly and annual results.
- We will be subject to corporate-level income tax on all of our income if we are unable to qualify as a RIC under the Code, which would have a material adverse effect on our financial performance.
- Regulations governing our operation as a BDC will affect our ability to raise additional capital and the way in which we do so.
- The market price of shares of our common stock may decline below our net asset value per share.
- Our common stock price may be volatile and may decrease substantially.

- We may not be able to pay you distributions, our distributions may not grow over time and a portion of our distributions may be a return of capital.
- We recently identified material weaknesses in our internal control over financial reporting. Future internal control deficiencies could impact the accuracy of our financial results or prevent the detection of fraud.
- Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

See “Risk Factors” beginning on page 21, and the other information included in this prospectus, for additional discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

Our Corporate Information

Our principal executive offices are located at 212 West 35th Street, 2nd Floor, New York, New York 10001, our telephone number is (212) 356-9500 and our website may be found at <http://www.thesba.com>. Information contained in our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

THE OFFERING

Common Stock Offered by Us	[•] shares (or [•] shares if the underwriters exercise their over-allotment option in full).
Common Stock to be Outstanding After this Offering	[•] shares (or [•] shares if the underwriters exercise their over-allotment option in full).
Use of Proceeds	<p>Our net proceeds from this offering will be approximately \$[•] (or approximately \$[•] million if the underwriters exercise their over-allotment option in full), assuming a public offering price of \$[•] per share (the closing price of our shares on [•], 2013).</p> <p>We intend to use the net proceeds of this offering to expand the financing activities of NSBF, make direct investments in portfolio companies (including, from time to time, acquiring controlling interests in portfolio companies) in accordance with our investment objective and strategies described in this prospectus and for general corporate purposes. We will also pay operating expenses and may pay other expenses, such as due diligence expenses of potential new investments, from the net proceeds of this offering.</p> <p>Pending such use, we will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities and other high-quality temporary investments that mature in one year or less from the date of investment. See “Use of Proceeds.”</p>
NASDAQ Capital Market symbol	“NEWT”
Distributions	<p>To the extent that we have income available, we intend to make quarterly distributions to our stockholders out of assets legally available for distribution. Our quarterly distributions, if any, will be determined by our board of directors. We expect our quarterly distributions during our first full year of operations as a BDC to be at an annual rate equal to approximately 9%-10% of our estimated net asset value. Our first quarterly distribution after this offering, which will be payable for the [] quarter of 20[], is expected to be approximately \$[] per share. The actual amount of such distribution, if any, remains subject to approval by our board of directors, and there can be no assurance that the distribution will be \$[] per share. This dividend payment is contingent upon the completion of this offering during the [] quarter of 20[]. The amount of the dividend will be proportionately reduced to reflect the number of days remaining in the quarter after the completion of this offering. Purchasers in this offering will be entitled to receive this dividend payment. We anticipate that the dividend will be paid from taxable earnings, including interest and capital gains generated by our investment portfolio. However, if we do not generate sufficient taxable earnings during the year, the dividend may constitute a return of capital. In such event, the source of the distribution may be the</p>

original capital invested or dividends reinvested by a particular stockholder rather than our income or gains. Stockholders should read any written disclosure accompanying a distribution carefully and should not assume that the source of any distribution is our ordinary income or gains. We expect to have the ability to increase our quarterly distributions to our stockholders over time as we invest the proceeds of this offering and increase the size of our investment portfolio. In addition, in connection with the BDC Conversion, we anticipate our board of directors will declare a special dividend of \$[] per share, which may be paid all in cash or partially in cash and partially in our common shares, with such composition to be determined by our board of directors.

Lock-up Agreements

We, along with our executive officers and directors, will enter into lock-up agreements with the underwriters. Under these agreements, subject to certain exceptions, we and each of these persons will agree not to, without the prior written approval of the representative, offer, sell, offer to sell, contract or agree to sell, hypothecate, hedge, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock. These restrictions will be in effect for a period of [] days after the date of this prospectus. At any time and without public notice, the representatives may in their sole discretion release some or all of the securities from these lock-up agreements.

Taxation

Subsequent to completion of this offering, we intend to elect to be treated for U.S. federal income tax purposes, and intend to qualify annually, as a RIC under Subchapter M of the Code. As a RIC, we generally will not have to pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders. To obtain and maintain our RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See “Distributions” and “Material U.S. Federal Income Tax Considerations.”

Leverage

As of September 30, 2013, on a pro-forma basis, we had an aggregate of \$75.7 million of debt outstanding, including \$27.0 million outstanding under our \$27 million credit facility with Capital One, National Association (the “Credit Facility”), bank notes payable of \$10.0 million and securitization notes payable of \$38.7 million. We may seek additional forms of leverage and borrow funds to make investments, including before we have fully invested the proceeds of this offering. As a result, we will be exposed to the risks of leverage, which may be considered a speculative investment technique. The use of leverage magnifies the potential for loss on amounts invested and therefore increases the risks associated with investing in our

securities. The costs associated with our borrowings are borne by our common stockholders.

Trading

Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value. The risk that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value. As of [], 2013, our common stock was trading at a []% [premium/discount] to our net asset value of \$[] as of [], 2013.

Dividend Reinvestment Plan

We intend to adopt an “opt out” dividend reinvestment plan. If your shares of common stock are registered in your own name, your distributions will automatically be reinvested under our dividend reinvestment plan in additional whole and fractional shares of common stock, unless you “opt out” of our dividend reinvestment plan so as to receive cash dividends by delivering a written notice to our dividend paying agent. If your shares are held in the name of a broker or other nominee, you should contact the broker or nominee for details regarding opting out of our dividend reinvestment plan. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See “Dividend Reinvestment Plan.”

Certain Anti-Takeover Measures

Our charter and bylaws, as well as certain statutory and regulatory requirements, contain certain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price for our common stock. See “Description of Our Capital Stock.”

Available Information

We are required to file periodic reports, current reports, proxy statements and other information with the SEC. This information is available at the SEC’s public reference room at 100 F Street, NE, Washington, D.C. 20549 and on the SEC’s website at <http://www.sec.gov>. The public may obtain information on the operation of the SEC’s public reference room by calling the SEC at 1-800-SEC-0330. This information is also available free of charge by contacting us at Newtek Business Services, Inc., 212 West 35th Street, 2nd Floor, New York, New York 10001, by telephone at (212) 356-9500 or on our website at <http://www.thesba.com>.

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly. We caution you that many of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by “us” or “Newtek,” or that “we” will pay fees or expenses, you will indirectly bear such fees or expenses as an investor in Newtek Business Services Corp.

Stockholder transaction expenses:

Sales load (as a percentage of offering price)	[•]%(1)
Offering expenses borne by us (as a percentage of offering price)	[•]%(2)
Dividend reinvestment plan expenses	— (3)
Total stockholder transaction expenses (as a percentage of offering price)	[•]%

Annual expenses (as a percentage of net assets attributable to common stock):

Operating expenses	[•]%(4)
Interest payments on borrowed funds	[•]%(5)
Other expenses	[•]%(6)
Total annual expenses	%

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that our annual operating expenses would remain at the levels set forth in the table above.

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ [•]	\$ [•]	\$ [•]	\$ [•]

The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Further, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, generally determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the dividend payment date, which may be at, above or below net asset value. See “Dividend Reinvestment Plan” for additional information regarding our dividend reinvestment plan.

- (1) The underwriting discounts and commissions (the sales load) with respect to shares sold in this offering, which is a one-time fee, is the only sales load paid in connection with this offering.
- (2) Estimated offering expenses are approximately \$[•].
- (3) The expenses of the dividend reinvestment plan are included in “other expenses.”
- (4) “Operating expenses” represents an estimate of our annual operating expense. We do not have an investment advisor. We are internally managed by our executive officers under the supervision of our board of directors. As a result, we do not pay investment advisory fees. Instead we pay the operating costs associated with employing investment management professionals.
- (5) “Interest Payments on Borrowed Funds” represents estimated interest and fee payments on borrowed funds by annualizing our actual interest, fees and other debt-related expenses incurred for the nine months ended September 30, 2013, including our Credit Facility, bank notes payable and securitization notes payable.
- (6) “Other expenses” (\$[•] million) are based upon estimates of the twelve months following this offering, and include our overhead and administrative expenses that are not included in “Operating expenses.”

SELECTED FINANCIAL AND OTHER DATA

The following selected statements of operations and balance sheet data have been derived from the audited financial statements for each of the five years ended December 31, 2012. The Consolidated Financial Statements for all years presented have been audited. The financial information at and for the nine months ended September 30, 2013 is derived from unaudited financial data, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) which are necessary to present fairly the results for such interim periods. The historical information below may not be indicative of our future performance. Our results for the interim period may not be indicative of our results for the full year. The selected financial data set forth below should be read in conjunction with, and is qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements, including the Notes thereto, available at www.sec.gov.

	FISCAL YEARS ENDED					NINE MONTHS ENDED
	December 31, 2008	December 31, 2009	December 31, 2010	December 31, 2011 (Restated)	December 31, 2012	September 30, 2013
	(In Thousands Except for Per Share Data)					
Operating Revenues						
Electronic payment processing	\$ 63,281	\$ 69,654	\$ 80,920	\$ 82,473	\$ 85,483	\$ 67,299
Web hosting and design	18,064	18,846	19,164	19,181	18,208	13,312
Premium income	474	1,652	2,428	12,468	12,367	13,301
Interest income	3,355	1,735	1,903	2,629	3,422	3,440
Servicing fee income	1,771	1,625	2,568	3,101	6,862	4,353
Income from tax credits	7,988	7,837	2,380	1,390	522	86
Insurance commissions	1,035	811	886	1,071	1,205	1,347
Other income	2,917	3,551	2,470	3,026	3,061	2,791
Total operating revenues	98,885	105,711	112,719	125,339	131,130	105,929
Net change in fair value of:						
SBA loans	—	—	3,494	(5,493)	(1,013)	(1,574)
Warrants	—	—	—	—	(111)	—
Credits in lieu of cash and notes payable in credits in lieu of cash	(8)	900	38	(131)	3	26
Total net change in fair value	(8)	900	3,532	(5,624)	(1,121)	(1,548)
Operating expenses:						
Electronic payment processing costs	51,109	58,312	68,187	69,389	72,183	56,863
Salaries and benefits	21,890	18,375	19,391	21,042	22,314	18,069
Interest	10,887	10,350	4,479	3,416	4,495	4,162
Depreciation and amortization	7,592	5,847	4,709	3,955	3,036	2,454
Provision for loan losses	2,530	1,833	1,909	763	810	384
Other general and administrative costs	17,938	15,896	16,699	19,122	17,732	15,413
Total operating expenses	111,946	110,613	115,374	117,687	120,570	97,345
Income (loss) before income taxes	(13,069)	(4,002)	877	2,028	9,439	7,036
Provision (benefit) for income taxes	(2,050)	(2,593)	(418)	(1,195)	3,882	2,214
Net income (loss)	(11,019)	(1,409)	1,295	3,223	5,557	4,822
Net loss attributable to non-controlling interests	556	980	144	112	86	292
Net income (loss) attributable to Newtek Business Services Corp.	\$ (10,463)	\$ (429)	\$ 1,439	\$ 3,335	\$ 5,643	\$ 5,114

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	FISCAL YEARS ENDED					NINE MONTHS ENDED		
	December 31, 2008	December 31, 2009	December 31, 2010	December 31, 2011 (Restated)	December 31, 2012	Pro Forma December 31, 2012	September 30, 2013	Pro Forma September 30, 2013
(In Thousands Except for Per Share Data)								
Weighted average common shares outstanding								
Basic	35,738	35,644	35,655	35,706	35,523			
Diluted	35,738	35,644	35,801	36,073	36,747			
Basic income (loss) per share	\$ (0.29)	\$ (0.01)	\$ 0.04	\$ 0.09	\$ 0.16			
Diluted income (loss) per share	\$ (0.29)	\$ (0.01)	\$ 0.04	\$ 0.09	\$ 0.15			
Balance Sheet Data (at end of period):								
Investments, at fair value	—	—	—	—	—	\$ [•]	—	\$ [•]
Total assets	\$ 169,527	\$ 136,082	\$ 165,015	\$ 129,795	\$ 152,742	\$ [•]	\$ 176,971	\$ [•]
Notes payable	\$ 25,998	\$ 16,298	\$ 28,053	\$ 13,565	\$ 39,823	\$ [•]	\$ 44,076	\$ [•]
Securitization notes payable	—	—	\$ 15,104	\$ 26,368	\$ 22,039	\$ [•]	\$ 38,744	\$ [•]
Notes payable in credits in lieu of cash	\$ 70,559	\$ 51,947	\$ 35,494	\$ 16,948	\$ 8,703	\$ [•]	\$ 4,307	\$ [•]
Deferred tax asset (liability)	\$ (5,344)	\$ (3,634)	\$ (3,002)	\$ 170	\$ 2,318	\$ [•]	\$ 3,903	\$ [•]
Non-controlling interests	\$ 2,308	\$ 1,615	\$ 1,309	\$ 1,180	\$ 2,055	\$ [•]	\$ 1,709	\$ [•]
Stockholders' equity	\$ 56,079	\$ 54,027	\$ 55,594	\$ 59,153	\$ 68,902	\$ [•]	\$ 74,449	\$ [•]
Common shares outstanding at year end	35,649	35,648	35,666	35,702	35,178	[•]	35,327	[•]
Newtek Business Services, Inc. stockholders' equity per share	\$ 1.57	\$ 1.52	\$ 1.56	\$ 1.66	\$ 1.96	\$ [•]	\$ 2.11	\$ [•]

SELECTED QUARTERLY FINANCIAL DATA

The following table sets forth certain quarterly financial data for each of the quarters for the fiscal years ended December 31, 2012 and 2011 and the first three quarters of the fiscal year ended December 31, 2013. This data is derived from our unaudited financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

	Three Months Ended (In Thousands, except Per Share Data)		
	March 31	June 30	September 30
2013			
Total Revenue	\$34,144	\$37,011	\$ 34,774
Income before income taxes	\$ 2,202	\$ 2,881	\$ 1,953
Net income available to common stockholders	\$ 1,452	\$ 1,842	\$ 1,820
Income per share—Basic	\$ 0.04	\$ 0.05	\$ 0.05
Income per share—Diluted	\$ 0.04	\$ 0.05	\$ 0.05

	Three Months Ended (In Thousands, except Per Share Data)			
	March 31 (Restated)	June 30 (Restated)	September 30 (Restated)	December 31
2012				
Total Revenue	\$ 30,729	\$ 32,338	\$ 33,458	\$ 34,605
Income before income taxes	\$ 1,633	\$ 1,946	\$ 2,659	\$ 3,201
Net income available to common stockholders	\$ 1,019	\$ 1,243	\$ 1,307	\$ 2,074
Income per share—Basic	\$ 0.03	\$ 0.03	\$ 0.04	\$ 0.06
Income per share—Diluted	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.06

	Three Months Ended (In Thousands, except Per Share Data)			
	March 31	June 30	September 30	December 31 (Restated)
2011				
Total Revenue	\$30,523	\$32,322	\$ 30,657	\$ 31,837
Income before income taxes	\$ 834	\$ 136	\$ 335	\$ 723
Net income (loss) available to common stockholders	\$ 509	\$ (287)	\$ 880	\$ 2,233
Income (loss) per share—Basic and diluted	\$ 0.01	\$ (0.01)	\$ 0.02	\$ 0.07

RISK FACTORS

Investing in our common stock involves a number of significant risks. In addition to the other information contained in this prospectus, you should consider carefully the following information before making an investment in our common stock. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us might also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Relating to Our Business and Structure

Throughout our 15 year history we have never operated as a BDC.

Although Newtek has operated since 1998, we have no operating history as a BDC. As a result, we can offer no assurance that we will achieve our investment objective and that the value of your investment will not decline substantially. As a BDC, we will be subject to the regulatory requirements of the SEC, in addition to the specific regulatory requirements applicable to BDCs under the 1940 Act and RICs under the Code. Our management has not had any prior experience operating under this BDC regulatory framework, and we may incur substantial additional costs, and expend significant time or other resources, to do so. In addition, we may be unable to generate sufficient revenue from our operations to make or sustain distributions to our stockholders.

Our investment portfolio will be recorded at fair value, with our board of directors having final responsibility for overseeing, reviewing and approving, in good faith, its estimate of fair value and, as a result, there will be uncertainty as to the value of our portfolio investments.

Under the 1940 Act, we will be required to carry our portfolio investments at market value or, if there is no readily available market value, at fair value as determined by us, with our board of directors having final responsibility for overseeing, reviewing and approving, in good faith, our estimate of fair value. Typically, there will not be a public market for the securities of the privately held companies in which we invest. As a result, we will value these securities quarterly at fair value based on input from management, a third-party valuation firm and our audit committee, and with the oversight, review and approval of our board of directors.

The determination of fair value and consequently, the amount of unrealized gains and losses in our portfolio, are to a certain degree, subjective and dependent on a valuation process approved by our board of directors. Certain factors that may be considered in determining the fair value of our investments include external events, such as private mergers, sales and acquisitions involving comparable companies. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. Our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Due to this uncertainty, our fair value determinations may cause our net asset value on a given date to materially understate or overstate the value that we may ultimately realize on one or more of our investments. As a result, investors purchasing our common stock based on an overstated net asset value would pay a higher price than the value of our investments might warrant. Conversely, investors selling shares during a period in which the net asset value understates the value of our investments will receive a lower price for their shares than the value of our investments might warrant.

Our financial condition and results of operations will depend on our ability to manage and deploy capital effectively.

Our ability to achieve our investment objective will depend on our ability to manage and deploy capital, which will depend, in turn, on our management's ability to identify, evaluate and monitor, and our ability to finance and invest in, companies that meet our investment criteria.

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Accomplishing our investment objective on a cost-effective basis will largely be a function of our management's handling of the investment process, its ability to provide competent, attentive and efficient services and our access to investments offering acceptable terms. In addition to monitoring the performance of our existing investments, our senior lending team and our executive committee will also be called upon, from time to time, to provide managerial assistance to some of our portfolio companies. These demands on their time may distract them or slow the rate of investment.

Even if we are able to grow and build upon our investment operations, any failure to manage our growth effectively could have a material adverse effect on our business, financial condition, results of operations and prospects. The results of our operations will depend on many factors, including the availability of opportunities for investment, readily accessible short and long-term funding alternatives in the financial markets and economic conditions. Furthermore, if we cannot successfully operate our business or implement our investment policies and strategies as described herein, it could negatively impact our ability to pay dividends.

We are dependent upon our senior lending team and our executive committee for our future success, and if we are unable to hire and retain qualified personnel or if we lose any member of our senior lending team or our executive committee our ability to achieve our investment objective could be significantly harmed.

We depend on our senior lending team and executive committee as well as other key personnel for the identification, final selection, structuring, closing and monitoring of our investments. These executive officers and employees have critical industry experience and relationships that we rely on to implement our business plan. Our future success depends on the continued service of our senior lending team and our executive committee. The departure of any of the members of our senior lending team, our executive committee or a significant number of our senior personnel could have a material adverse effect on our ability to achieve our investment objective. As a result, we may not be able to operate our business as we expect, and our ability to compete could be harmed, which could cause our operating results to suffer.

We operate in a highly competitive market for investment opportunities, which could reduce returns and result in losses.

We will compete for investments with other BDCs with similar investment strategies, private equity funds with similar investment strategies, venture lending funds, finance companies with venture lending units and banks focused on venture lending. Many of our competitors will be substantially larger and have considerably greater financial, technical and marketing resources than us. For example, some competitors may have a lower cost of capital and access to funding sources that will not be available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments than we will have. These characteristics could allow our competitors to consider a wider variety of investments, establish more relationships and offer better pricing and more flexible structuring than we will be able to offer. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we are forced to match our competitors' pricing, terms and structure, we may not be able to achieve acceptable returns on our investments or may bear substantial risk of capital loss. Furthermore, many of our competitors will have greater experience operating under, or will not be subject to, the regulatory restrictions that the 1940 Act will impose on us as a BDC.

If we are unable to source investments effectively, we may be unable to achieve our investment objective.

Our ability to achieve our investment objective depends on our senior lending team's and our executive committee's ability to identify, evaluate and invest in suitable companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our marketing capabilities, our management of the investment process, our ability to provide efficient services and our access to financing sources on acceptable terms. In addition to monitoring the performance of our existing investments, members of our senior lending team, our executive committee and our other investment professionals may also be called upon to provide managerial assistance to our portfolio companies. These demands on their time may distract

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them or slow the rate of investment. To grow, we need to continue to hire, train, supervise and manage new employees and to implement computer and other systems capable of effectively accommodating our growth. However, we cannot provide assurance that any such employees will contribute to the success of our business or that we will implement such systems effectively. Failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

Our business model depends to a significant extent upon strong referral relationships, and our inability to maintain or further develop these relationships, as well as the failure of these relationships to generate investment opportunities, could adversely affect our business.

We expect that members of our senior lending team and our executive committee will maintain their relationships with intermediaries, financial institutions, investment bankers, commercial bankers, financial advisors, attorneys, accountants, consultants and other individuals within their networks, and we will rely to a significant extent upon these relationships to provide us with potential investment opportunities. If our senior lending team and our executive committee fail to maintain its existing relationships or develop new relationships with sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom members of our senior lending team and our executive committee have relationships are not obligated to provide us with investment opportunities, and, therefore, there is no assurance that such relationships will generate investment opportunities for us.

Any failure on our part to maintain our status as a BDC would reduce our operating flexibility.

We intend to elect to be treated as a BDC under the 1940 Act prior to the completion of this offering. The 1940 Act imposes numerous constraints on the operations of BDCs. For example, BDCs are required to invest at least 70% of their gross assets in specified types of securities, primarily in private companies or thinly-traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Furthermore, any failure to comply with the requirements imposed on BDCs by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. In addition, upon approval of a majority of our stockholders, we may elect to withdraw our status as a BDC. If we decide to withdraw our election, or if we otherwise fail to qualify, or maintain our qualification, as a BDC, we may be subject to the substantially greater regulation under the 1940 Act as a closed-end investment company. Compliance with such regulations would significantly decrease our operating flexibility, and could significantly increase our costs of doing business.

Regulations governing our operation as a BDC affect our ability to raise additional capital and the way in which we do so. As a BDC, the necessity of raising additional capital may expose us to risks, including the typical risks associated with leverage.

We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as “senior securities,” up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we will be permitted, as a BDC, to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% of gross assets less all liabilities and indebtedness not represented by senior securities, after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. Also, any amounts that we use to service our indebtedness would not be available for distributions to our common stockholders. Furthermore, as a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred stock, the preferred stock would rank “senior” to common stock in our capital structure, preferred stockholders would have separate voting rights on certain matters and might have other rights, preferences, or privileges more favorable than those of our common stockholders, and the issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest.

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We will not generally be able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if our board of directors determines that such sale is in our best interests and in the best interests of our stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount). If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, then the percentage ownership of our stockholders at that time will decrease, and you may experience dilution.

Because we borrow money, the potential for loss on amounts invested in us is magnified and may increase the risk of investing in us.

Borrowings, also known as leverage, magnify the potential for loss on investments in our indebtedness and on invested equity capital. As we use leverage to partially finance our investments, you will experience increased risks of investing in our securities. As of September 30, 2013, on a pro-forma basis, we had an aggregate of \$75.7 million of debt outstanding, including \$27.0 million outstanding under the Credit Facility, bank notes payable of \$10.0 million and securitization notes payable of \$38.7 million. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged our business. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to pay common stock dividends, scheduled debt payments or other payments related to our securities. Leverage is generally considered a speculative investment technique.

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below.

Assumed Return on Our Portfolio(1) (net of expenses)

	(10.0)%	(5.0)%	0.0%	5.0%	10.0%
Corresponding net return to common stockholder(2)	[]%	[]%	[]%	[]%	[]%

(1) Assumes \$[] million in total assets, \$[] million in debt outstanding, \$[] million in net assets, and an average cost of funds of []%. Actual interest payments may be different.

(2) In order for us to cover our annual interest payments on indebtedness, we must achieve annual returns on our [], 2013 total assets of at least []%.

Our ability to achieve our investment objective may depend in part on our ability to access additional leverage on favorable terms, and there can be no assurance that such additional leverage can in fact be achieved.

Because we use debt to finance our investments, changes in interest rates will affect our cost of capital and net investment income.

Because we borrow money to make investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on

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our net investment income in the event we use debt to finance our investments. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income. If we make any long-term fixed-rate investments, they will be financed primarily with equity and/or long-term debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. If we do not implement these techniques properly, we could experience losses on our hedging positions, which could be material.

We may experience fluctuations in our quarterly and annual results.

We may experience fluctuations in our quarterly and annual operating results due to a number of factors, including our ability or inability to make investments in companies that meet our investment criteria, the interest rate payable on the debt securities we acquire, the level of portfolio dividend and fee income, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.

Although we must obtain shareholder approval to cease to be, or withdraw our election as, a BDC, our board of directors will have the authority to modify or waive our investment objective, current operating policies, investment criteria and strategies without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies, investment criteria and strategies would have on our business, net asset value, operating results and value of our stock. However, the effects might be adverse, which could negatively impact our ability to pay you dividends and cause you to lose all or part of your investment.

We will be subject to corporate-level income tax if we are unable to qualify as a RIC.

Although we intend to elect to be treated as a RIC commencing with our tax year ending [•], 2013, no assurance can be given that we will be able to qualify for and maintain our qualification as a RIC. To obtain and maintain our qualification as a RIC, we must meet certain source-of-asset diversification, and distribution requirements.

The income source requirement will be satisfied if we obtain at least 90% of our income for each year from dividends, interest, gains from the sale of stock or securities or similar sources.

The asset diversification requirement will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our taxable year. Failure to meet those requirements may result in our having to dispose of certain investments quickly in order to prevent the loss of our qualification as a RIC. Because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses. The annual distribution requirement for a RIC will be satisfied if we distribute to our stockholders on an annual basis at least 90% of our net ordinary income and net short-term capital gains in excess of our net long-term capital losses, if any. Because we use debt financing, we are subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to satisfy the distribution requirement. If we are unable to obtain cash from other sources, we could fail to qualify as a RIC.

If we fail to qualify for RIC tax treatment for any reason and remain or become subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions.

We may not be able to pay you distributions, our distributions may not grow over time and a portion of our distributions may be a return of capital.

We intend to pay distributions to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Our ability to pay distributions might be adversely affected by, among other things, the impact of one or more of the risk factors described in this prospectus. In addition, the inability to satisfy the asset coverage test applicable to us as a BDC can limit our ability to pay distributions. All distributions will be paid at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our RIC status, compliance with applicable BDC regulations and such other factors as our board of directors may deem relevant from time to time. We cannot assure you that we will pay distributions to our stockholders in the future.

When we make distributions, we will be required to determine the extent to which such distributions are paid out of current or accumulated earnings and profits. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of an investor's basis in our stock and, assuming that an investor holds our stock as a capital asset, thereafter as a capital gain. Generally, a non-taxable return of capital will reduce an investor's basis in our stock for federal tax purposes, which will result in higher tax liability when the stock is sold. Stockholders should read any written disclosure accompanying a distribution carefully and should not assume that the source of any distribution is our ordinary income or gains.

We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

For U.S. federal income tax purposes, we will include in our taxable income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we receive warrants in connection with the origination of a loan or possibly in other circumstances, or PIK interest. Such original issue discount or increases in loan balances as a result of contractual PIK arrangements will be included in our taxable income before we receive any corresponding cash payments. We also may be required to include in our taxable income certain other amounts that we will not receive in cash.

Since, in certain cases, we may recognize taxable income before or without receiving corresponding cash payments, we may have difficulty meeting the annual distribution requirement necessary to maintain our qualification as a RIC. Accordingly, to satisfy our RIC distribution requirements, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities. If we are not able to obtain cash from other sources, we may fail to qualify as a RIC and thus become subject to corporate-level income tax. For additional discussion regarding the tax implications of our election to be taxed as a RIC, please see "Material U.S. Federal Income Tax Considerations — Taxation as a Regulated Investment Company."

We may in the future choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.

We may distribute taxable dividends that are payable in part in our stock. In accordance with certain applicable Treasury regulations and private letter rulings issued by the Internal Revenue Service ("IRS"), a RIC may treat a distribution of its own stock as fulfilling the RIC distribution requirements if each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC, subject to a limitation that the aggregate amount of cash to be distributed to all stockholders must be at least 20% of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder electing to receive cash must receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any stockholder, electing to receive cash, receive less than 20% of his or her entire distribution in cash. If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received instead of stock. Taxable stockholders

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receiving such dividends will be required to include the full value of such stock as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock.

We recently identified material weaknesses in our internal control over financial reporting. Future internal control deficiencies could impact the accuracy of our financial results or prevent the detection of fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. We recently identified material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. We have taken steps to remediate our internal control processes, but any failure by us to identify future deficiencies in our internal control over financial reporting in a timely manner or remediate any such deficiencies, could prevent us from accurately and timely reporting our financial results. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

We will be required to disclose changes made in our internal control and procedures on a quarterly basis and our management will be required to assess the effectiveness of these controls annually. An independent assessment of the effectiveness of our internal controls could detect problems that our management's assessment might not. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation. In the event that we are unable to maintain or achieve compliance with Section 404 of the Sarbanes-Oxley Act and related rules, the market price of our common stock may be adversely affected.

Changes in laws or regulations governing our operations may adversely affect our business or cause us to alter our business strategy.

We and our portfolio companies will be subject to applicable local, state and federal laws and regulations, including, without limitation, federal immigration laws and regulations. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, including those governing the types of investments we are permitted to make, any of which could harm us and our stockholders, potentially with retroactive effect. Additionally, any changes to the laws and regulations governing our operations relating to permitted investments may cause us to alter our investment strategy in order to avail ourselves of new or different opportunities. Such changes could result in material differences to the strategies and plans set forth herein and may result in our investment focus shifting from the areas of expertise of our senior lending team and our executive committee to other types of investments in which our senior lending team and our executive committee may have less expertise or little or no experience. Thus, any such changes, if they occur, could have a material adverse effect on our results of operations and the value of your investment.

Curtailment of the government-guaranteed loan programs could cut off an important segment of our business.

Although the program has been in existence since 1953, there can be no assurance that the federal government will maintain the SBA program, or that it will continue to guarantee loans at current levels. If we

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cannot continue making and selling government-guaranteed loans, we will generate fewer origination fees and our ability to generate gains on sale of loans will decrease. From time-to-time, the government agencies that guarantee these loans reach their internal budgeted limits and cease to guarantee loans for a stated time period. In addition, these agencies may change their rules for extending loans. Also, Congress may adopt legislation that would have the effect of discontinuing or changing the programs. Non-governmental programs could replace government programs for some borrowers, but the terms might not be equally acceptable. If these changes occur, the volume of loans to SMBs and industrial borrowers of the types that now qualify for government-guaranteed loans could decline, as could the profitability of these loans.

Our business is subject to increasingly complex corporate governance, public disclosure and accounting requirements that are costly and could adversely affect our business and financial results.

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, and other rules implemented by the SEC. Also, we are subject to changing rules and regulations of federal and state government as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board, the SEC and the NASDAQ Capital Market, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress. Our efforts to comply with these requirements may result in an increase in expenses and a diversion of management's time from other business activities.

A disruption in the capital markets and the credit markets could impair our ability to raise capital and negatively affect our business.

As a BDC, we must maintain our ability to raise additional capital for investment purposes. Without sufficient access to the capital markets or credit markets, we may be forced to curtail our business operations or we may not be able to pursue new business opportunities.

In recent years, the capital markets and the credit markets have experienced periods of extreme volatility and disruption and, accordingly, there has been and may continue to be uncertainty in the financial markets in general. Continuing U.S. debt ceiling and budget deficit concerns, including automatic spending cuts stemming from sequestration and together with deteriorating sovereign debt conditions in Europe, have increased the possibility of additional credit-rating downgrades and economic slowdowns, or a recession in the United States. The impact of this or any further downgrades to the U.S. government's sovereign credit rating or its perceived creditworthiness could adversely affect the U.S. and global financial markets and economic conditions. Absent further quantitative easing by the Federal Reserve Board, these developments, along with the European sovereign debt crisis, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations. Any further disruptive conditions in the financial industry and the impact of new legislation in response to those conditions could restrict our business operations and could adversely impact our results of operations and financial condition.

If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratios imposed upon us by the 1940 Act. Any such failure would affect our ability to issue securities, including borrowings, and pay dividends, which could materially impair our business operations. Our liquidity could be impaired further by an inability to access the capital markets or to consummate new borrowing facilities to provide capital for normal operations, including new originations. In recent years, reflecting concern about the stability of the financial markets, many lenders and institutional investors have reduced or ceased providing funding to borrowers.

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We are highly dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to make distributions to our stockholders.

Our business is highly dependent on our communications and information systems. Certain of these systems are provided to us by third party service providers. Any failure or interruption of such systems, including as a result of the termination of an agreement with any such third party service provider, could cause delays or other problems in our activities. This, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to make distributions to our stockholders.

Terrorist attacks, acts of war or natural disasters may affect any market for our common stock, impact the businesses in which we invest and harm our business, operating results and financial condition.

Terrorist acts, acts of war or natural disasters may disrupt our operations, as well as the operations of the businesses in which we invest. Such acts have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Future terrorist activities, military or security operations, or natural disasters could further weaken the domestic/global economies and create additional uncertainties, which may negatively impact the businesses in which we invest directly or indirectly and, in turn, could have a material adverse impact on our business, operating results and financial condition. Losses from terrorist attacks and natural disasters are generally uninsurable.

Risks Related to Our Investments Generally

Our investments are very risky and highly speculative.

We invest primarily in senior secured term loans and select equity investments issued by companies, some of which are highly leveraged.

Senior Secured Loans. There is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital, and, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies. In some cases we may take second lien position on additional business or personal assets to secure further our first lien positions.

Equity Investments. We occasionally invest directly in the equity securities of portfolio companies. The equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

In addition, investing in SMBs involves a number of significant risks, including:

- these companies may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;
- they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;

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- they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;
- they may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity; and
- our executive officers and directors may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies.

An investment strategy focused primarily on smaller privately held companies involves a high degree of risk and presents certain challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.

Our portfolio will consist primarily of debt and equity investments in smaller privately-owned companies. Investing in these types of companies involves a number of significant risks. Typically, the debt in which we will invest is not initially rated by any rating agency; however, we believe that if such investments were rated, they would be below investment grade. Compared to larger publicly owned companies, these small companies may be in a weaker financial position and experience wider variations in their operating results, which may make them more vulnerable to economic downturns. Typically, these companies need more capital to compete; however, their access to capital is limited and their cost of capital is often higher than that of their competitors. Our portfolio companies often face intense competition from larger companies with greater financial, technical and marketing resources and their success typically depends on the managerial talents and efforts of an individual or a small group of persons. Therefore, any loss of its key employees could affect a portfolio company's ability to compete effectively and harm its financial condition. Further, some of these companies conduct business in regulated industries that are susceptible to regulatory changes. These factors could impair the cash flow of our portfolio companies and result in other events, such as bankruptcy. These events could limit a portfolio company's ability to repay its obligations to us, which may have an adverse effect on the return on, or the recovery of, our investment in these businesses. Deterioration in a borrower's financial condition and prospects may be accompanied by deterioration in the value of the loan's collateral.

Generally, little public information exists about these companies, and we are required to rely on the ability of our senior lending team and our executive committee to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Also, privately held companies frequently have less diverse product lines and smaller market presence than larger competitors. These factors could adversely affect our investment returns as compared to companies investing primarily in the securities of public companies.

Our investments in leveraged portfolio companies may be risky, and you could lose all or part of your investment.

Investment in leveraged companies involves a number of significant risks. Leveraged companies in which we invest may have limited financial resources and may be unable to meet their obligations under their loans and debt securities that we hold. Such developments may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of our realizing any guarantees that we may have obtained in connection with our investment. Smaller leveraged companies also may have less predictable operating results

and may require substantial additional capital to support their operations, finance their expansion or maintain their competitive position.

Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.

Our portfolio companies may have, or may be permitted to incur, other debt that ranks equally with, or in some cases senior to, the debt in which we invest. By their terms, such debt instruments may entitle the holders to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to the debt instruments in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution. After repaying such senior creditors, such portfolio company may not have sufficient remaining assets to repay its obligation to us. In the case of debt ranking equally with debt instruments in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

Second priority liens on collateral securing loans that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.

Certain loans that we make are secured by a second priority security interest in the same collateral pledged by a portfolio company to secure senior first lien debt owed by the portfolio company to commercial banks or other traditional lenders. Often the senior lender has procured covenants from the portfolio company prohibiting the incurrence of additional secured debt without the senior lender's consent. Prior to and as a condition of permitting the portfolio company to borrow money from us secured by the same collateral pledged to the senior lender, the senior lender will require assurances that it will control the disposition of any collateral in the event of bankruptcy or other default. In many such cases, the senior lender will require us to enter into an "intercreditor agreement" prior to permitting the portfolio company to borrow from us. Typically the intercreditor agreements we will be requested to expressly subordinate our debt instruments to those held by the senior lender and further provide that the senior lender shall control: (1) the commencement of foreclosure or other proceedings to liquidate and collect on the collateral; (2) the nature, timing and conduct of foreclosure or other collection proceedings; (3) the amendment of any collateral document; (4) the release of the security interests in respect of any collateral; and (5) the waiver of defaults under any security agreement. Because of the control we may cede to senior lenders under intercreditor agreements we may enter, we may be unable to realize the proceeds of any collateral securing some of our loans.

If we make subordinated investments, the obligors or the portfolio companies may not generate sufficient cash flow to service their debt obligations to us.

We may make subordinated investments that rank below other obligations of the obligor in right of payment. Subordinated investments are subject to greater risk of default than senior obligations as a result of adverse changes in the financial condition of the obligor or economic conditions in general. If we make a subordinated investment in a portfolio company, the portfolio company may be highly leveraged, and its relatively high debt-to-equity ratio may create increased risks that its operations might not generate sufficient cash flow to service all of its debt obligations.

The disposition of our investments may result in contingent liabilities.

We currently expect that substantially all of our investments will involve loans and private securities. In connection with the disposition of an investment in loans and private securities, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in

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connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to potential liabilities. These arrangements may result in contingent liabilities that ultimately result in funding obligations that we must satisfy through our return of distributions previously made to us.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

Even though we may have structured certain of our investments as secured loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, and based upon principles of equitable subordination as defined by existing case law, a bankruptcy court could subordinate all or a portion of our claim to that of other creditors and transfer any lien securing such subordinated claim to the bankruptcy estate. The principles of equitable subordination defined by case law have generally indicated that a claim may be subordinated only if its holder is guilty of misconduct or where the senior loan is re-characterized as an equity investment and the senior lender has actually provided significant managerial assistance to the bankrupt debtor. We may also be subject to lender liability claims for actions taken by us with respect to a borrower's business or instances where we exercise control over the borrower. It is possible that we could become subject to a lender's liability claim, including as a result of actions taken in rendering significant managerial assistance or actions to compel and collect payments from the borrower outside the ordinary course of business.

Economic recessions could impair our portfolio companies and harm our operating results.

Certain of our portfolio companies may be susceptible to an economic downturn and may be unable to repay our loans during this period. Therefore, assets may become non-performing and the value of our portfolio may decrease during this period. The adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. A recession could lead to financial losses in our portfolio and a decrease in revenues, net income and the value of our assets.

The lack of liquidity in our investments may adversely affect our business.

We generally invest in companies whose securities are not publicly traded, and whose securities will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. There is no established trading market for the securities in which we invest. The illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. As a result, we do not expect to achieve liquidity in our investments in the near-term. Further, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we have material non-public information regarding such portfolio company.

We have not yet identified all of the portfolio companies we will invest in using the proceeds of this offering.

We have not yet identified all of the additional potential investments for our portfolio that we will acquire with the proceeds of the offering. As a result, you will be unable to evaluate any future portfolio company investments prior to purchasing our shares. Additionally, our senior lending team or our executive committee will select our investments subsequent to the closing of this offering, and our stockholders will have no input with respect to such investment decisions. These factors increase the uncertainty, and thus the risk, of investing in our common stock.

Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as "follow-on" investments, in order to: (1) increase or maintain in whole or in part our equity

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ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or a subsequent financing; or (3) attempt to preserve or enhance the value of our investment. We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. We will have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we do not want to increase our concentration of risk, we prefer other opportunities, we are subject to BDC requirements that would prevent such follow-on investments, or the follow-on investment would affect our qualification as a RIC.

Our portfolio may lack diversification among portfolio companies which may subject us to a risk of significant loss if one or more of these companies defaults on its obligations under any of its debt instruments.

Our portfolio may hold a limited number of portfolio companies. Beyond the asset diversification requirements associated with our qualification as a RIC under the Code, we will not have fixed guidelines for diversification, and our investments may be concentrated in relatively few companies. As our portfolio is less diversified than the portfolios of some larger funds, we are more susceptible to failure if a single loan fails. Similarly, the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment.

We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we may invest a significant portion of our assets in a relatively small number of issuers, which subjects us to a risk of significant loss if any of these issuers defaults on its obligations under any of its debt instruments or as a result of a downturn in the particular industry.

We are classified as a non-diversified investment company within the meaning of the 1940 Act, and therefore we may invest a significant portion of our assets in a relatively small number of issuers in a limited number of industries. As of September 30, 2013, on a pro forma basis not reflecting any effect for the completion of this offering, our two largest investments, Newtek Merchant Solutions and Newtek Managed Technology Solutions, equaled approximately []% and []%, respectively, of the fair value of our total assets. Beyond the asset diversification requirements associated with our qualification as a RIC, we do not have fixed guidelines for diversification, and while we are not targeting any specific industries, relatively few industries may become significantly represented among our investments. To the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer, changes in fair value over time or a downturn in any particular industry. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company.

Our portfolio may be concentrated in a limited number of industries, which may subject us to a risk of significant loss if there is a downturn in a particular industry in which a number of our investments are concentrated.

Our portfolio may be concentrated in a limited number of industries. A downturn in any particular industry in which we are invested could significantly impact the aggregate returns we realize. If an industry in which we have significant investments suffers from adverse business or economic conditions, as these industries have to varying degrees, a material portion of our investment portfolio could be affected adversely, which, in turn, could adversely affect our financial position and results of operations.

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Because we may not hold controlling equity interests in certain of our portfolio companies, we may not be in a position to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.

We do not currently hold controlling equity positions in the majority of our portfolio companies where our investments are in the form of debt, particularly SBA loans. As a result, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and that the management and/or stockholders of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity of the debt and equity investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company and may therefore suffer a decrease in the value of our investments.

Defaults by our portfolio companies will harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. Any extension or restructuring of our loans could adversely affect our cash flows. In addition, if one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt holding and subordinate all or a portion of our claim to that of other creditors. If any of these occur, it could materially and adversely affect our operating results and cash flows.

If we and our portfolio companies are unable to protect our intellectual property rights, our business and prospects could be harmed, and if we and our portfolio companies are required to devote significant resources to protecting their intellectual property rights, the value of our investment could be reduced.

The proprietary software essential to our business and that of our controlled portfolio companies is owned by us and made available to them for their use. Our future success and competitive position will depend in part upon our ability maintain and protect proprietary technology used in our products and services. We will rely, in part, on patent, trade secret and trademark law to protect that technology, but competitors may misappropriate our intellectual property, and disputes as to ownership of intellectual property may arise. We may, from time to time, be required to institute litigation to enforce the patents, copyrights or other intellectual property rights, protect trade secrets, determine the validity and scope of the proprietary rights of others or defend against claims of infringement. Such litigation could result in substantial costs and diversion of resources.

Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

We will be subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity; our SBA loans do not carry prepayment penalties. When this occurs, we will generally reinvest these proceeds in temporary investments or repay outstanding debt, depending on future investment in new portfolio companies. Temporary investments will typically have substantially lower yields than the debt being prepaid and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

We may not realize gains from our equity investments.

Certain investments that we may make in the future include warrants or other equity securities. Investments in equity securities involve a number of significant risks, including the risk of further dilution as a result of additional issuances, inability to access additional capital and failure to pay current distributions. Investments in preferred securities involve special risks, such as the risk of deferred distributions, credit risk, illiquidity and limited voting rights. In addition, we may from time to time make non-control, equity investments in portfolio companies. Our goal is ultimately to realize gains upon our disposition of such equity interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience. We also may be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, recapitalization or public offering, which would allow us to sell the underlying equity interests. We will often seek puts or similar rights to give us the right to sell our equity securities back to the portfolio company issuer. We may be unable to exercise these puts rights for the consideration provided in our investment documents if the issuer is in financial distress.

We may expose ourselves to risks if we engage in hedging transactions.

If we engage in hedging transactions, we may expose ourselves to certain risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions increase. It may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations.

We have specific risks associated with SBA loans.

We have generally sold the guaranteed portion of SBA loans in the secondary market. Such sales have resulted in our earning premiums and creating a stream of servicing income. There can be no assurance that we will be able to continue originating these loans, or that a secondary market will exist for, or that we will continue to realize premiums upon the sale of the guaranteed portions of the SBA 7(a) loans.

Since we sell the guaranteed portion of substantially all of our SBA 7(a) loan portfolio, we retain credit risk on the non-guaranteed portion of the SBA loans. We share pro rata with the SBA in any recoveries. In the event of default on an SBA loan, our pursuit of remedies against a borrower is subject to SBA approval, and where the SBA establishes that its loss is attributable to deficiencies in the manner in which the loan application has been prepared and submitted, the SBA may decline to honor its guarantee with respect to our SBA loans or it may seek the recovery of damages from us. If we should experience significant problems with our underwriting of SBA loans, such failure to honor a guarantee or the cost to correct the problems could have a material adverse effect on us. Although the SBA has never declined to honor its guarantees with respect to SBA loans made by us since our acquisition of NSBF in 2003, no assurance can be given that the SBA would not attempt to do so in the future.

An increase in non-performing assets would reduce our income and increase our expenses.

If our level of non-performing assets in our SBA lending business rises in the future, it could adversely affect our revenue and earnings. Non-performing assets are primarily loans on which borrowers are not making their required payments. Non-performing assets also include loans that have been restructured to permit the borrower to have smaller payments and real estate that has been acquired through foreclosure of unpaid loans. To the extent that our financial assets are non-performing, we will have less cash available for lending and other activities.

Our reserve for credit losses may not be sufficient to cover unexpected losses.

Our business depends on the behavior of our customers. In addition to our credit practices and procedures, we maintain a reserve for credit losses on our SBA loans, which management has judged to be adequate given the loans we originate. We periodically review our reserve for adequacy considering current economic conditions and trends, collateral values, charge-off experience, levels of past due loans and non-performing assets, and we adjust our reserve accordingly. However, because of the poor current economic conditions caused by the recession, our reserves may prove inadequate, which could have a material adverse effect on our financial condition and results of operations.

We could be adversely affected by weakness in the residential housing and commercial real estate markets.

Continued weakness in residential home and commercial real estate values could impair our ability to collect on defaulted SBA loans as real estate is pledged in many of our SBA loans as part of the collateral package.

Risks Relating to Our Controlled Portfolio Companies — Newtek Merchant Services (NMS)

NMS relies on two bank sponsors, which have substantial discretion with respect to certain elements of our electronic payment processing business practices, in order to process bankcard transactions. If either of the sponsorships is terminated, and we are not able to secure or transfer the respective merchant portfolio to a new bank sponsor or sponsors, the business, financial condition, results of operations and cash flows of electronic payment processing business could be materially adversely affected. If both sponsorships are terminated, and NMS is not able to secure or transfer the merchant portfolios to new bank sponsors, NMS will not be able to conduct its electronic payment processing business. NMS also relies on service providers who are critical to its business.

Because NMS is not a bank, it is unable to belong to and directly access the Visa® and MasterCard® bankcard associations. The Visa® and MasterCard® operating regulations require NMS to be sponsored by a bank in order to process bankcard transactions. NMS is currently sponsored by two banks. If both the sponsorships are terminated and NMS is unable to secure a bank sponsor for the merchant portfolios, it will not be able to process bankcard transactions for the affected portfolios. Consequently, the loss of both of NMS's sponsorships would have a material adverse effect on our business. Furthermore, NMS's agreement with sponsoring banks gives the sponsoring banks substantial discretion in approving certain elements of its business practices, including its solicitation, application and qualification procedures for merchants, the terms of our agreements with merchants, the processing fees that we charge, its customer service levels and its use of independent sales organizations and independent sales agents. We cannot guarantee that NMS's sponsoring banks' actions under these agreements will not be detrimental to us.

Other service providers, some of whom are NMS's competitors, are necessary for the conduct of NMS's business. The termination by service providers of these arrangements with NMS or their failure to perform these services efficiently and effectively may adversely affect NMS's relationships with the merchants whose accounts it serves and may cause those merchants to terminate their processing agreements with NMS.

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If NMS or its processors or bank sponsors fail to adhere to the standards of the Visa® and MasterCard® bankcard associations, its registrations with these associations could be terminated and it could be required to stop providing payment processing services for Visa® and MasterCard®.

Substantially all of the transactions NMS processes involve Visa® or MasterCard®. If NMS, its bank sponsors or its processors fail to comply with the applicable requirements of the Visa® and MasterCard® bankcard associations, Visa® or MasterCard® could suspend or terminate its registration. The termination of NMS's registration or any changes in the Visa® or MasterCard® rules that would impair its registration could require it to stop providing payment processing services, which would have a material adverse effect on its business.

On occasion, NMS experiences increases in interchange and sponsorship fees. If it cannot pass along these increases to its merchants, its profit margins will be reduced.

Our electronic payment processing subsidiary pays interchange fees or assessments to bankcard associations for each transaction it processes using their credit, debit and gift cards. From time to time, the bankcard associations increase the interchange fees that they charge processors and the sponsoring banks, which generally pass on such increases to NMS. From time to time, the sponsoring banks increase their fees as well. If NMS is not able to pass these fee increases along to merchants through corresponding increases in its processing fees, its profit margins in this line of business will be reduced.

Unauthorized disclosure of merchant or cardholder data, whether through breach of our computer systems or otherwise, could expose us to liability and business losses.

Through NMS, we collect and store sensitive data about merchants and cardholders, and we maintain a database of cardholder data relating to specific transactions, including payment, card numbers and cardholder addresses, in order to process the transactions and for fraud prevention and other internal processes. If anyone penetrates our network security or otherwise misappropriates sensitive merchant or cardholder data, we could be subject to liability or business interruption. While we subject these systems to periodic independent testing and review, we cannot guarantee that our systems will not be penetrated in the future. If a breach of our system occurs, we may be subject to liability, including claims for unauthorized purchases with misappropriated card information, impersonation or other similar fraud claims. Similar risks exist with regard to the storage and transmission of such data by our processors. In the event of any such a breach, we may also be subject to a class action lawsuit. SMBs are less prepared for the complexities of safeguarding cardholder data than their larger counterparts. In the event of noncompliance by a customer of card industry rules, we could face fines from payment card networks. There can be no assurance that we would be able to recover any such fines from such customer.

NMS is liable if its processing merchants refuse or cannot reimburse charge-backs resolved in favor of their customers.

If a billing dispute between a merchant and a cardholder is not ultimately resolved in favor of the merchant, the disputed transaction is "charged back" to the merchant's bank and credited to the account of the cardholder. If NMS or our processing banks are unable to collect the charge-back from the merchant's account, or if the merchant refuses or is financially unable due to bankruptcy or other reasons to reimburse the merchant's bank for the charge-back, NMS must bear the loss for the amount of the refund paid to the cardholder's bank. Most of NMS's merchants deliver products or services when purchased, so a contingent liability for charge-backs is unlikely to arise, and credits are issued on returned items. However, some of its merchants do not provide services until sometime after a purchase, which increases the potential for contingent liability and future charge backs. NMS and the sponsoring bank can require that merchants maintain cash reserves under our control to cover charge back liabilities but such reserves may not be sufficient to cover the liability or may not even be available to us in the event of a bankruptcy or other legal action.

NMS has potential liability for customer or merchant fraud.

Credit card fraud occurs when a merchant's customer uses a stolen card (or a stolen card number in a card-not-present transaction) to purchase merchandise or services. In a traditional card-present transaction, if the merchant swipes the card, receives authorization for the transaction from the card issuing bank and verifies the signature on the back of the card against the paper receipt signed by the customer, the card issuing bank remains liable for any loss. In a fraudulent card-not-present transaction, even if the merchant receives authorization for the transaction, the merchant is liable for any loss arising from the transaction. Many NMS customers are small and transact a substantial percentage of their sales over the Internet or by telephone or mail orders. Because their sales are card-not-present transactions, these merchants are more vulnerable to customer fraud than larger merchants, and NMS could experience charge-backs arising from cardholder fraud more frequently with these merchants.

Merchant fraud occurs when a merchant, rather than a customer, knowingly uses a stolen or counterfeit card or card number to record a false sales transaction or intentionally fails to deliver the merchandise or services sold in an otherwise valid transaction. Anytime a merchant is unable to satisfy a charge-back, NMS is ultimately responsible for that charge-back unless it has required that a cash reserve be established. We cannot assure that the systems and procedures we have established to detect and reduce the impact of merchant fraud are or will be effective. Failure to effectively manage risk and prevent fraud could increase NMS charge-back liability and adversely affect our results of operations.

NMS payment processing systems may fail due to factors beyond its control, which could interrupt its business or cause it to lose business and likely increase costs.

NMS depends on the uninterrupted operations of our computer network systems, software and our processors' data centers. Defects in these systems or damage to them due to factors beyond its control could cause severe disruption to NMS's business and other material adverse effects on its payment processing businesses.

NMS and others in the payment processing industry have come under increasing pressures from various regulatory agencies seeking to use the leverage of the payment processing business to limit or modify the practices of merchants which could lead to increased costs.

Various agencies, particularly the Federal Trade Commission, have within the past few years attempted to pressure merchants to discontinue or modify various sales or other practices. As a part of the payment processing industry, processors such as NMS could experience pressure and/or litigation aimed at restricting access to credit card sales by such merchants. These efforts could cause an increase in the cost to NMS of doing business or otherwise make its business less profitable and may subject NMS and others to attempts to assess penalties for not taking actions deemed sufficiently aggressive to limit such practices.

Risks Relating to Our Controlled Portfolio Companies — Newtek Managed Technology Solutions (NTS)

NTS operates in a highly competitive industry in which technological change can be rapid.

The information technology business and its related technology involve a broad range of rapidly changing technologies. NTS equipment and the technologies on which it is based may not remain competitive over time, and others may develop superior technologies that render its products non-competitive without significant additional capital expenditures. Some of NTS's competitors are significantly larger and have substantially greater market presence as well as greater financial, technical, operational, marketing and other resources and experience than NTS. In the event that such a competitor expends significant sales and marketing resources in one or several markets, NTS may not be able to compete successfully in such markets. We believe that competition will continue to increase, placing downward pressure on prices. Such pressure could adversely affect NTS gross margins if it is not able to reduce its costs commensurate with such price reductions. There can be no assurances that NTS will remain competitive.

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NTS's managed technology solutions business depends on the efficient and uninterrupted operation of its computer and communications hardware systems and infrastructure.

Despite precautions taken by NTS against possible failure of its systems, interruptions could result from natural disasters, power loss, the inability to acquire fuel for its backup generators, telecommunications failure, terrorist attacks and similar events. NTS also leases telecommunications lines from local, regional and national carriers whose service may be interrupted. NTS's business, financial condition and results of operations could be harmed by any damage or failure that interrupts or delays its operations. There can be no assurance that its insurance will cover all of the losses or compensate NTS for the possible loss of clients occurring during any period that NTS is unable to provide service.

NTS's inability to maintain the integrity of its infrastructure and the privacy of confidential information would materially affect its business.

The NTS infrastructure is potentially vulnerable to physical or electronic break-ins, viruses or similar problems. If its security measures are circumvented, it could jeopardize the security of confidential information stored on NTS's systems, misappropriate proprietary information or cause interruptions in NTS's operations. We may be required to make significant additional investments and efforts to protect against or remedy security breaches. Security breaches that result in access to confidential information could damage our reputation and expose us to a risk of loss or liability. The security services that NTS offers in connection with customers' networks cannot assure complete protection from computer viruses, break-ins and other disruptive problems. The occurrence of these problems may result in claims against NTS or us or liability on our part. These claims, regardless of their ultimate outcome, could result in costly litigation and could harm our business and reputation and impair NTS's ability to attract and retain customers.

NTS's business depends on Microsoft Corporation and others for the licenses to use software as well as other intellectual property in the managed technology solutions business.

NTS's managed technology business is built on technological platforms relying on the Microsoft Windows® products and other intellectual property that NTS currently licenses. As a result, if NTS is unable to continue to have the benefit of those licensing arrangements or if the products upon which its platform is built become obsolete, its business could be materially and adversely affected.

Increased regulatory focus on the payments industry may result in costly new compliance burdens on NMS' clients and on NMS itself, leading to increased costs and decreased payments volume and revenues.

Regulation of the payments industry has increased significantly in recent years. Complying with these and other regulations increases costs and can reduce revenue opportunities. Similarly, the impact of such regulations on clients may reduce the volume of payments processed. Moreover, such regulations can limit the types of products and services that offered. Any of these occurrences can materially and adversely affect NMS' business, prospects for future growth, financial condition and results of operations.

Examples include:

- *Data Protection and Information Security.* Aspects of NMS' operations and business are subject to privacy and data protection regulation. NMS' financial institution clients are subject to similar requirements under the guidelines issued by the federal banking agencies. In addition, many individual states have enacted legislation requiring consumer notification in the event of a security breach.
- *Anti-Money Laundering and Anti-Terrorism Financing.* The U.S.A. PATRIOT Act requires NMS to maintain an anti-money laundering program. Sanctions imposed by the U.S. Treasury Office of Foreign Assets Control, or OFAC, restrict NMS from dealing with certain parties considered to be connected with money laundering, terrorism or narcotics. NMS has controls in place designed to ensure OFAC compliance, but if those controls should fail, it could be subject to penalties, reputational damage and loss of business.

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- *Money Transfer Regulations.* As NMS expands its product offerings, it may become subject to money transfer regulations, increasing regulatory oversight and costs of compliance.
- *Formal Investigation.* If NMS is suspected of violating government statutes, such as the Federal Trade Commission Act or the Telemarketing and Consumer Fraud and Abuse Prevention Act, governmental agencies may formally investigate NMS. As a result of such a formal investigation, criminal or civil charges could be filed against NMS and it could be required to pay significant fines or penalties in connection with such investigation or other governmental investigations. Any criminal or civil charges by a governmental agency, including any fines or penalties, could materially harm NMS' business, results of operations, financial position and cash flows. Currently, NMS is subject to a complaint issued by the Federal Trade Commission as explained below. Also see "Business — Legal Proceedings" for additional information.

NMS is a party to a complaint issued by the Federal Trade Commission and it cannot predict the timing of developments and outcomes in this matter.

NMS is a party to a complaint issued by the Federal Trade Commission which relates to an alleged violation of the Federal Trade Commission Act and the Telemarketing and Consumer Fraud and Abuse Prevention Act. NMS cannot predict when the complaint will be resolved or the further timing of any other developments in connection with the complaint. NMS also cannot predict its results or outcomes. Expenses incurred in connection with this complaint, which include fees for lawyers and other professional advisors, and any other future investigations (which could result in the filing of future complaints) adversely affect NMS' cash position and profitability. NMS may also have potential obligations to indemnify officers and directors, who could, at a future date, be parties to such complaints. Negative developments or outcomes in the complaint could have an adverse effect on NMS' defense of other lawsuits. Also, the Federal Trade Commission could impose sanctions and/or fines on NMS in connection with the aforementioned complaint. Finally, this complaint and inquiry could divert the attention of NMS' management and other personnel for significant periods of time. See "Business — Legal Proceedings" for additional information.

Risks Relating to Our Controlled Portfolio Companies — Insurance Agency Business (NIA)

NIA depends on third parties, particularly property and casualty insurance companies, to supply the products marketed by its agents.

NIA contracts with property and casualty insurance companies typically provide that the contracts can be terminated by the supplier without cause. NIA's inability to enter into satisfactory arrangements with these suppliers or the loss of these relationships for any reason would adversely affect the results of its new insurance business. Also, NIA's inability to obtain these products at competitive prices could make it difficult for it to compete with larger and better capitalized providers of such insurance services.

If NIA fails to comply with government regulations, its insurance agency business would be adversely affected.

NIA insurance agency business is subject to comprehensive regulation in the various states in which it conducts business. NIA's success will depend in part upon its ability to satisfy these regulations and to obtain and maintain all required licenses and permits. NIA's failure to comply with any statutes and regulations could have a material adverse effect on it. Furthermore, the adoption of additional statutes and regulations, changes in the interpretation and enforcement of current statutes and regulations could have a material adverse effect on it.

NIA does not have any control over the commissions it earns on the sale of insurance products which are based on premiums and commission rates set by insurers and the conditions prevalent in the insurance market.

NIA earns commissions on the sale of insurance products. Commission rates and premiums can change based on the prevailing economic and competitive factors that affect insurance underwriters. In addition, the insurance industry has been characterized by periods of intense price competition due to excessive underwriting

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capacity and periods of favorable premium levels due to shortages of capacity. We cannot predict the timing or extent of future changes in commission rates or premiums or the effect any of these changes will have on the operations of NIA's insurance agency.

Risks Relating to Our Controlled Portfolio Companies — Payroll Processing Business (NPS)

Unauthorized disclosure of employee data, whether through a cyber-security breach of our computer systems or otherwise, could expose NPS to liability and business losses.

NPS collects and stores sensitive data about individuals in order to process the transactions and for other internal processes. If anyone penetrates its network security or otherwise misappropriates sensitive individual data, NPS could be subject to liability or business interruption. NPS is subject to laws and rules issued by different agencies concerning safeguarding and maintaining the confidentiality of this information. Its activities have been, and will continue to be, subject to an increasing risk of cyber-attacks, the nature of which is continually evolving. Cyber-security risks include unauthorized access to privileged and sensitive customer information, including passwords and account information of NPS' customers. While it subjects its data systems to periodic independent testing and review, NPS cannot guarantee that its systems will not be penetrated in the future. Experienced computer programmers and hackers may be able to penetrate NPS' network security, and misappropriate or compromise our confidential information, create system disruptions, or cause shutdowns. As a result, NPS' customers' information may be lost, disclosed, accessed or taken without our customers' consent. If a breach of NPS' system occurs, it may be subject to liability, including claims for impersonation or other similar fraud claims. In the event of any such a breach, NPS may also be subject to a class action lawsuit. Any significant violations of data privacy could result in the loss of business, litigation and regulatory investigations and penalties that could damage NPS' reputation, and the growth of its business could be adversely affected.

NPS' systems may be subject to disruptions that could adversely affect its business and reputation.

NPS' payroll business relies heavily on its payroll, financial, accounting and other data processing systems. If any of these systems or any of the vendors which supply them fails to operate properly or becomes disabled even for a brief period of time, NPS could suffer financial loss, a disruption of its business, liability to clients, regulatory intervention or damage to its reputation. NPS has disaster recovery plans in place to protect its businesses against natural disasters, security breaches, military or terrorist actions, power or communication failures or similar events. Despite NPS' preparations, its disaster recovery plans may not be successful in preventing the loss of client data, service interruptions, and disruptions to its operations or damage to its important facilities.

If NPS fails to adapt its technology to meet client needs and preferences, the demand for its services may diminish.

NPS operates in industries that are subject to rapid technological advances and changing client needs and preferences. In order to remain competitive and responsive to client demands, NPS continually upgrades, enhances and expands its existing solutions and services. If NPS fails to respond successfully to technology challenges, the demand for its services may diminish.

NPS could incur unreimbursed costs or damages due to delays in processing inherent in the banking system.

NPS generally determines the availability of customer (employer) funds prior to making payments to employees or taxing authorities, and such employer funds are generally transferred in to its accounts prior to making payments out. Due to the structure of the banking system however, there are times when NPS may make payroll or tax payments and not immediately receive the funds to do so from the employer. There can be no assurance that the procedures NPS has in place to prevent these occurrences or mitigate the damages will be sufficient to prevent loss to its business.

Risks Related to Our Controlled Portfolio Companies — Receivables Financing and Servicing Business (CDS)

An unexpected level of defaults in CDS's accounts receivables portfolio would reduce its income and increase its expenses.

If CDS's level of non-performing assets in its receivable financing business rises in the future, it could adversely affect its revenue, earnings and cash flow. Non-performing assets primarily consist of receivables for which the customer has not made timely payment. In certain situations, CDS may restructure the receivable to permit such a customer to have smaller payments over a longer period of time. Such a restructuring or non-payment by a receivables customer will result in lower revenue and less cash available for CDS's operational activities.

CDS's reserve for credit losses may not be sufficient to cover unexpected losses.

CDS's business depends on the behavior of its customers. In addition to its credit practices and procedures, CDS maintains a reserve for credit losses on its accounts receivable portfolio, which it has judged to be adequate given the receivables it purchases. CDS periodically reviews its reserve for adequacy considering current economic conditions and trends, charge-off experience and levels of non-performing assets, and adjusts its reserve accordingly. However, because of recent unstable economic conditions, its reserves may prove inadequate, which could have a material adverse effect on its financial condition and results of operations.

CDS depends on outside financing to support its receivables financing business.

CDS's receivables financing business depends on outside financing to support its acquisition of receivables. Termination of the credit lines for any reason would have a material adverse effect on its business, including but not limited to, the liquidation of its receivables portfolios to pay down the lines. If funds from such sale were insufficient to completely pay down the line of credit, CDS would be responsible for any short fall. In particular, CDS depends on a line of credit which matures in February 2014. Loss of this line and CDS's inability to replace it would materially impact the business.

Risks Relating to Our Controlled Portfolio Companies — Capco Business

The Capco programs and the tax credits they provide are created by state legislation and implemented through regulation, and such laws and rules are subject to possible action to repeal or retroactively revise the programs for political, economic or other reasons. Such an attempted repeal or revision would create substantial difficulty for the Capco programs and could, if ultimately successful, cause us material financial harm.

The tax credits associated with the Capco programs and provided to our Capcos' investors are to be utilized by the investors over a period of time, which is typically ten years. Much can change during such a period and it is possible that one or more states may revise or eliminate the tax credits. Any such revision or repeal could have a material adverse economic impact on our Capcos, either directly or as a result of the Capco's insurer's actions. Any such final state action that jeopardizes the tax credits could result in the provider of our Capco insurance assuming partial or full control of the particular Capco in order to minimize its liability under the Capco insurance policies issued to our investors.

Because our Capcos are subject to requirements under state law, a failure of any of them to meet these requirements could subject the Capco and our stockholders to the loss of one or more Capcos.

Despite the fact that we have met all applicable minimum requirements of the Capco programs in which we still participate, each Capco remains subject to state regulation until it has invested 100 percent of its funds and otherwise remained in full legal compliance. There can be no assurance that we will continue to be able to do so. A major regulatory violation, while not fatal to our Capco business, would materially increase the cost of operating the Capcos.

Risks Relating to This Offering

Our common stock price may be volatile and may decrease substantially.

The trading price of our common stock may fluctuate substantially. The price of our common stock that will prevail in the market after this offering may be higher or lower than the price you pay, depending on many

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factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- investor demand for our shares;
- significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- changes in regulatory policies or tax guidelines with respect to RICs, BDCs, or SBICs;
- failure to qualify as a RIC, or the loss of RIC status;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- changes, or perceived changes, in the value of our portfolio investments;
- departures of key Newtek personnel;
- operating performance of companies comparable to us; or
- general economic conditions and trends and other external factors.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price once a market for our stock is established, we may become the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

We cannot assure you that we will be able to successfully deploy the proceeds of this offering within the timeframe we have contemplated.

We anticipate that substantially all of the net proceeds of this offering will be invested in accordance with our investment objective and strategies described in this prospectus within six to nine months from the consummation of this offering. We cannot assure you, however, that we will be able to locate a sufficient number of suitable investment opportunities to allow us to successfully deploy substantially all of the net proceeds of this offering in that timeframe. To the extent we are unable to invest substantially all of the net proceeds of this offering within our contemplated timeframe, our investment income, and in turn our results of operations, will likely be materially adversely affected.

We will have broad discretion over the use of proceeds of this offering and we will use such proceeds in part to satisfy operating expenses.

We will have significant flexibility in applying the proceeds of this offering and may use the net proceeds from this offering in ways with which you may not agree, or for purposes other than those contemplated at the time of this offering. We will also pay operating expenses and may pay other expenses, such as due diligence expenses of potential new investments, from the net proceeds of this offering. Our ability to achieve our investment objective may be limited to the extent that net proceeds of this offering, pending full investment, are used to pay operating expenses.

Our board of directors will be authorized to reclassify any unissued shares of common stock into one or more classes of preferred stock, which could convey special rights and privileges to its owners.

Under Maryland General Corporation Law and our charter, our board of directors will be authorized to classify and reclassify any authorized but unissued shares of stock into one or more classes of stock, including

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preferred stock. Prior to issuance of shares of each class or series, our board of directors will be required by Maryland law and our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, our board of directors could authorize the issuance of shares of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. The cost of any such reclassification would be borne by our common stockholders. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a BDC. In addition, the 1940 Act provides that holders of preferred stock are entitled to vote separately from holders of common stock to elect two preferred stock directors. We currently have no plans to issue preferred stock. The issuance of preferred shares convertible into shares of common stock may also reduce the net income and net asset value per share of our common stock upon conversion, provided, that we will only be permitted to issue such convertible preferred stock to the extent we comply with the requirements of Section 61 of the 1940 Act, including obtaining common stockholder approval. These effects, among others, could have an adverse effect on your investment in our common stock.

Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

The Maryland General Corporation Law and our charter and bylaws contain provisions that may discourage, delay or make more difficult a change in control of Newtek or the removal of our directors. We are subject to the Maryland Business Combination Act, subject to any applicable requirements of the 1940 Act. Our board of directors has adopted a resolution exempting from the Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our board, including approval by a majority of our independent directors. If the resolution exempting business combinations is repealed or our board does not approve a business combination, the Business Combination Act may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer. Our bylaws exempt from the Maryland Control Share Acquisition Act acquisitions of our stock by any person. If we amend our bylaws to repeal the exemption from the Control Share Acquisition Act, the Control Share Acquisition Act also may make it more difficult for a third party to obtain control of us and increase the difficulty of consummating such a transaction.

We have also adopted measures that may make it difficult for a third party to obtain control of us, including provisions of our charter classifying our board of directors in three classes serving staggered three-year terms, and authorizing our board of directors to classify or reclassify shares of our stock in one or more classes or series, to cause the issuance of additional shares of our stock, to amend our charter without stockholder approval and to increase or decrease the number of shares of stock that we have authority to issue. These provisions, as well as other provisions of our charter and bylaws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

All of the common stock to be held by our executive officers, directors, and other stockholders, representing approximately [•] shares, or approximately [•]% of our total outstanding shares subsequent to completion of this offering (or approximately [•]% of our total outstanding shares subsequent to completion of this offering if the over-allotment option is exercised), will be subject to lock-up periods of at least [•] days. Upon expiration of this lock-up period, or earlier upon the consent of JMP Securities LLC, Stifel, Nicolaus & Company, Incorporated and William Blair & Company L.L.C., such shares will generally be freely tradable in the public market. Sales of substantial amounts of our common stock, or the availability of such common stock for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as “anticipates,” “expects,” “intends,” “plans,” “will,” “may,” “continue,” “believes,” “seeks,” “estimates,” “would,” “could,” “should,” “targets,” “projects,” and variations of these words and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this prospectus involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our ability to operate as a BDC;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- an economic downturn could impair our portfolio companies’ ability to continue to operate or repay their borrowings, which could lead to the loss of some or all of our investments in such portfolio companies;
- a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities;
- interest rate volatility could adversely affect our results, particularly if we elect to use leverage as part of our investment strategy; and
- the risks, uncertainties and other factors we identify in “Risk Factors” and elsewhere in this prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in “Risk Factors” and elsewhere in this prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. We undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law or SEC rule or regulation.

You should understand that, under Sections 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the Exchange Act, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with any offering of securities pursuant to this prospectus.

USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of [•] shares of our common stock in this offering will be approximately \$[•] (or approximately \$[•] if the underwriters exercise their over-allotment option in full), assuming a public offering price of \$[•] per share (the closing price of our shares on [•], 2013).

We intend to use the net proceeds of this offering to expand the financing activities of NSBF, make direct investments in portfolio companies (including, from time to time, acquiring controlling interests in portfolio companies) in accordance with our investment objective and strategies described in this prospectus and for general corporate purposes. We will also pay operating expenses and may pay other expenses, such as due diligence expenses of potential new investments, from the net proceeds of this offering. We anticipate that substantially all of the net proceeds of this offering will be used for the above purposes within six to nine months from the consummation of this offering, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. We cannot assure you we will achieve our targeted investment pace. We expect that it may take more than three months to invest all of the net proceeds of this offering, in part because investments in private companies often require substantial research and due diligence.

Pending such investments, we will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities and other high-quality temporary investments that mature in one year or less from the date of investment. See “Regulation as a Business Development Company — Temporary Investments” for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on the NASDAQ Capital Market under the symbol “NEWT,” which symbol we intend to apply to transfer to Newtek Business Services Corp.

The following table sets forth, for the two most recent fiscal years and the current fiscal year, the range of high and low sales prices of our common stock as reported on the NASDAQ Capital Market:

Period	Price Range		NAV(1)	Premium (Discount) of High Sales Price to NAV(2)	Premium (Discount) of Low Sales Price to NAV(2)
	High	Low			
First Quarter: January 1, 2011 Through March 31, 2011	\$1.90	\$1.60	\$ 1.53	24%	4%
Second Quarter: April 1, 2011 Through June 30, 2011	\$1.69	\$1.20	\$ 1.53	11%	(21)%
Third Quarter: July 1, 2011 Through September 30, 2011	\$1.55	\$1.28	\$ 1.56	0%	(18)%
Fourth Quarter: October 1, 2011 Through December 31, 2011	\$1.32	\$1.06	\$ 1.62	(19)%	(35)%
First Quarter: January 1, 2012 Through March 31, 2012	\$1.60	\$1.18	\$ 1.69	(5)%	(30)%
Second Quarter: April 1, 2012 Through June 30, 2012	\$1.62	\$1.14	\$ 1.66	(2)%	(31)%
Third Quarter: July 1, 2012 Through September 30, 2012	\$2.09	\$1.24	\$ 1.84	14%	(33)%
Fourth Quarter: October 1, 2012 Through December 31, 2012	\$2.05	\$1.76	\$ 1.90	8%	(7)%
First Quarter: January 1, 2013 Through March 31, 2013	\$2.21	\$1.66	\$ 1.95	14%	(15)%
Second Quarter: April 1, 2013 Through June 30, 2013	\$2.25	\$1.90	\$ 2.00	12%	(5)%
Third Quarter: July 1, 2013 Through September 30, 2013	\$3.07	\$2.06	\$ 2.06	49%	0%
Fourth Quarter: October 1, 2013 Through December 2, 2013	\$3.15	\$2.50	*	*	*

(1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The values reflect stockholders equity per share and are based on outstanding shares at the end of each period.

(2) Calculated as the respective high or low sales price less net asset value or stockholders equity per share, as applicable, divided by net asset value or stockholders equity per share, as applicable.

* Not determinable at time of filing.

The last reported price for our common stock on [•], 2013 was \$[•] per share. As of [•], 2013 there were approximately [2,000] holders of record and beneficial holders of our common stock.

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at premiums that are unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether the shares offered hereby will trade at, above, or below net asset value. As of [], 2013, our common stock was trading at a []% [premium/discount] to our net asset value of \$[] as of [], 2013.

Distributions

We have not declared or paid regular quarterly dividends during our prior three fiscal years, in view of our focus on retaining earnings for growth.

Subsequent to the completion of this offering, to the extent that we have income available, we intend to make quarterly distributions to our stockholders out of assets legally available for distribution. Our quarterly distributions, if any, will be determined by our board of directors. We expect our quarterly distributions during our first full year of operations as a BDC to be at an annual rate equal to approximately 9%-10% of our estimated net asset value. Our first quarterly distribution after this offering, which will be payable for the [] quarter of 20[], is expected to be approximately \$[] per share. The actual amount of such distribution, if any, remains subject to approval by our board of directors, and there can be no assurance that the distribution will be \$[] per share. This dividend payment is contingent upon the completion of this offering during the [] quarter of 20[]. The amount of the dividend will be proportionately reduced to reflect the number of days remaining in the quarter after the completion of this offering. Purchasers in this offering will be entitled to receive this dividend payment. We anticipate that the dividend will be paid from taxable earnings, including interest and capital gains generated by our investment portfolio. However, if we do not generate sufficient taxable earnings during the year, the dividend may constitute a return of capital. We expect to have the ability to increase our quarterly distributions to our stockholders over time as we invest the proceeds of this offering and increase the size of our investment portfolio.

In connection with the BDC Conversion, we anticipate our board of directors will declare a special dividend of \$[] per share, which may be paid all in cash or partially in cash and partially in our common shares, with such composition to be determined by our board of directors.

Any distribution to our stockholders will be declared out of assets legally available for distribution. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of an investor's basis in our stock and, assuming that an investor holds our stock as a capital asset, thereafter as a capital gain. Generally, a non-taxable return of capital will reduce an investor's basis in our stock for federal tax purposes, which will result in higher tax liability when the stock is sold. Stockholders should read any written disclosure accompanying a distribution carefully and should not assume that the source of any distribution is our ordinary income or gains.

We intend to elect to be treated, and intend to qualify annually thereafter, as a RIC under the Code, beginning with our first taxable year after the BDC Conversion. To obtain and maintain RIC tax treatment, we must distribute at least 90% of our net ordinary income and net short-term capital gains in excess of our net long-term capital losses, if any, to our stockholders. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of: (a) 98% of our net ordinary income for such calendar year; (b) 98.2% of our capital gain net income for the one-year period ending on October 31 of the calendar year; and (c) any net ordinary income and capital gain net income for preceding years that were not distributed during such years and on which we previously paid no U.S. federal income tax.

We currently intend to distribute net capital gains (*i.e.*, net long-term capital gains in excess of net short-term capital losses), if any, at least annually out of the assets legally available for such distributions. However, we may decide in the future to retain such capital gains for investment and elect to treat such gains as deemed distributions to you. If this happens, you will be treated for U.S. federal income tax purposes as if you had received an actual distribution of the capital gains that we retain and reinvested the net after tax proceeds in us. In this situation, you would be eligible to claim a tax credit (or in certain circumstances a tax refund) equal to your allocable share of the tax we paid on the capital gains deemed distributed to you. See "Material U.S. Federal Income Tax Considerations." We cannot assure you that we will achieve results that will permit us to pay any cash distributions, and if we issue senior securities, we may be prohibited from making distributions if doing so would cause us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if such distributions are limited by the terms of any of our borrowings.

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Unless you elect to receive your distributions in cash, we intend to make such distributions in additional shares of our common stock under our dividend reinvestment plan. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, investors participating in our dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes. If you hold shares of our common stock in the name of a broker or financial intermediary, you should contact such broker or financial intermediary regarding your election to receive distributions in cash, in lieu of shares of our common stock. See “Dividend Reinvestment Plan.”

CAPITALIZATION

The following table sets forth our cash and capitalization as of September 30, 2013:

- on an actual basis;
- on a pro forma basis to reflect the BDC Conversion and payment of the special dividend; and
- on a pro forma basis to reflect the BDC Conversion and payment of the special dividend, as adjusted to reflect the sale of our common stock in this offering.

<i>(in thousands)</i>	<u>Actual</u>	<u>Pro Forma⁽²⁾</u>	<u>Pro Forma, as adjusted</u>
Assets			
Cash	\$ 7,761	\$ [•]	\$ [•]
Investments, at fair value	67,112	[•]	[•]
Other assets	102,098	[•]	[•]
Total assets	\$176,971	\$ [•]	\$ [•]
Liabilities			
Bank notes payable (1)	\$ 8,559	\$ [•]	\$ [•]
Credit Facilities payable	35,517	[•]	[•]
Securitization notes payable	38,744	[•]	[•]
Other liabilities	19,702	[•]	[•]
Total liabilities	\$102,522	\$ [•]	\$ [•]
Stockholders' equity			
Common stock, par value \$0.02 per share; 54,000 shares authorized; 35,307 shares outstanding, actual; [•] shares outstanding, pro forma; [•] shares outstanding, pro forma, as adjusted	738	[•]	[•]
Capital in excess of par value	61,212	[•]	[•]
Total stockholders' equity	\$ 74,449	\$ [•]	\$ [•]

(1) Amount reflects face amount of notes payable, or \$10 million, less the debt discount attributable to the warrant issued in connection with the notes.

(2) Pro Forma adjustments include the deconsolidation of Newtek Subsidiaries (except NSBF), reversal of deferred taxes, the payment of a \$[•] million estimated special dividend and the adjustment to record the fair value of portfolio companies as of [], 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial statements and related notes and other financial information appearing elsewhere in this prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under "Risk Factors" and "Forward-Looking Statements" appearing elsewhere herein.

Our Business

We are a leading national lender and own and control certain portfolio companies (our "controlled portfolio companies," as defined below) that provide a wide range of business and financial products to SMBs. In particular, we and our controlled portfolio companies provide comprehensive lending, payment processing, managed technology, personal and commercial insurance and payroll solutions to over 100,000 SMB accounts, across all industries. We have an established and reliable platform that is not limited by client size, industry type or location. As a result, we have a strong and diversified client base across every state in the U.S and across a variety of different industries. In addition, we have developed a financial and technology based business model that enables us and our controlled portfolio companies to acquire and process our SMB clients in a very cost effective manner. This capability is supported in large part by NewTracker[®], our patented prospect management technology software. We believe that this technology and business model distinguishes us from our competitors.

We and our controlled portfolio companies operate as an integrated operational business with internal management. As a business development company, we will be internally managed and focus on serving the SMB market, which we estimate to be over 27 million businesses in the U.S. These businesses have historically been underserved by traditional financial institutions and typically lack the capital resources to build a competitive business and marketing infrastructure on their own. Further, in today's economic climate, SMBs have particular difficulty obtaining capital from traditional lending sources. While we do not compete directly with alternative online lenders such as OnDeck Capital, Inc. and Kabbage Inc., we do provide similar financing solutions as an alternative to traditional lending. We believe there is significant demand for such alternative financing among SMBs. Our lending solutions and our controlled portfolio companies' outsourced business solutions help clients manage and grow their businesses and compete effectively in today's marketplace. We obtain our customers through referrals from various business partners, such as banks, credit unions and other affinity groups, as well as through our own direct sales force and advertising campaigns. We source, acquire and process SMB customers in a cost effective manner without reliance on high cost sales staff and time consuming application processes.

In lending, we believe we are a leading capital provider to SMBs based on our loan volume of more than \$600 million through approximately 1,100 transactions since 2003 and we are currently the largest non-financial institution U.S. SBA licensed lender under the federal Section 7(a) loan program based on annual origination volume. We originate loans through a variety of sourcing channels and, through a rigorous underwriting process, seek to achieve attractive risk-weighted returns. Our multi-faceted relationships with certain borrowers allows us to closely monitor their credit profile and take an active role in managing our investment. Further, our lending capabilities coupled with the broad outsourced business solutions of our controlled portfolio companies creates attractive cross-selling opportunities within our client base. We believe our business model creates powerful network effects which will help drive growth and operating leverage in our business. In addition, our SBA loans are structured so that the government guaranteed portion can be rapidly sold, which, based on our historic ability to securitize the unguaranteed portions and assuming the continuation of current market conditions, allows us to quickly recover our principal and earn excess capital on each loan, usually in less than a year. We may in the future determine to retain the government guaranteed or unguaranteed portions of loans pending deployment of excess capital.

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Our proprietary and patented technology platform which we make available to our controlled portfolio companies enables them to provide our clients with a real-time management solution that organizes all of a business's critical transaction and economic, eCommerce and website traffic data on a smartphone, tablet, laptop or personal computer. This technology provides critical consumer and marketing intelligence, including data mining, and provides a range of differentiated solutions and analytical tools that may be easily customized and integrated within their clients' existing business processes. It also provides clients with seamless connectivity to a payment and managed technology infrastructure that is secure, fully compliant and regularly updated with the latest capabilities, services and functionalities. The platform is highly scalable to facilitate growth and meet the needs of new clients and consists solely of cloud-based offerings.

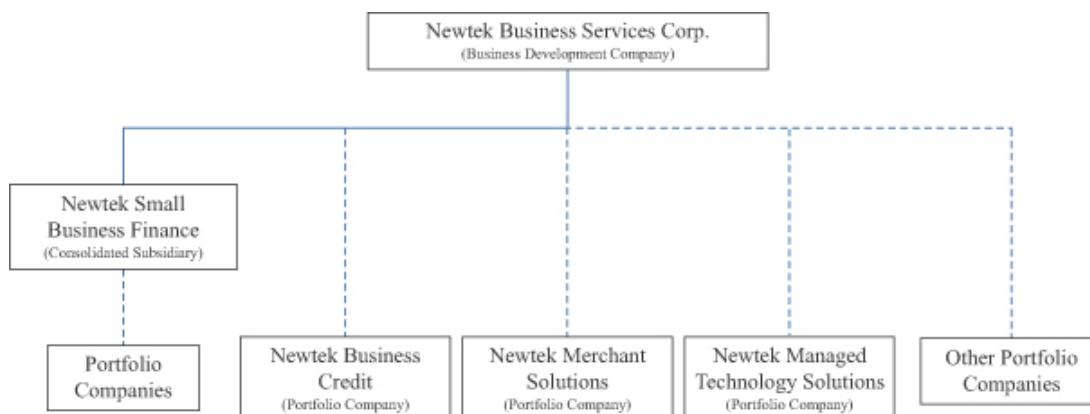
Newtek and its controlled portfolio companies all use NewTracker®, our patented and proprietary technology for receiving, processing and monitoring prospective customers. This enables all operations to acquire SMB customers in a highly cost effective manner as it is all accomplished by skilled staff using state of the art technology without the need for high cost sales staff or applications processors. It also permits our referral partners to have a real time window into the back office processing of their referrals giving. The software automatically pre-populates any necessary forms or applications so the processing is efficient and also highly cost effective. Finally, it also identifies opportunities for the cross-sale of other Newtek products or services.

For the years 2010, 2011 and 2012 and the nine months ended September 30, 2013, our revenue was \$112.7 million, \$125.3 million, \$131.1 million and \$105.9 million, respectively. In the same periods, our net income attributable to Newtek Business Services, Inc. was \$1.4 million, \$3.3 million, \$5.6 million and \$5.1 million, respectively.

New Business Structure

We intend to file an election to be regulated as a BDC under the 1940 Act prior to the completion of this offering, and we intend to operate subsequently as an internally managed, non-diversified closed-end investment company. We also intend to elect to be treated as a RIC under Subchapter M of the Code for U.S. federal income tax purposes.

Set forth below is a diagram of our organizational structure following this offering:



We intend to use the net proceeds of this offering primarily to expand our SMB lending, make direct investments in portfolio companies in accordance with our investment objective and strategies described in this prospectus and for general corporate purposes. We believe that transitioning to a BDC and RIC will provide us with access to lower-cost capital and a business structure conducive to expanding our lending activities and will

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assist in maximizing our value to shareholders by, among other things, permitting us to value our assets and controlled portfolio companies at fair value. As a BDC, we will seek to generate both current income and capital appreciation primarily through loans originated by our small business finance platform and our equity investments in certain portfolio companies that we control. While our primary investment focus as a BDC will be making loans to SMBs and providing business services to SMBs through our controlled portfolio companies, we may also make opportunistic investments in larger or smaller companies. We expect to continue to grow our business organically, both directly and through our controlled portfolio companies, as we have historically. We expect to have the ability to increase our quarterly distributions to our stockholders over time as we invest the proceeds of this offering and increase the size of our investment portfolio. Our transition to a BDC and RIC will have certain consequences on our balance sheet and net asset value. See “Selected Financial and Other Data” and “Capitalization.”

As a BDC, we will be required to meet regulatory tests, including the requirement to invest at least 70% of our gross assets in “qualifying assets.” Qualifying assets generally include securities of private or thinly traded public U.S. companies and cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, as a BDC, we will not be permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our total assets). See “Regulation as a Business Development Company.”

In connection with our election to be regulated as a BDC, we intend to elect to be treated for U.S. federal income tax purposes, and intend to qualify annually, as a RIC under Subchapter M of the Code. As a RIC, we generally will not have to pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders. To obtain and maintain our RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See “Price Range of Common Stock and Distributions” and “Material U.S. Federal Income Tax Considerations.”

Expected BDC Operating Plans

The discussion set forth in this subsection relates to our expected operating plans as a BDC.

BDC Revenues

We plan to generate revenue primarily from gains on the sale of our debt investments and the monthly cash interest we will collect on our retained portfolio, as well as dividends and/or capital gains on our selected equity investments. Further, we may generate revenue in the form of commitment, origination, structuring or diligence fees, monitoring fees, fees for providing managerial assistance and possibly consulting fees. Certain fees, such as origination fees, will generally be capitalized and amortized, while other fees, such as servicing and advisory fees, will be recognized as they are earned.

BDC Expenses

Because we are internally managed, we will pay the costs associated with employing investment management professionals and other employees as well as running our operations. Our primary operating expenses will include employee salaries and benefits, the costs of identifying, evaluating, negotiating, closing, monitoring and servicing our investments and our related overhead charges and expenses, including rental expense and any interest expense incurred in connection with borrowings we may make.

BDC Financial Condition, Liquidity and Capital Resources

We will generate cash from the net proceeds of this offering and any future offerings of securities and cash flows from operations, including earnings on investments in our existing portfolio and future investments, as well as interest earned from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less. In addition to our existing Credit Facility, bank notes and securitization notes, we may seek other forms of leverage and borrow funds to make investments, including before we have fully invested the proceeds of this offering.

Our primary use of funds will be debt investments through the financing activities of NSBF, cash distributions to holders of our common stock, and the payment of operating expenses.

Immediately after this offering, assuming an offering price of \$[•] per share (the closing price of our shares on [•], 2013), we expect to have cash resources of approximately \$[•] and approximately \$[•] million of indebtedness. See “Use of Proceeds.”

We intend to use the net proceeds of this offering primarily to expand the financing activities of NSBF, make direct investments in portfolio companies in accordance with our investment objective and strategies described in this prospectus and for general corporate purposes. While our primary investment focus as a BDC will be making loans to SMBs, we may also make opportunistic investments in larger or smaller companies.

BDC Distribution Policy

In connection with the BDC Conversion, we anticipate our board of directors will declare a special dividend of \$[] per share, which may be paid all in cash or partially in cash and partially in our common shares, with such composition to be determined by our board of directors. We have not declared or paid any other dividends during our prior three fiscal years, in view of our focus on retaining earnings for growth.

Subsequent to the completion of this offering, to the extent that we have income available, we intend to make quarterly distributions to our stockholders out of assets legally available for distribution. Our quarterly distributions, if any, will be determined by our board of directors. We expect our quarterly distributions during our first full year of operations as a BDC to be at an annual rate equal to approximately 9%-10% of our estimated net asset value. Our first quarterly distribution after this offering, which will be payable for the [] quarter of 20[], is expected to be approximately \$[] per share. The actual amount of such distribution, if any, remains subject to approval by our board of directors, and there can be no assurance that the distribution will be \$[] per share. This dividend payment is contingent upon the completion of this offering during the [] quarter of 20[]. The amount of the dividend will be proportionately reduced to reflect the number of days remaining in the quarter after the completion of this offering. Purchasers in this offering will be entitled to receive this dividend payment. We anticipate that the dividend will be paid from taxable earnings, including interest and capital gains generated by our investment portfolio. However, if we do not generate sufficient taxable earnings during the year, the dividend may constitute a return of capital. In such event, the source of the distribution may be the original capital invested or dividends reinvested by a particular stockholder rather than our income or gains. Stockholders should read any written disclosure accompanying a distribution carefully and should not assume that the source of any distribution is our ordinary income or gains. We expect to have the ability to increase our quarterly distributions to our stockholders over time as we invest the proceeds of this offering and increase the size of our investment portfolio.

Any distribution to our stockholders will be declared out of assets legally available for distribution. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of an investor’s basis in our stock and, assuming that an investor holds our stock as a capital asset, thereafter as a capital gain. Generally, a non-taxable return of capital will reduce an investor’s basis in our stock for federal tax purposes, which will result in higher tax liability when the stock is sold.

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We intend to elect to be treated, and intend to qualify annually thereafter, as a RIC under the Code, beginning with our first taxable year after the BDC Conversion. To obtain and maintain RIC tax treatment, we must distribute at least 90% of our net ordinary income and net short-term capital gains in excess of our net long-term capital losses, if any, to our stockholders. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of: (a) 98% of our net ordinary income for such calendar year; (b) 98.2% of our capital gain net income for the one-year period ending on October 31 of the calendar year; and (c) any net ordinary income and capital gain net income for preceding years that were not distributed during such years and on which we previously paid no U.S. federal income tax.

We currently intend to distribute net capital gains (*i.e.*, net long-term capital gains in excess of net short-term capital losses), if any, at least annually out of the assets legally available for such distributions. However, we may decide in the future to retain such capital gains for investment and elect to treat such gains as deemed distributions to you. If this happens, you will be treated for U.S. federal income tax purposes as if you had received an actual distribution of the capital gains that we retain and reinvested the net after tax proceeds in us. In this situation, you would be eligible to claim a tax credit (or in certain circumstances a tax refund) equal to your allocable share of the tax we paid on the capital gains deemed distributed to you. See “Material U.S. Federal Income Tax Considerations.” We cannot assure you that we will achieve results that will permit us to pay any cash distributions, and if we issue senior securities, we may be prohibited from making distributions if doing so would cause us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if such distributions are limited by the terms of any of our borrowings.

Unless you elect to receive your distributions in cash, we intend to make such distributions in additional shares of our common stock under our dividend reinvestment plan. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, investors participating in our dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes. If you hold shares of our common stock in the name of a broker or financial intermediary, you should contact such broker or financial intermediary regarding your election to receive distributions in cash, in lieu of shares of our common stock. See “Dividend Reinvestment Plan.”

Critical BDC Accounting Policies

Basis of Presentation

Our financial statements will be expressed in United States dollars and prepared in conformity with Generally Accepted Accounting Principles (“GAAP”) in the United States of America.

Valuation of Investments in Securities at Fair Value — Definition and Hierarchy

In accordance with GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, our board of directors uses various valuation approaches, and engages a third-party valuation firm, which we expect will provide positive assurance on the investments they review. In accordance with GAAP, a fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the board of directors. Unobservable inputs reflect the board of directors’ assumptions about the inputs market participants would use in pricing the asset or liability

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developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.
- Level 2 — Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Securities for which reliable market quotations are not readily available or for which the pricing source does not provide a valuation or methodology or provides a valuation or methodology that, in the judgment of our board of directors, does not represent fair value, which we expect will represent a substantial majority of the investments in our portfolio, shall be valued as follows: (i) each portfolio company or investment is initially valued by the investment professionals responsible for the portfolio investment; (ii) preliminary valuation conclusions are documented and discussed with our senior lending team and executive committee; (iii) independent third-party valuation firms engaged by, or on behalf of, the board of directors will conduct independent appraisals, review management's preliminary valuations and prepare separate preliminary valuation conclusions on a selected basis; (iv) the audit committee of the board of directors reviews the preliminary valuation of our senior lending team and executive committee and/or that of the third party valuation firm and responds to the valuation recommendation with comments, if any; and (v) the board of directors will discuss valuations and determine the fair value of each investment in our portfolio in good faith based on the input of the audit committee.

Determination of the fair value involves subjective judgments and estimates not susceptible to substantiation by auditing procedures. Accordingly, under current auditing standards, the notes to our financial statements will refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

The recommendation of fair value will generally be based on the following factors, as relevant:

- the nature and realizable value of any collateral;
- the portfolio company's ability to make payments;
- the portfolio company's earnings and discounted cash flow;
- the markets in which the issuer does business; and
- comparisons to publicly traded securities.

Securities for which market quotations are not readily available or for which a pricing source is not sufficient may include, but are not limited to, the following:

- private placements and restricted securities that do not have an active trading market;
- securities whose trading has been suspended or for which market quotes are no longer available;
- debt securities that have recently gone into default and for which there is no current market;
- securities whose prices are stale;

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- securities affected by significant events; and
- securities that our investment professional believe were priced incorrectly.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a market for the securities existed. Accordingly, the degree of judgment exercised by the board of directors in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the fair value measurement.

Valuation Techniques

Senior and Subordinated Secured Loans

Our investment portfolio will consist primarily of private debt instruments (“Level 3 debt”). We consider our Level 3 debt to be performing loans if the borrower is not in default, the borrower is remitting payments in a timely manner, the loan is in covenant compliance or is otherwise not deemed to be impaired. In determining the fair value of the performing Level 3 debt, our board of directors considers fluctuations in current interest rates, the trends in yields of debt instruments with similar credit ratings, financial condition of the borrower, economic conditions and other relevant factors, both qualitative and quantitative. In the event that a Level 3 debt instrument is not performing, as defined above, our board of directors will evaluate the value of the collateral utilizing the same framework described above for a performing loan to determine the value of the Level 3 debt instrument.

This evaluation will be updated no less than quarterly for Level 3 debt instruments that are not performing, and more frequently for time periods where there are significant changes in the collateral or significant changes in the perceived performance in the underlying portfolio company. The collateral value will be analyzed on an ongoing basis using internal metrics, appraisals, third party valuation agents and other data as may be acquired and analyzed by our management and board of directors.

Equity Investments in Private Companies

Our board of directors determines the fair value of its investments in private companies by incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, and performance multiples, among other factors, including third party valuation agents. Such nonpublic investments are included in Level 3 of the fair value hierarchy.

Investments in Private Investment Companies

As permitted under GAAP, investments in private investment companies are valued, as a practical expedient, utilizing the net asset valuation provided by the underlying private investment companies, without adjustment, when the net asset valuation of the investment is calculated (or adjusted by management if necessary) in a manner consistent with GAAP for investment companies. If it is probable that we will sell the investment at an amount different from the net asset valuation or in other situations where the practical expedient is not available, our board of directors considers other factors in addition to the net asset valuation, such as features of the investment, including subscription and redemption rights, expected discounted cash flows,

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transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value. Investments in private investment companies are included in Level 3 of the fair value hierarchy. In determining the value, our board of directors considers the length of time until the investment is redeemable, including notice and lock-up periods or any other restrictions on the disposition of the investment. Our board of directors also considers the nature of the portfolio of the private investment company and its ability to liquidate its underlying investments.

Warrants

Our board of directors will ascribe value to warrants based on fair value holdings that can include discounted cash flow analyses, option pricing models, comparable analyses and other techniques as deemed appropriate. Such warrants are included in Level 3 of the fair value hierarchy to the extent issued by non-public companies.

Use of Estimates

The preparation of our financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts disclosed therein. Actual results could differ from those estimates.

Revenue recognition

Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. Generally, when interest and/or principal payments on a loan become past due, or if we otherwise do not expect the borrower to be able to service its debt and other obligations, we will place the loan on non-accrual status, and will generally cease recognizing interest income on that loan for financial reporting purposes, until all principal and interest has been brought current through payment or due to a restructuring such that the interest income is deemed to be collectible. We will write off any previously accrued and uncollected interest when it is determined that interest is no longer considered collectible. Dividend income is recognized on the date dividends are declared. Origination, amendment, closing and/or commitment fees associated with investments in portfolio companies are recognized as income when the investment transaction closes. Prepayment penalties received by us for debt instruments repaid prior to maturity date will be recorded as income upon receipt.

Net realized gains or losses and net change in unrealized appreciation or depreciation

We will measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation will reflect the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

Historical Operations

The following discussion relates to our historical operations, prior to the BDC Conversion and this offering. As a result, all references in this subsection to “Newtek,” “our” or “we” refer to Newtek Business Services, Inc., including its consolidated subsidiaries. After the BDC Conversion, certain consolidated subsidiaries of Newtek Business Services, Inc. will become non-consolidated portfolio companies of Newtek Business Services Corp. In general, and with reference to the segments on which we report our financial results, the Electronic payment processing (NMS) and Managed technology solutions (NTS) and the All other (NIA & NPS) segments will be conducted by portfolio companies, as discussed below. We will generate dividend and interest income from such portfolio companies rather than the operating income the consolidated subsidiaries have historically provided. Newtek Business Services Corp. will conduct the Corporate, Capco and Small business finance segments (other than the business of NBC) directly or through its wholly-owned, consolidated subsidiary, Newtek Small Business Finance.

Comparison of three and nine months ended September 30, 2013 and September 30, 2012

For the quarter ended September 30, 2013, the Company reported income before income taxes of \$1,953,000, a \$706,000 or a 27% decrease over \$2,659,000 for the same quarter of 2012. Net income increased to \$1,820,000 in the third quarter of 2013 from \$1,307,000 in the same quarter of 2012. Favorably impacting our net income in both the three and nine month periods was a benefit to reconcile the prior year provision to the filed tax returns. The effect was a reduction in our effective tax rate of approximately 4% for the year. Total revenues increased by \$1,316,000 to \$34,774,000 from \$33,458,000 for the quarter ended September 30, 2013, due to increased revenues in the Electronic payment processing, the Small business finance, All other and the Corporate segments, offset by decreases in revenues in our Managed technology solutions and Capco segments.

In Electronic payment processing, the segment had an increase in revenue primarily due to growth in processing volumes due to the addition of several larger volume processing merchants as well as year over year growth in processing from existing merchants. This increase in revenue was partially offset by a decrease in operating margin, resulting in an 8% increase in income before income taxes. In the Small business finance segment, the SBA lender expanded its total volume of loan originations growing the total amount funded by \$15,700,000, a 59% increase over the year ago period. Notwithstanding a decline in the third party servicing portfolio due to a contraction of the FDIC portfolio, we added a new external servicing client at the end of the prior quarter, increasing our aggregate portfolio by 5% at September 30, 2013. In addition, we added an additional \$400,000,000 in external servicing at the start of the fourth quarter 2013, bringing our aggregate portfolio to over \$1 billion. Total external servicing fee income decreased by 60%, however, the servicing income earned on the NSBF portfolio increased by 29%, and interest income improved by 40% as a result of the average outstanding performing portfolio of SBA loans held for investment, which increased by \$26,226,000 over the same quarter of 2012. Overall, the lending segment reported \$1,728,000 in income before taxes for the third quarter of 2013, a 13% decrease compared with the three months ended September 30, 2012.

Managed technology solutions segment revenue remained essentially unchanged at \$4,455,000 for the three months ended September 30, 2013, a \$71,000 decrease compared with three months ended September 30, 2012. The segment had an increase in web design revenue, which was offset by a decline in web hosting revenue compared with the same quarter in 2012. Total expenses increased by 7%, resulting in a \$291,000 decrease in income before income taxes between quarters. In the All other segment, total revenue increased by 33% for the quarter ended September 30, 2013 compared with the same period in 2012, due primarily to the acquisition of a health and benefits insurance portfolio serviced by NIA, as well as additional clients added to our payroll processing company. Increases in salaries and benefits, as well as costs associated with a new start-up company, ACS, also included in this segment offset the increase to revenue and resulted in a \$132,000 increase in loss before income taxes for the quarter over quarter period. The loss before income taxes in the Corporate segment increased by 10% to \$1,847,000, due primarily to an increase in marketing expense in connection with the Company's television ad campaign, and the loss in the Capco segment remained essentially unchanged decreasing by 2% to \$377,000 for the three months ended September 30, 2013.

On October 1, 2013, the company filed a Form N-2 Registration Statement with the Securities and Exchange Commission. The Company's intention is to file an election to be regulated as a Business Development Company ("BDC") under the Investment Company Act of 1940 prior to the completion of an offering, and intends to operate subsequently as an internally managed, non-diversified closed-end investment company. The Company also intends to elect to be treated as a Regulated Investment Company ("RIC") under Subchapter M of the Internal Revenue Code (the "Code") for U.S. federal income tax purposes. We intend to use the net proceeds of the offering primarily to expand our small to medium-sized business, ("SMB") lending, make direct investments in portfolio companies in accordance with our investment objectives and strategies described in the prospectus, and for general corporate purposes. We believe that transitioning to a BDC and RIC will provide us with access to lower-cost capital and a business structure conducive to expanding our lending activities and will assist in maximizing our value to shareholders by, among other things, permitting us to value our assets and controlled portfolio companies at fair value. As a BDC, we will seek to generate both current income and capital appreciation primarily through loans originated by our small business finance platform and our equity

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investments in certain portfolio companies that we control. While our primary investment focus as a BDC will continue to be making loans and providing business services to the SMB market through our controlled portfolio companies, we may also make opportunistic investments in larger or smaller companies. We expect to continue to grow our business organically, both directly and through our controlled portfolio companies, as we have historically.

In July 2013 the SBA lender received an extension on the maturity of its warehouse lines of credit, totaling \$27 million, with Capital One, N.A. from September 30, 2013 to May 31, 2015, at which time the outstanding balance will be converted into a three-year term loan. The extension also enhanced the terms of the credit facilities by removing the \$15 million funding sub-limit for the non-guaranteed portions of the SBA 7(a) loans NSBF originates, and increasing the advance rate to 55% from 50% for the non-guaranteed portions of the SBA 7(a) loans.

Business Segment Results:

The results of the Company's reportable segments for the three and nine months ended September 30, 2013 and 2012 are discussed below:

Electronic Payment Processing

(In thousands):	Three months ended September 30:		\$ Change	% Change
	2013	2012		
Revenue:				
Electronic payment processing	\$22,176	\$21,686	\$ 490	2%
Interest income	1	1	—	— %
Total revenue	<u>22,177</u>	<u>21,687</u>	<u>490</u>	2%
Expenses:				
Electronic payment processing costs	18,939	18,308	631	3%
Salaries and benefits	808	1,099	(291)	(26)%
Professional fees	111	79	32	41%
Depreciation and amortization	84	171	(87)	(51)%
Insurance expense – related party	12	48	(36)	(75)%
Other general and administrative costs	344	240	104	43%
Total expenses	<u>20,298</u>	<u>19,945</u>	<u>353</u>	2%
Income before income taxes	<u>\$ 1,879</u>	<u>\$ 1,742</u>	<u>\$ 137</u>	8%

Three Months Ended September 30, 2013 and 2012

Electronic payment processing (“EPP”) revenue increased \$490,000 or 2% between years. Revenue increased primarily due to growth in the average monthly processing volume per merchant of 5%. The increase in the average monthly processing volume per merchant is due in part to the addition of several larger volume processing merchants as well as year-over-year growth in processing volumes from existing merchants. The overall increase in revenue between years due to growth in processing volumes and the average number of merchants serviced was partially offset by lower average pricing between years. A significant percentage of new merchants added, typically the higher volume merchants, are priced at interchange plus, which carries a lower “margin” (processing revenues less electronic payment processing costs), while at the same time, a significant percentage of those merchants who have left the Company were priced at tiered rate, which carries a higher margin. This combination along with competitive pricing seen in the industry has resulted in price compression and overall lower revenues.

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EPP costs increased \$631,000 or 3% between years, while margin decreased to 14.54% in 2013 from 15.35% in 2012. New lower contract pricing from the company's third-party processor favorably impacted the margin percentage between periods but such favorable impact was more than offset by lower prices for our services associated with the mix of new merchants added between periods as discussed above. Overall, the decrease in margin dollars was \$141,000 between years.

Salaries and benefits decreased \$291,000 or 26% between years principally as the result of a reduction in staffing levels and a reduction in accrued bonuses based on management's current estimate for the year. The number of average full time employees ("FTE") for the three month period decreased from 67 to 60 over the years. Depreciation and amortization decreased \$87,000 between years as the result of previously acquired merchant portfolios of intangible assets becoming fully amortized between periods. Other general and administrative costs increased \$104,000 or 43% between years predominately as a result of increased marketing expenses. Remaining costs decreased \$4,000 or 3% between years.

Income before income taxes increased \$137,000 to \$1,879,000 in 2013 from \$1,742,000 in 2012. The increase in income before income taxes was principally due to an increase in revenue, the reduction in staffing and related costs and depreciation and amortization cost between years offset by a reduction in margin of \$141,000.

(In thousands):	Nine months ended September 30:		\$ Change	% Change
	2013	2012		
Revenue:				
Electronic payment processing	\$67,299	\$63,674	\$ 3,625	6%
Interest income	4	4	—	— %
Total revenue	<u>67,303</u>	<u>63,678</u>	<u>3,625</u>	6%
Expenses:				
Electronic payment processing costs	56,826	53,494	3,332	6%
Salaries and benefits	2,671	3,186	(515)	(16)%
Professional fees	328	198	130	66%
Depreciation and amortization	289	581	(292)	(50)%
Insurance expense – related party	37	48	(11)	(23)%
Other general and administrative costs	973	915	58	6%
Total expenses	<u>61,124</u>	<u>58,422</u>	<u>2,702</u>	5%
Income before income taxes	<u>\$ 6,179</u>	<u>\$ 5,256</u>	<u>\$ 923</u>	18%

Nine Months Ended September 30, 2013 and 2012

EPP revenue increased \$3,625,000 or 6% between years. Revenue increased primarily due to growth in processing volumes and the effect of card association fee increases passed through to merchants. In addition, a change in the frequency of assessing a security compliance measurement fee to certain merchants from one measurement period per year to two times per year (at a reduced rate per measurement period) also positively affected revenues on a year over year basis by approximately \$400,000. Processing volumes were favorably impacted by an increase in the average number of processing merchants under contract between periods of 1%. In addition, growth in revenue between periods increased due to an increase of approximately 6% in the average monthly processing volume per merchant. The increase in the average monthly processing volume per merchant is due in part to the addition of several larger volume processing merchants as well as year-over-year growth in processing volumes from existing merchants. The overall increase in revenue between years (due to growth in processing volumes and the average number of merchants serviced) was partially offset by lower average pricing between years due to both competitive pricing considerations, particularly for larger processing volume merchants, and the mix of merchant sales volumes realized between periods.

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EPP costs increased by \$3,332,000 or 6% between years. EPP costs in 2013 and 2012 included provisions for charge-back losses of \$442,000 and \$1,150,000, respectively. The provision for charge-back losses in 2012 included losses of \$731,000 related to a group of merchants affiliated with one of its independent sales agents. The group of merchants related to such sales agent was unilaterally approved by a former senior manager of the EPP division and such charge-back losses resulted from violations of credit policy by such senior manager. EPP margin decreased from 15.9% in 2012 to 15.5% in 2013. Margin was favorably impacted by the reduction in provisions for charge-backs between years by 1.1%. In addition, margin was favorably impacted by the change in timing of assessing the security compliance measurement fee noted above and new lower contract pricing from the company's third-party processor. However, the favorable impact on margin of the aforementioned factors were slightly more than offset by lower average pricing between years due to both competitive pricing considerations, particularly for larger volume merchants, and the mix of merchant sales volumes realized between periods. Overall, the increase in margin dollars was \$293,000 between years.

Salaries and benefits decreased \$515,000 or 16% between years principally as the result of a reduction in staffing levels and a reduction in accrued bonuses based on management's current estimate for the year. Average FTE's for the nine month period decreased from 67 to 62 between years. Professional fees increased \$130,000 principally due to costs incurred in assessing the loss related to and the actions of the agent and the former senior management of EPP related to the charge-back losses associated with a group of merchants discussed above. Depreciation and amortization decreased \$292,000 between periods as the result of previously acquired customer merchant portfolio becoming fully amortized between periods. Remaining costs increased \$47,000 or 5% between years. During 2012, office relocation costs of approximately \$50,000 were incurred.

Income before taxes increased \$923,000 to \$6,179,000 in 2013 from \$5,256,000 in 2012. The increase in income before taxes was principally due to the increase in margin of \$293,000 due to the reasons noted above and the decreases in other costs, principally payroll and related costs and depreciation and amortization cost between years.

Small Business Finance

(In thousands):	Three months ended September 30:		\$ Change	% Change
	2013	2012		
Revenue:				
Premium income	\$ 4,104	\$ 3,154	\$ 950	30%
Servicing fee – NSBF portfolio	730	566	164	29%
Servicing fee – external portfolio	604	1,511	(907)	(60)%
Interest income	1,239	888	351	40%
Other income	898	618	280	45%
Total revenue	<u>7,575</u>	<u>6,737</u>	<u>838</u>	<u>12%</u>
Net change in fair value of:				
SBA loans held for sale	(70)	(72)	2	3%
SBA loans held for investment	(356)	(482)	126	26%
Total net change in fair value	<u>(426)</u>	<u>(554)</u>	<u>128</u>	<u>23%</u>

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(In thousands):	Three months ended September 30:		\$ Change	% Change
	2013	2012		
Expenses:				
Salaries and benefits	1,794	1,527	267	17%
Interest	1,387	1,098	289	26%
Professional fees	280	209	71	34%
Depreciation and amortization	329	239	90	38%
Provision for loan losses	57	90	(33)	(37)%
Insurance expense – related party	48	20	28	140%
Other general and administrative costs	1,526	1,016	510	50%
Total expenses	<u>5,421</u>	<u>4,199</u>	<u>1,222</u>	<u>29%</u>
Income before income taxes	<u>\$ 1,728</u>	<u>\$ 1,984</u>	<u>\$ (256)</u>	<u>(13)%</u>

Business Overview

The Small business finance segment is comprised of NSBF which is a non-bank SBA lender that originates, sells and services loans for its own portfolio as well as portfolios of other institutions and NBC which provides accounts receivable financing and billing services to businesses. As such, revenue is derived primarily from premium income generated by the sale of the guaranteed portions of SBA loans, interest income on SBA loans held for investment and held for sale, servicing fee income on the guaranteed portions of SBA loans sold, servicing income for loans originated by other lenders for which NSBF is the servicer, and financing and billing services, classified as other income above, provided by NBC. Most SBA loans originated by NSBF charge an interest rate equal to the Prime rate plus an additional percentage amount; the interest rate resets to the current Prime rate on a monthly or quarterly basis, which will result in changes to the amount of interest accrued for that month and going forward and a re-amortization of a loan's payment amount until maturity.

Accounting Policy

On October 1, 2010, the Company elected to utilize the fair value option for SBA 7(a) loans funded on or after that date. For these fair value loans, premium on loan sales equals the cash premium and servicing asset paid by the purchaser in the secondary market, the discount created on the unguaranteed portion from the sale which formerly reduced premium income is now included in the fair value line item, and, by not capitalizing various transaction expenses, the salary and benefit and loan processing expense lines portray a value closer to the cash cost to operate the lending business. The fair value measurement, currently recorded as a 7.5% upfront discount of the unguaranteed principal balance of SBA loans held for investment, is based upon internal quantitative data on our portfolio with respect to historical default rates and future expected losses as well as the investor price paid for the senior interest in our unguaranteed loans with respect to the 2013 securitized transaction, and adjusted for the estimated servicing and interest income to be retained by the trust over an estimated repayment term of three years. This was further adjusted to reflect the estimated default rate on the senior notes based on the default rate on our loan portfolio, assuming a worst case scenario of no recoveries. Should the performance of the underlying loans of the senior notes change, this could impact the assumptions used in the estimated repayment term as well as the estimated default rate and thus result in a higher or lower discount rate taken in the future; management reviews these assumptions regularly. If a loan measured at fair value is subsequently impaired, then the fair value of the loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. The value of impaired loans is factored into the 7.5% fair value discount on our overall portfolio. The significant unobservable inputs used in the fair value measurement of the impaired loans involve management's judgment in the use of market data and third party estimates regarding collateral values. Such estimates are further discounted by 20% – 80% to reflect the cost of liquidating the various assets under collateral. Any subsequent increases or decreases in any of the inputs would result in a corresponding decrease or

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increase in the reserve for loan loss or fair value of SBA loans, depending on whether the loan was originated prior or subsequent to October 1, 2010. Because the loans bear interest at a variable rate, NSBF does not have to factor in interest rate risk.

Consideration in arriving at the provision for loan loss includes past and current loss experience, current portfolio composition, future estimated cash flows, and the evaluation of real estate and other collateral as well as current economic conditions. For all loans originated on or prior to September 30, 2010, management performed a loan-by-loan review for the estimated uncollectible portion of non-performing loans; subsequent to September 30, 2010, management began recording all loan originations on a fair value basis which requires a valuation reduction of the unguaranteed portion of loans held for investment to a level that takes into consideration future losses. This valuation reduction is reflected in the line item above: Net Change in Fair Value of SBA Loans Held for Investment.

Small Business Finance Summary

	Three months ended September 30, 2013		Three months ended September 30, 2012	
	# Loans	In thousands	# Loans	In thousands
Loans sold in the quarter	43	\$ 32,240	25	\$ 21,378
Loans originated in the quarter	52	\$ 42,299	34	\$ 26,632
Premium income recognized	—	\$ 4,104	—	\$ 3,154
Average sale price as a percent of principal balance (1)		110.74%		112.41%

- (1) Premiums greater than 110.00% must be split 50/50 with the SBA. The premium income recognized above and weighted average net sale price reflect amounts net of split with the SBA.

For the three months ended September 30, 2013, the Company recognized \$4,104,000 of premium income from 43 loans sold aggregating \$32,240,000 as compared with \$3,154,000 of premium income from 25 loans sold aggregating \$21,378,000 for the three months ended September 30, 2012. Premiums on guaranteed loan sales averaged 110.74% with 1% servicing for the quarter ended September 30, 2013 compared with 112.41% with 1% servicing for the quarter ended September 30, 2012.

(In thousands):	Three months ended September 30:		\$ Change	% Change
	2013	2012		
Total NSBF originated servicing portfolio (2)	\$444,691	\$328,855	\$115,836	35%
Third party servicing portfolio	174,621	258,773	(84,152)	(33)%
Aggregate servicing portfolio	<u>\$619,312</u>	<u>\$587,628</u>	<u>\$ 31,684</u>	5%
Total servicing income earned NSBF portfolio	\$ 730	\$ 566	\$ 164	29%
Total servicing income earned external portfolio	604	1,511	(907)	(60)%
Total servicing income earned	<u>\$ 1,334</u>	<u>\$ 2,077</u>	<u>\$ (743)</u>	(36)%

- (2) Of this amount, total average NSBF originated portfolio earning servicing income was \$322,739,000 and \$244,455,000 for the three month periods ended September 30, 2013 and 2012, respectively.

We are the contractor managing and servicing portfolios of SBA 7(a), USDA and other loans acquired by the FDIC from failed financial institutions, and we assist the FDIC in the packaging of these loans for sale. During November 2012 and April 2013 the FDIC was successful in selling a significant group of loans with our assistance, which resulted in a reduction in current and future servicing income from the FDIC, offset by the addition of servicing income from other third party financial institutions. Our existing servicing facilities and

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personnel perform these activities supplemented by contract workers as needed. The size of the portfolio we will service for the FDIC, and thus the revenue earned, varies and depends on the level of bank failures and the needs of the FDIC in managing portfolios acquired from those banks as well as the success of being able to sell such portfolios. We continue to add other third party loan servicing contracts in 2013 which we expect will mitigate the declining FDIC portfolio.

The \$743,000 decrease in servicing fee income was attributable primarily to the reduction of FDIC servicing income which decreased by \$1,041,000 for the three months ended September 30, 2013 compared with the three months ended September 30, 2012. This decrease was offset by an increase in other third party loan servicing of \$134,000. The average third party servicing portfolio including the FDIC portfolio decreased to \$160,391,000 for the three months ended September 30, 2013 from \$258,810,000 for the same three month period in 2012. In addition, servicing fees received on the NSBF portfolio increased by \$164,000 quarter over quarter and was attributable to the expansion of the NSBF portfolio, in which we earn servicing income. The portfolio increased from an average of \$244,455,000 for the three month period ended September 30, 2012 to an average of \$322,739,000 for the same three month period in 2013. This increase was the direct result of increased loan originations in the last three months of 2012 and the nine months of 2013.

Interest income increased by \$351,000 for the three month period ended September 30, 2013 as compared to the same period in 2012. This increase was attributable to the average outstanding performing portfolio of SBA loans held for investment increasing to \$76,337,000 for the three months ended September 30, 2013 from \$50,111,000 for the same period in 2012.

Other income increased by \$280,000 for the three month period ended September 30, 2013 as compared to the same period in 2012, primarily due to a \$275,000 increase at NSBF. The increase was attributable to consulting fees of \$183,000 from the FDIC and \$50,000 packaging fee income as a result of the increase in the number of loans originated period over period as well as an increase in income from late payments of \$27,000.

The change in fair value associated with SBA loans held for sale is related to the amount of unsold guaranteed loans during a period, the timing of when those loans sell and the change in premium being received on those loans, as discussed above. During the three months ended September 30, 2013 there was a decrease of \$255,000 in the amount of unsold guaranteed loans when compared to the three months ended September 30, 2012. The decrease was offset by the change in premium percentages on those loans period over period.

The decrease in the change in fair value on SBA loans held for investment of \$126,000 is primarily a result of a reduction of the upfront discount recognized on unguaranteed loans, decreasing to 7.5% from 9.5% during the fourth quarter of 2012, resulting in a cumulative positive adjustment in the change in fair value of SBA loans held for investment. This reduction was determined based upon internal quantitative data on our portfolio with respect to historical default rates and future expected losses, as well as the investor price paid for the senior interest in our unguaranteed loans with respect to our securitized transactions, adjusted for the estimated servicing and interest income retained by the trust over an estimated repayment term of three years, and further adjusted to reflect the estimated default rate on the senior notes based on the default rate on our loan portfolio, assuming a worst case scenario of no recoveries. The Company further reduced the change in fair value on SBA loans by approximately \$275,000 as of September 30, 2013 to ensure that the fair value of the portfolio is properly reflected at 7.5%. The decrease in the fair value on SBA loans held for investment, was offset by increased loan originations period over period. During the quarter ended September 30, 2013, loans originated, held for investment aggregated \$10,429,000 as compared to \$6,169,000 of loans originated, held for investment for the three months ended September 30, 2012.

Salaries and benefits increased by \$267,000 primarily due to an increase in salaries and benefit costs and the addition of staff in most departments at NSBF. Headcount at NSBF increased by 40% from 45 at September 30, 2012 to 63 at September 30, 2013. The increase in salaries as a result of additional headcount was offset by a reduction in accrued bonuses based on management's current assessment.

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Interest expense increased by \$289,000 for the three months ended September 30, 2013 compared with the same period in 2012, due to an increase of \$190,000 of interest expense resulting from the 2013 Securitization which closed in March 2013. NSBF also experienced an increase of \$68,000 in interest expense in connection with the Capital One line of credit as result of increased borrowings. NBC experienced an increase of \$31,000 in interest expense under the Sterling credit facility due to increased borrowings associated with an increased accounts receivable portfolio.

Professional fees for the three months ended September 30, 2013 increased by \$71,000 when compared to the three months ended September 30, 2012 primarily due to increased accounting fees of \$96,000 and the addition of temporary help of \$33,000. Additionally, trustee fees increased period over period by approximately \$14,000 as a result of the 2013 securitization which was not in place as of September 30, 2012. These increases were offset by a reduction in legal expense period over period of approximately \$72,000.

Loan Loss Reserves and Fair Value Discount

(In thousands):	Three months ended September 30:		\$ Change	% Change
	2013	2012		
Total reserves and discount, beginning of period	\$ 6,602	\$ 5,628	\$ 974	17%
Provision for loan loss	57	90	(33)	(37)%
Discount, loans held for investment at fair value (3)	356	482	(126)	(26)%
Charge offs, Net	(65)	(98)	33	34%
Total reserves and discount, end of period	<u>\$ 6,950</u>	<u>\$ 6,102</u>	<u>\$ 848</u>	14%
Gross portfolio balance, end of period	\$87,077	\$59,860	\$27,217	45%
Total impaired nonaccrual loans, end of period	\$ 6,141	\$ 7,264	\$ (1,123)	(15)%

- (3) In 2012, the upfront discount taken on unguaranteed loans was reduced from 11% to 9.5%, and further reduced to 7.5%, where it remains at September 30, 2013. This reduction was based upon internal quantitative data on our portfolio with respect to historical default rates and future expected losses. The Company also utilized the investor price paid for the senior interest in our unguaranteed loans with respect to the 2013 securitized transaction, adjusted for the estimated servicing and interest income to be retained by the trust over an estimated repayment term of three years. This was further adjusted to reflect the estimated default rate on the senior notes based on the default rate on our loan portfolio, assuming a worst case scenario of no recoveries.

The combined provision for loan loss and discount, loans held for investment at fair value decreased from \$572,000 for the three months ended September 30, 2012 to \$413,000 for the same period in 2013, a net decrease of \$159,000. The allowance for loan loss, together with the cumulative fair value adjustment related to the SBA loans held for investment, increased from \$6,102,000, or 10.2% of the gross portfolio balance of \$59,860,000 at September 30, 2012, to \$6,950,000, or 8.0% of the gross portfolio balance of \$87,077,000 at September 30, 2013. Total impaired non-accrual loans decreased on a percentage basis from \$7,264,000 or 12.1% of the total portfolio at September 30, 2012 to \$6,141,000 or 7.1% at September 30, 2013. As of September 30, 2013 and 2012, \$1,964,000 or 28.2% and \$1,961,000 or 32.2%, respectively, of the allowance for loan losses and fair value discount was allocated as specific reserve against such impaired non-accrual loans. The year over year reduction in non-performing loans as a percentage of the gross performing portfolio balance results from an improvement in the overall economic climate. The year over year reduction in the specific reserve reflects both the relatively high level of overall collateralization on the non-performing portfolio as well as the increase in the portion of that portfolio making periodic payments pending return to performing status, reducing the need for a specific reserve at this time.

Other general and administrative costs increased by \$510,000 due primarily to an additional \$222,000 in marketing costs relating to the Company's television ad campaign, rent and telephone expense as a result of

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taking on additional space in our Long Island office, as well as adding an office in California and additional expenses associated with servicing our internal, growing portfolio at NSBF. The majority of the remaining difference of \$288,000 was attributable to additional reserves recorded at NBC.

The increase of loan originations and interest, generated by the addition to and enhanced performance of the portfolio, were not sufficient to offset lost servicing income from the FDIC portfolio, as well as increases in salary, interest and other general and administrative expenses. The resulting pretax income of \$1,728,000 was a 13% decline vs. the same three month period in 2012.

(In thousands):	Nine months ended September 30:		\$ Change	% Change
	2013	2012		
Revenue:				
Premium income	\$13,301	\$ 7,958	\$ 5,343	67%
Servicing fee – NSBF portfolio	2,007	1,641	366	22%
Servicing fee – external portfolio	2,346	3,488	(1,142)	(33)%
Interest income	3,409	2,404	1,005	42%
Management fees – related party	—	293	(293)	(100)%
Other income	2,336	1,754	582	33%
Total revenue	<u>23,399</u>	<u>17,538</u>	<u>5,861</u>	33%
Net change in fair value of:				
SBA loans held for sale	163	(154)	317	206%
SBA loans held for investment	(1,737)	(1,063)	(674)	(63)%
Warrant liability	—	(111)	111	100%
Total net change in fair value	<u>(1,574)</u>	<u>(1,328)</u>	<u>(246)</u>	(19)
Expenses:				
Salaries and benefits	5,602	4,379	1,223	28%
Interest	3,927	2,644	1,283	49%
Professional fees	799	561	238	42%
Depreciation and amortization	896	664	232	35%
Provision for loan losses	384	354	30	8%
Insurance expense – related party	142	20	122	610%
Other general and administrative costs	4,143	2,660	1,483	56%
Total expenses	<u>15,893</u>	<u>11,282</u>	<u>4,611</u>	41%
Income before income taxes	<u>\$ 5,932</u>	<u>\$ 4,928</u>	<u>\$ 1,004</u>	20%

Small Business Finance Summary

(In thousands):	Nine months ended September 30, 2013		Nine months ended September 30, 2012	
	# Loans	\$ Amount	# Loans	\$ Amount
Loans sold in period	112	\$ 90,167	69	\$ 56,397
Loans originated in period	121	\$ 119,951	69	\$ 72,143
Premium income recognized		\$ 13,301		\$ 7,958
Average net sale price (4)		112.43%		111.86%

(4) Premiums greater than 110.00% must be split 50/50 with the SBA. The premium income recognized above and weighted average net sale price reflect amounts net of split with the SBA.

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For the nine months ended September 30, 2013, the Company recognized \$13,301,000 of premium income from 112 loans sold aggregating \$90,167,000. During the nine months of 2012, the Company recognized \$7,958,000 of premium income from 69 loans sold totaling \$56,397,000. The increase in premium income is the result of an increased number of loans sold and an increase in average premium period over period. Premiums on guaranteed loan sales averaged 112.43% with 1% servicing for the nine months ended September 30, 2013 as compared with 111.86% for the nine months September 30, 2012.

Servicing Portfolios and related Servicing Income

(In thousands):	Nine months ended September 30:		\$ Change	% Change
	2013	2012		
Total NSBF originated servicing portfolio (5)	\$444,691	\$328,855	\$115,836	35%
Third party servicing portfolio	174,621	258,773	(84,152)	(33)%
Aggregate servicing portfolio	<u>\$619,312</u>	<u>\$587,628</u>	<u>\$ 31,684</u>	5%
Total servicing earned NSBF portfolio	2,007	1,641	366	22%
Total servicing income earned external portfolio	2,346	3,488	(1,142)	(33)%
Total servicing income earned	<u>\$ 4,353</u>	<u>\$ 5,129</u>	<u>\$ (776)</u>	(15)%

- (5) Of this amount, total average NSBF originated portfolio earning servicing income was \$301,368,000 and \$232,201,000 for the nine month period ended September 30, 2013 and 2012, respectively.

We are the contractor managing and servicing portfolios of SBA 7(a), USDA and other loans acquired by the FDIC from failed financial institutions, and we assist the FDIC in the packaging of these loans for sale. During November 2012 and April 2013 the FDIC was successful in selling a significant group of loans with our assistance, which resulted in a reduction in current and future servicing income from the FDIC, offset by the addition of servicing income from other third party financial institutions. Our existing servicing facilities and personnel perform these activities supplemented by contract workers as needed. The size of the portfolio we will service for the FDIC, and thus the revenue earned, varies and depends on the level of bank failures and the needs of the FDIC in managing portfolios acquired from those banks as well as the success of being able to sell such portfolios. We continue to add other third party loan servicing contracts in 2013 which we expect will mitigate the declining FDIC portfolio.

Servicing fees received on the NSBF portfolio increased by \$366,000 period over period and was attributable to the expansion of the NSBF originated portfolio in which we earn servicing income, which increased from an average of \$232,201,000 for the nine month period ending September 30, 2012 to an average of \$301,368,000 for the same nine month period in 2013. This increase was the direct result of increased loan originations in the last quarter of 2012 and the first nine months of 2013. Third party servicing income decreased by \$1,142,000 for the nine months ended September 30, 2013 when compared to the same nine month period in 2012 and was attributable primarily to the decrease in FDIC servicing income of \$1,597,000 as a result of the sale of a portion of that portfolio. This decrease was offset by an increase in other third party loan servicing of \$455,000. The average third party servicing portfolio, excluding the FDIC portfolio, increased from \$14,443,000 for the nine month period ended September 30, 2012 to \$74,853,000 for the same nine month period in 2013.

Interest income increased by \$1,005,000 for the nine months ended September 30, 2013 as compared to the same period in 2012 as a result of the average outstanding performing portfolio of SBA loans held for investment increasing to \$67,982,000 from \$46,343,000 for the nine months ended September 30, 2013 and 2012, respectively.

Other income increased by \$582,000 for the nine months ended September 30, 2013 as compared to the same period in 2012. The increase is partially attributable to a \$188,000 increase at NBC due to an increase in net

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investments on accounts receivable from an average of \$8,000,000 to an average of \$8,600,000 for the nine month period ended September 30, 2012 and 2013, respectively as well as an increase in the merchant cash advance program in which we earn commission revenue. Additionally, NSBF's other income increased by \$394,000 due mostly to consulting fee income of \$183,000 from the FDIC, increased loan recovery reimbursements of \$75,000 and an increase in packaging and late fee income of \$126,000 for the same nine month period.

The change in fair value associated with SBA loans held for sale of \$317,000 is related to the amount of unsold guaranteed loans during a period, the timing of when those loans sell and the change in premium being received on those loans, as discussed above. During the nine months ended September 30, 2013 there was an increase in the amount of unsold guaranteed loans of \$1,321,000 while during the nine months ended September 30, 2012 there was a decrease of \$960,000 in the amount of unsold guaranteed loans.

The increase in the change in fair value on SBA loans held for investment of \$674,000 is a result of the amount of unguaranteed loans originated during each period and the upfront discount recognized on unguaranteed loans being reduced from 11% to 9.5% in the first quarter 2012 which resulted in a fair value discount reduction of \$474,000. During the nine months ended September 30, 2012, loans originated, held for investment aggregated \$16,989,000 as compared to \$28,353,000 of loans originated, held for investment for the nine months ended September 30, 2013. The increase in the change in fair value associated with the increase in originations and first quarter 2012 discount reduction aggregated \$1,326,000 and was offset by a further reduction of the upfront discount recognized on unguaranteed loans, from 9.5% to 7.5% during the fourth quarter of 2012, resulting in a cumulative positive adjustment in the change in fair value of SBA loans held for investment of \$355,000. This rate reduction was determined based upon internal quantitative data on our portfolio with respect to historical default rates and future expected losses, as well as the investor price paid for the senior interest in our unguaranteed loans with respect to our securitized transactions, adjusted for the estimated servicing and interest income retained by the trust over an estimated repayment term of three years, and further adjusted to reflect the estimated default rate on the senior notes based on the default rate on our loan portfolio, assuming a worst case scenario of no recoveries. An additional reduction of the discount was taken during the third quarter of 2013 to ensure that the fair value of the portfolio is properly reflected at 7.5%.

Salaries and benefits increased by \$1,223,000 primarily due to the addition of staff in all departments. NSBF headcount increased by 31.7% from an average of 41 for the nine months ended September 30, 2012 to an average of 54 for the nine months ended September 30, 2013. The increase in salaries as a result of additional headcount was offset by a reduction in accrued bonuses based on management's current assessment.

Interest expense increased by \$1,283,000 for the nine months ended September 30, 2013 compared with the same period in 2012, due primarily to an increase of \$650,000 of interest expense associated with the Summit financing transaction which closed in April 2012 reflecting only 5 months of expense for the period ended September 30, 2012 vs. nine months expense for 2013. Interest expense for Summit includes interest, payment-in-kind interest, discount on the valuation of the warrant and amortization of deferred financing costs. Additionally, NSBF experienced an increase in interest expense of \$330,000 in connection with the closing of the 2013 securitization transaction and an additional \$254,000 increase related to the Capital One line of credit which increased from an average outstanding balance of \$8,875,000 for the nine months ended September 30, 2012 to \$13,383,000 for the same period in 2013. NBC experienced an increase of \$108,000 in interest expense under the Sterling credit facility which had average outstanding borrowings of \$4,800,000 and \$7,900,000 for the nine month period ended September 30, 2012 and 2013, respectively. These were offset by a decrease of \$21,000 in other interest expense related to investor remittances.

Professional fees for the nine months ended September 30, 2013 increased by \$238,000 when compared with the nine months ended September 30, 2012, primarily due to the addition of temporary staffing costs of \$143,000 and increased accounting fees of \$140,000. These increases were offset by a reduction in legal expense period over period of approximately \$72,000.

Loan Loss Reserves and Fair Value Discount

(In thousands):	Nine months ended September 30:		\$ Change	% Change
	2013	2012		
Total reserves and discount, beginning of period	\$ 6,092	\$ 5,566	\$ 526	9%
Provision for loan loss	384	354	30	8%
Discount, loans held for investment at fair value (6)	1,737	1,063	674	63%
Charge offs (net of recoveries)	(1,263)	(881)	(382)	(43)%
Total reserves and discount, end of period	<u>\$ 6,950</u>	<u>\$ 6,102</u>	<u>\$ 848</u>	14%
Gross portfolio balance, end of period	\$87,077	\$59,860	\$27,217	45%
Total impaired nonaccrual loans, end of period	\$ 6,141	\$ 7,264	\$ (1,123)	(15)%

- (6) In 2012, the upfront discount taken on unguaranteed loans was reduced from 11% to 9.5%, and further reduced to 7.5%, where it remains at September 30, 2013. This reduction was based upon internal quantitative data on our portfolio with respect to historical default rates and future expected losses. The Company also utilized the investor price paid for the senior interest in our unguaranteed loans with respect to the 2013 securitized transaction, adjusted for the estimated servicing and interest income to be retained by the trust over an estimated repayment term of three years. This was further adjusted to reflect the estimated default rate on the senior notes based on the default rate on our loan portfolio, assuming a worst case scenario of no recoveries.

The combined provision for loan loss and net change in fair value increased from \$1,417,000 for the nine months ended September 30, 2012 to \$2,121,000 for the same period in 2013, a net increase of \$704,000 period over period. The allowance for loan loss together with the cumulative adjustment related to SBA loans held for investment increased from \$6,102,000 or 10.2% of the gross portfolio balance of \$59,860,000 at September 30, 2012 to \$6,950,000 or 8.0% of the gross portfolio balance of \$87,077,000 at September 30, 2013. The decrease in reserve percentage reflects the positive performance of the portfolio. Total impaired non-accrual loans decreased from \$7,264,000 or 12.1% of the total portfolio at September 30, 2012 to \$6,141,000 or 7.1% at September 30, 2013 with \$1,964,000 or 32.2% and \$1,961,000 or 28.2% of the allowance for loan losses and fair value discount being allocated against such impaired non-accrual loans, respectively. The year over year reduction in non-performing loans results from an improvement in the overall economic climate.

Other general and administrative costs increased by \$1,483,000 and were mostly attributable to additional marketing costs of \$350,000 relating to the Company's television ad campaign, additional reserves recorded at NBC, increased loan origination costs of \$257,000, increased rent and facilities costs of \$233,000 and other expense of \$97,000 at NSBF.

The increase of loan originations and the size of the portfolio, combined with improvements in interest income, generated by the addition to and enhanced performance of the portfolio, and the addition of other income were sufficient to offset the decrease in servicing income from the FDIC and additional interest, salaries, servicing and origination expenses. The resulting pretax income of \$5,932,000 for the nine months ended September 30, 2013 was a 20% improvement over pretax income of \$4,928,000 for the nine months ended September 30, 2012.

Managed Technology Solutions

(In thousands):	Three months ended September 30:		\$ Change	% Change
	2013	2012		
Revenue:				
Web hosting and design	\$ 4,455	\$ 4,526	\$ (71)	(2)%
Expenses:				
Salaries and benefits	1,300	1,254	46	4%
Interest	44	19	25	132%
Professional fees	115	135	(20)	(15)%
Depreciation and amortization	327	318	9	3%
Insurance expense – related party	—	16	(16)	(100)%
Other general and administrative costs	1,788	1,612	176	11%
Total expenses	3,574	3,354	220	7%
Income before income taxes	\$ 881	\$ 1,172	\$ (291)	(25)%

Revenue is derived primarily from recurring contracted fees for hosting websites for shared hosting, dedicated servers and cloud instances (the “plans”). Less than 4% of revenues were derived from contracted services to design and maintain web sites. Revenue between periods decreased \$71,000, or 2%, to \$4,455,000 in 2013. Total revenue included an increase in web design revenue of \$55,000, offset by a \$126,000 decrease in web hosting revenue between periods. The decrease in web hosting revenue is the result of a decrease in the average monthly number of total plans by 5,601 or 11% between periods to 44,304 plans in 2013 from 49,905 plans in the third quarter of 2012. Partially offsetting the decrease in revenue was an increase in the average monthly revenue per plan of 8% to \$31.80 in 2013 from \$29.40 in 2012. This reflects a growth in cloud instances and customers purchasing higher cost plans including additional options and services as well as the effect of a pricing increase in March 2013. The average number of cloud instances increased by 19 to an average of 680 from 661 in 2012. The decrease in the average total plans occurred in the shared and dedicated segments. The average monthly number of dedicated server plans in 2013, which generate a higher monthly fee versus shared hosting plans, decreased by 275 between periods, or 19%, to an average of 1,166 from an average of 1,441 in 2012. The average monthly number of shared hosting plans in the third quarter of 2013 decreased by 5,346, or 11%, to an average of 42,458 from 47,804 in 2012. While competition from other web hosting providers as well as alternative website services continued to have an overall negative effect on web hosting plan count and revenue growth between periods, MTS experienced a lower rate of decline in web hosting revenues in the period as a result of the March 2013 pricing increase and an expanded product platform offering.

It continues to be management’s intent to increase revenues and margin per plan through higher service offerings to customers, although this may result in a lower number of plans in place overall. Management has broadened the Company’s focus beyond the Microsoft web platform by now providing its platform capabilities to include open source web applications which have become increasingly attractive to web developers and resellers.

Total expenses of \$3,574,000 in 2013 increased \$220,000 or 7%, from \$3,354,000 in 2012. MTS segment salaries and benefits in 2013 increased \$46,000 or 4% between years to \$1,300,000. MTS salaries and benefits are subject to project capitalization accounting rules and are also allocated out to other Newtek segments depending on the nature of work performed by MTS for such other segments. The number of FTE’s remained flat at 100 between years while a reduction in work performed by staff on company-wide development efforts and other segment projects resulted in the net increase in salary and benefit costs retained within MTS. Professional fees decreased \$20,000 principally due to a decrease in consulting costs between years. Depreciation and amortization increased \$9,000 between years to \$327,000 due to an increase in capital expenditures in the latter part of 2012 (including a capital lease obligation of \$632,000 for a new company-wide telephone system) and the

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timing of 2013 planned capital expenditures. Other general and administrative costs increased \$176,000 between years primarily as a result of increases in hardware maintenance and support costs of \$24,000, principally due to the restructuring of previous contracts in those areas, additional marketing costs of \$48,000, an increase in utility costs of \$17,000, an increase in Domain costs of \$13,000, and an increase in bad debt expense of \$90,000. These increases were partially offset by a reduction of telephone costs of \$22,000 between years.

Income before income taxes decreased by \$291,000 to \$881,000 in 2013 from \$1,172,000 in 2012. The decrease in profitability was principally due to a decline in web hosting revenue between years, an increase in salary and related benefit costs, and an increase in other general and administrative costs partially offset by an increase in web design related revenue and related margin contribution between years.

Nine months ended September 30, 2013 and 2012:

(In thousands):	Nine months ended September 30:		\$ Change	% Change
	2013	2012		
Revenue:				
Web hosting and design	\$13,449	\$13,789	\$ (340)	(2)%
Expenses:				
Salaries and benefits	3,815	3,807	8	0%
Interest	74	62	12	19%
Professional fees	434	385	49	13%
Depreciation and amortization	989	919	70	8%
Insurance expense – related party	—	16	(16)	(100)%
Other general and administrative costs	5,319	5,212	107	2%
Total expenses	10,631	10,401	230	2%
Income before income taxes	\$ 2,818	\$ 3,388	\$ (570)	(17)%

Revenue is derived primarily from recurring contracted fees for hosting websites for shared hosting, dedicated servers and cloud instances (the “plans”). Less than 4% of revenues were derived from contracted services to design and maintain web sites. Revenue between periods decreased \$340,000, or 2%, to \$13,449,000 in 2013. Total revenue included a decrease in web hosting revenue of \$589,000 or 4% and an increase in web design revenue of \$249,000 between periods. The decrease in web hosting revenue is the result of a decrease in the average monthly number of total plans by 5,728 or 11% between periods to 45,721 plans in 2013 from 51,449 plans in 2012. Partially offsetting the decrease in revenue was an increase in the average monthly revenue per plan of 10% to \$32.68 in 2013 from \$29.78 in 2012. This reflects a growth in cloud instances and customers purchasing higher cost plans including additional options and services as well as the effect of a pricing increase in March 2013. The average number of cloud instances increased by 56 to an average of 675 from 620 in 2012. The decrease in the average total plans occurred in the shared and dedicated segments. The average monthly number of dedicated server plans in 2013, which generate a higher monthly fee versus shared hosting plans, decreased by 279 between periods, or 18%, to an average of 1,246 from an average of 1,525 in 2012. The average monthly number of shared hosting plans in 2013 decreased by 5,505, or 11%, to an average of 43,799 from 49,304 in 2012. While competition from other web hosting providers as well as alternative website services continued to have an overall negative effect on web hosting plan count and revenue growth between periods, MTS experienced a lower rate of decline in web hosting revenues in the period as a result of the March 2013 pricing increase and an expanded product platform offering.

It continues to be management’s intent to increase revenues and margin per plan through higher service offerings to customers, although this may result in a lower number of plans in place overall. Management has broadened the Company’s focus beyond the Microsoft web platform by now providing its platform capabilities to include open source web applications which have become increasingly attractive to web developers and resellers.

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Total expenses of \$10,631,000 in 2013 increased \$230,000 from \$10,401,000 in 2012. MTS segment salaries and benefits increased \$8,000 between years to \$3,815,000. MTS salaries and benefits are subject to project capitalization accounting rules and are also allocated out to other Newtek segments depending on the nature of work performed by MTS for such other segments. The number of average staff positions decreased by 4% between periods, resulting in a reduction of salary expense of \$143,000 between years. In addition, benefit costs decreased \$171,000 due to a lower bonus provision between periods. The decrease in salaries and total benefit costs of \$314,000 noted above were offset by a reduction in work performed by staff on company-wide development efforts and other segment projects resulting in the net increase in salary and benefit costs retained within MTS of \$8,000. Professional fees increased \$49,000 principally due to a corresponding increase in web design development revenues between periods. Depreciation and amortization increased \$70,000 between periods to \$989,000 due to an increase in capital expenditures in the latter part of 2012 (including a capital lease obligation of \$632,000 for a new company-wide telephone system) and the timing of 2013 planned capital expenditures. Other general and administrative costs increased \$107,000 or 2% between years primarily as a result of increases in hardware maintenance and support costs of \$162,000, principally due to the restructuring of previous contracts in those areas, additional marketing costs of \$49,000, an increase in travel related costs of \$20,000 and an increase in bad debt expense of \$106,000. These increases were offset by a reduction in building occupancy costs (rent and utility costs) of \$172,000 and telephone costs of \$62,000.

Income before income taxes decreased \$570,000 to \$2,818,000 in 2013 from \$3,388,000 in 2012. The decrease in profitability was principally due to a decline in web hosting revenue between periods partially offset by an increase in web design related revenues and related margin contribution between periods.

All Other

(In thousands):	Three months ended September 30:		\$ Change	% Change
	2013	2012		
Revenues:				
Insurance commissions	\$ 433	\$ 286	\$ 147	51%
Insurance commissions – related party	90	114	(24)	(21)%
Other income	141	98	43	44%
Other income-related party	25	19	6	32%
Total revenue	<u>689</u>	<u>517</u>	<u>172</u>	<u>33%</u>
Expenses:				
Salaries and benefits	597	487	110	23%
Professional fees	188	68	120	176%
Depreciation and amortization	50	6	44	733%
Insurance expense – related party	—	9	(9)	(100)%
Other general and administrative costs	165	126	39	31%
Total expenses	<u>1,000</u>	<u>696</u>	<u>304</u>	<u>44%</u>
Loss before income taxes	<u>\$ (311)</u>	<u>\$ (179)</u>	<u>\$ (132)</u>	<u>(74)%</u>

The All Other segment includes revenues and expenses primarily from Newtek Insurance Agency, LLC (“NIA”), Newtek Payroll Services (“PAY”) and qualified businesses that received investments made through the Company’s Capco programs which cannot be aggregated with other operating segments.

In December 2012, the Company invested in Advanced Cyber Security Systems, LLC (“ACS”), a start-up company formed to offer web-based security solutions to the marketplace. ACS is accounted for as a variable interest entity (“VIE”) and recorded a loss before income taxes of \$49,000 for the three months ended September 30, 2013.

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Insurance commissions — related party represents commissions earned by NIA on policies sold to Newtek and its subsidiaries, previously eliminated within the segment until the third quarter of 2012 and now included in the corresponding segment, and Other income — related party represents fees charged by Newtek Payroll Services, LLC to Newtek and subsidiaries. Both are eliminated upon consolidation.

Total revenue increased by \$172,000, or 33% for the three months ended September 30, 2013 primarily due to the acquisition of a health and benefits insurance portfolio during the fourth quarter of 2012. The portfolio, which was purchased by an affiliated company and serviced by NIA, comprises commercial health-related policies. Total insurance commission revenue increased by \$123,000 during the three months ended September 30, 2013 as compared with the three months ended September 30, 2012. Combined other income increased by \$49,000, or 42%, and includes a \$33,000 increase in revenue related to payroll services provided by PAY. The total number of payroll clients grew by 53% increasing from 238 at September 30, 2012 to 363 at September 30, 2013.

Salaries and benefits increased by \$110,000, or 23%, for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012. Additional staff was added at NIA to service the health portfolio acquired in the fourth quarter of 2012, and also at PAY to service the additional payroll clients added throughout 2013. The \$120,000 increase in professional fees, which includes broker commission expense, is consistent with the increase in NIA's commission income. There was also a \$48,000 increase in legal expense incurred by PAY in connection with the recouping of funds related to a failure by an ACH provider in May 2013, as more fully discussed in Note 9 – Commitments and Contingencies. The \$44,000 increase in depreciation and amortization expense is related to the insurance book of business acquired in December 2012 and the \$39,000 increase in other general and administrative costs is primarily related to increases in marketing and other expenses at NIA.

(In thousands):	Nine months ended September 30:		\$ Change	% Change
	2013	2012		
Revenue:				
Insurance commissions	\$ 1,347	\$ 915	\$ 432	47%
Insurance commissions – related party	173	114	59	52%
Other income	411	311	100	32%
Other income – related party	61	60	1	2%
Total revenue	<u>1,992</u>	<u>1,400</u>	<u>592</u>	42%
Expenses:				
Salaries and benefits	1,924	1,536	388	25%
Professional fees	464	210	254	121%
Depreciation and amortization	152	22	130	591%
Insurance expense – related party	—	9	(9)	(100)%
Other general and administrative costs	665	361	304	84%
Total expenses	<u>3,205</u>	<u>2,138</u>	<u>1,067</u>	50%
Loss before income taxes	<u>\$ (1,213)</u>	<u>\$ (738)</u>	<u>\$ (475)</u>	(64)%

Nine months ended September 30, 2013 and 2012:

Total revenue increased by \$592,000, or 42% for the nine months ended September 30, 2013 as compared to the same period in 2012. Total insurance commissions increased by \$491,000 and are primarily related to the commercial health book of business acquired in December 2012. The \$101,000 increase in combined other income period over period, was related to PAY, which increased the total number of payroll clients from 238 at September 30, 2012 to 363 at September 30, 2013.

Total expenses increased by \$1,067,000 period over period primarily due to a \$388,000 increase in salaries and benefits; the majority of the increase was attributable to NIA, which added staff to service the new health

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portfolio; the remainder of the increase was related to PAY which added staff during 2013 to service the additional clients gained during the year, and ACS that also added new employees in 2013. Professional fees, which include broker commission expenses, increased by \$254,000 period over period. There was also an increase in legal expense incurred by PAY in connection with the recouping of funds related to a failure by an ACH provider in May 2013, more fully discussed in Note 9 –Commitments and Contingencies. Depreciation and amortization expense increased by \$130,000 as a result of the health and benefits portfolio acquired in December 2012, which is being amortized over a period of five years, and due to the amortization of a license acquired at PAY which was acquired in September 2012. Other general and administrative expense increased by \$304,000 period over period, and includes an increase of \$182,000 for software licensing fees and other office related expenses at ACS, and increases in marketing and other expenses primarily at NIA and PAY during the nine months ended September 30, 2013.

Corporate activities

(In thousands):	Three months ended September 30:		\$ Change	% Change
	2013	2012		
Revenue:				
Management fees – related party	\$ 249	\$ 199	\$ 50	25%
Interest income	1	1	—	—
Total revenue	250	200	50	25%
Expenses:				
Salaries and benefits	1,244	1,220	24	2%
Professional fees	247	262	(15)	(6)%
Depreciation and amortization	40	28	12	43%
Insurance expense – related party	78	21	57	271%
Other general and administrative costs	488	343	145	42%
Total expenses	2,097	1,874	223	12%
Loss before income taxes	<u>\$(1,847)</u>	<u>\$(1,674)</u>	<u>\$ (173)</u>	(10)%

The Corporate activities segment implements business strategy, directs marketing, provides technology oversight and guidance, coordinates and integrates activities of the other segments, contracts with alliance partners, acquires customer opportunities, and owns our proprietary NewTracker™ referral system and all other intellectual property rights. This segment includes revenue and expenses not allocated to other segments, including interest income, Capco management fee income, and corporate operating expenses. These operating expenses consist primarily of internal and external public accounting expenses, internal and external corporate legal expenses, corporate officer salaries, sales and marketing expense and rent for the principal executive offices.

Revenue is derived primarily from management fees earned from the Capcos. Management fee revenue increased 25% to \$249,000 from \$199,000 for the three months ended September 30, 2013 and September 30, 2012. Management fees, which are eliminated upon consolidation, are expected to decline in the future as the Capcos mature and utilize their cash. If a Capco does not have current or projected cash sufficient to pay management fees, then such fees are not accrued.

Total expenses increased by \$223,000, or 12%, for the three months ended September 30, 2013 over the same period in 2012. Salaries and benefits increased \$24,000 as a result of new staff added in the third quarter 2013 in Sales, Marketing, IT and Finance offset by a reduction in the accrued bonuses based on management's current assessment. Depreciation and amortization increased \$12,000 for the three months ended September 30, 2013 compared to the prior period due to the capitalization of website development costs. Insurance expense — related party, which is eliminated upon consolidation, increased in conjunction with the renewal of several of our corporate policies. Other general and administrative costs increased by 42% for the three months ended

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September 30, 2013 as compared with the prior period, as a result of an \$184,000 increase in marketing costs from the Company's television ad campaign, a larger portion of which was absorbed by Corporate in the current period compared with the three months ended September 30, 2012. This increase was partially offset by \$38,000 reduction in IT, office and other expenses.

Loss before income taxes increased by \$173,000 due primarily to increases in other general and administrative costs and salaries and benefits expenses for the three months ended September 30, 2013, as compared to the same period in 2012.

(In thousands):	Nine months ended September 30:		\$ Change	% Change
	2013	2012		
Revenue:				
Management fees – related party	\$ 647	\$ 646	\$ 1	—
Interest and other income	3	8	(5)	(63)%
Total revenue	<u>650</u>	<u>654</u>	<u>(4)</u>	<u>(1)%</u>
Expenses:				
Salaries and benefits	4,168	3,802	366	10%
Professional fees	1,029	726	303	42%
Depreciation and amortization	124	83	41	49%
Insurance expense – related party	133	21	112	533%
Other general and administrative costs	919	1,425	(506)	(36)%
Total expenses	<u>6,373</u>	<u>6,057</u>	<u>316</u>	<u>5%</u>
Loss before income taxes	<u><u>\$(5,722)</u></u>	<u><u>\$(5,403)</u></u>	<u><u>\$ (320)</u></u>	<u><u>(6)%</u></u>

Nine months ended September 30, 2013 and 2012:

Revenue is derived primarily from management fees earned from the Capcos. Related party management fee revenue essentially remained unchanged at \$647,000 for the nine months ended September 30, 2013 compared with the nine months ended September 30, 2012. Related party management fees, which are eliminated upon consolidation, are expected to continue to decline in the future as the Capcos mature and utilize their cash. If a Capco does not have current or projected cash sufficient to pay management fees, then such fees are not accrued.

Total expenses increased \$316,000, or 5%, for the nine months ended September 30, 2013 from the same period in 2012. Salaries and benefits increased by \$366,000, due to the addition of new staff in sales, executive, IT and the human resources departments, offset by a reduction in the accrued bonuses based on management's current assessment. Professional fees increased by \$303,000 due primarily to audit and legal fees incurred in connection with the restatement of the 2011 and 2012 financial statements. The \$41,000 increase in depreciation and amortization was related to the capitalization of website development costs, and insurance expense — related party increased in conjunction with the renewal of several of our corporate policies. These increases were partially offset by a decrease in other general and administrative costs that included a \$244,000 reversal of an accrual for a contract dispute that was settled during the quarter, as well as a \$262,000 reduction in IT, rent and other office related expense.

Loss before income taxes increased \$320,000 for the nine months ended September 30, 2013, as compared to the same period in 2012, primarily due to the increases in salaries and benefits, professional fees and related party insurance expense.

Capcos

(In thousands):	Three months ended September 30:		\$ Change	% Change
	2013	2012		
Revenue:				
Income from tax credits	\$ 31	\$ 122	\$ (91)	(75)%
Interest income	2	3	(1)	(33)%
Other income	9	—	9	100%
Total revenue	42	125	(83)	(66)%
Net change in fair value of:				
Credits in lieu of cash and Notes payable in credits in lieu of cash	—	(20)	20	(100)%
Expenses:				
Management fees – related party	249	199	50	25%
Interest expense	41	112	(71)	(63)%
Professional fees	98	134	(36)	(27)%
Other general and administrative costs	31	46	(15)	(33)%
Total expenses	419	491	(72)	(15)%
Loss before income taxes	<u>\$ (377)</u>	<u>\$ (386)</u>	<u>\$ 9</u>	2%

As described in Note 3 to the condensed consolidated financial statements (unaudited), effective January 1, 2008, the Company adopted fair value accounting for its financial assets and financial liabilities concurrent with its election of the fair value option for substantially all credits in lieu of cash, notes payable in credits in lieu of cash and prepaid insurance. These are the financial assets and liabilities associated with the Company's Capco notes that are reported within the Company's Capco segment. The table above reflects the effects of the adoption of fair value measurement on the income and expense items (income from tax credits, interest expense and insurance expense) related to the revalued financial assets and liability for the three months ended September 30, 2013 and 2012. In addition, the net change to the revalued financial assets and liability for the three months ended September 30, 2013 and 2012 is reported in the line "Net change in fair value of Credits in lieu of cash and Notes payable in credits in lieu of cash" on the condensed consolidated statements of income (unaudited).

The Company does not anticipate creating any new Capcos in the foreseeable future and the Capco segment will continue to incur losses going forward. The Capcos will continue to earn cash investment income on their cash balances and incur cash management fees and operating expenses. The amount of cash available for investment and to pay management fees will be primarily dependent upon future returns generated from investments in qualified businesses. Income from tax credits will consist solely of accretion of the discounted value of the declining dollar amount of tax credits the Capcos will receive in the future; the Capcos will continue to incur non-cash interest expense related to the tax credits.

Revenue is derived primarily from non-cash income from tax credits. The \$83,000 decrease in total revenues for the three months ended September 30, 2013 versus the same period in 2012 reflects the effect of the declining dollar amount of tax credits remaining in 2013. The amount of future income from tax credits revenue will fluctuate with future interest rates. However, over future periods through 2016, the amount of tax credits, and therefore income the Company will recognize, will decrease to zero.

Expenses consist primarily of management fees and non-cash interest expense. While related party management fees for the three months ended September 30, 2013 increased by \$50,000 as compared with the year ago period due to available cash in several of the Capcos, management fees, which are eliminated upon

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consolidation, are expected to decline in the future as the Capcos mature and utilize their cash. Interest expense decreased by \$71,000, or 63%, for the three months ended September 30, 2013 compared with the year ago quarter as a result of the declining amount of notes payable in 2013. Other general and administrative costs decreased from the year ago period primarily as a result of a reduction in rent expense and also a decrease in annual fees assessed by state authorities.

Overall, the pretax loss before income taxes in the Capco segment decreased by \$9,000, period over period, primarily due to the reduced income from tax credits and the increase in interest expense for the three months ended September 30, 2013.

(In thousands):	Nine months ended September 30:		\$ Change	% Change
	2013	2012		
Revenue:				
Income from tax credits	\$ 86	\$ 441	\$ (355)	(80)%
Interest income	24	19	5	26%
Other income	21	121	(100)	(83)%
Total revenue	<u>131</u>	<u>581</u>	<u>(450)</u>	<u>(77)%</u>
Net change in fair value of:				
Credits in lieu of cash and Notes payable in credits in lieu of cash	<u>26</u>	<u>21</u>	<u>5</u>	24%
Expenses:				
Management fees – related party	647	939	(292)	(31)%
Interest	143	493	(350)	(71)%
Professional fees	214	272	(58)	(21)%
Other general and administrative costs	111	91	20	22%
Total expenses	<u>1,115</u>	<u>1,795</u>	<u>(680)</u>	<u>(38)%</u>
Loss before income taxes	<u>\$ (958)</u>	<u>\$ (1,193)</u>	<u>\$ 235</u>	20%

Nine months ended September 30, 2013 and 2012:

Revenue is derived primarily from non-cash income from tax credits. The decrease in total revenue for the nine months ended September 30, 2013 versus the same period in 2012 reflects the effect of the declining dollar amount of tax credits remaining in 2013, and the decrease in other income is related to a \$100,000 gain on the sale of an investment with a zero carrying basis in the prior period. The amount of future income from tax credits revenue will fluctuate with future interest rates. However, over future periods through 2016, the amount of tax credits, and therefore the income the Company will recognize, will decrease to zero.

Expenses consist primarily of management fees and non-cash interest expense. Related party management fees decreased by \$292,000, or 31%, for the nine months ended September 30, 2013 compared with the same period ended 2012. Related party management fees, which are eliminated upon consolidation, are expected to decline in the future as the Capcos mature and utilize their cash. Interest expense decreased by \$350,000, or 71%, for the nine months ended September 30, 2013 from \$493,000 as a result of the declining dollar amount of tax credits payable in 2012. Other general and administrative costs increased from the year ago period due primarily to a \$21,000 increase in filing and other fees assessed by the state authorities, and the reversal of accrued other expenses in the year ago period.

The decrease in management fees and interest expense offset the reduction in income from tax credits improving the overall segment loss before income taxes by \$235,000 for the nine months ended September 30, 2013 compared with the year ago period.

Comparison of years ended December 31, 2012 and December 31, 2011

For the year ended December 31, 2012, we recorded net income of \$5,557,000 on revenues of \$131,130,000. Net income improved by \$2,334,000, from net income of \$3,223,000 in 2011 (restated); pretax income was \$9,439,000, a \$7,410,000 improvement over the \$2,029,000 pretax income in 2011 (restated). Total revenues increased by \$5,791,000, or 4.6%, from \$125,339,000 for the year ended December 31, 2011 principally due to increased revenues in the small business finance and Electronic payment processing segments. The total net change in fair value recorded was a loss of \$1,121,000, the majority of which was attributable to the small business finance segment. The \$4,503,000 improvement over the prior year was primarily related to the reversal of a fair value gain recorded in connection with the guaranteed portions of SBA 7(a) loans transferred in secondary market transactions occurring in 2010, but sales status was delayed until 2011. Total expenses increased \$2,884,000 to \$120,570,000 for the year ended 2012 from \$117,686,000 for 2011 (restated): increases in electronic payment processing costs, salaries and benefits, interest and provision for loan losses, were offset by decreases in depreciation and amortization, lease restructuring charges, and other general and administrative costs.

Contributing to the pretax income of \$9,439,000 in 2012 were improvements in the Electronic payment processing, small business finance, Capco and Corporate segments, which were offset by a decrease in pretax income for Managed technology and an increased pretax loss in the All Other segment. The Electronic payment processing segment gross margin decreased on a percentage basis, primarily due to a \$1,300,000 provision for charge-back losses recognized in 2012 related to a group of merchants affiliated with one of its independent sales agents. This decline was offset in part by an increase in margin due to a combination of growth in processing volumes, increases in certain fees and additional services provided to our merchants. The improvement in the Corporate segment pretax income resulted from reductions in salaries and benefits and the amortization of accrued lease restructuring charges recorded in the year ago period.

One of the primary contributors for Newtek's continued profitability was the Small business finance segment which generated pretax income of \$8,094,000 as compared to \$4,135,000 in 2011, an increase of \$3,959,000. The primary driver was servicing fee income which increased by \$3,763,000, or 121% over the year ago period resulting from increases related to third party servicing as well as an increase in our own servicing portfolio. The segment originated \$107,425,000 of SBA loans during 2012 with an average sales price of 114.16%, up from 111.35% in 2011. The small business lender also continued to benefit from a contract with the Federal Deposit Insurance Corporation to provide servicing in connection with failures of banks holding SBA guaranteed loans.

The Electronic payment processing segment recorded a 14% increase in pretax net income, which grew to \$7,041,000 from \$6,157,000 over the year ago period (restated). Revenue increased by \$3,008,000 or 4% to \$85,489,000 during 2012 compared to 2011. The increase was related to growth in processing volumes, fee increases and additional services provided to our merchants. Processing revenue less processing costs decreased slightly from 15.9% to 15.6% in 2012; this reduction in margin was due largely to a \$1,300,000 provision for charge-back losses.

As discussed in Note 26, we have restated our audited consolidated financial and other financial information for the quarter and year ended December 31, 2011, and for each of the quarters ended in 2012 in connection with the understated merchant chargeback reserves in each of the affected periods. This restatement was caused by losses related to understated merchant chargeback reserves in each of the affected periods. We identified the matter through an internal review of our chargeback reserves during the 2012 year-end closing process. The incident involved violations of our policies and procedures by a member of senior management in the Electronic payment processing segment which resulted in the understatement of chargeback loss reserves for a group of merchants introduced to us by a single independent sales agent. Management concluded that the correction of the understatements required that we restate our financial statements for the periods ended December 31, 2011, March 31, 2012, June 30, 2012 and September 30, 2012 and that this provision for chargeback loss be spread over the affected periods beginning with the fourth quarter of 2011 and throughout 2012.

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Pretax net income for Managed technology solutions decreased from \$4,837,000 to \$4,254,000 for the year ended December 31, 2012. While segment revenue decreased by 5% due primarily to a reduction in web hosting, the number of customers using our cloud computing services and the average revenue per plan increased from the year ago period. It continues to be management's intent to increase revenue and margin per plan through higher service offerings to customers which include cloud-based applications.

In April 2012, we closed a \$15,000,000 credit facility with Summit comprised of a \$10,000,000 term loan, which was drawn at closing, and a \$5,000,000 delayed draw term loan to be made upon the satisfaction of certain conditions. The \$5,000,000 second tranche of this loan will not be drawn by us. The funds obtained were used primarily for general corporate purposes including the origination of SBA 7(a) loans. The terms of this financing agreement are discussed more fully in Note 12 to the Consolidated Financial Statements — Notes Payable.

As part of our new marketing campaign launched in 2012, we presented our re-designed website, which better emphasized our branding strategy and offers easier use for the customer. In addition, we premiered our new magazine, *The Small Business Authority Observer*, a semi-annual publication focused on helping business owners increase their sales, reduce their costs and minimize their risks. Our new marketing campaign includes national exposure focusing on generating awareness of our products and services to qualified SMB owners. Our direct media advertising campaign under our banner NEWTEK® *The Small Business Authority*, includes national television commercials, online display and search media parameters. We continue production of *The Small Business Authority Index*® and *The SBA Market Sentiment Survey*® reflecting our polling and assessment of business conditions for SMBs.

In March 2013, we closed our third securitization issuing an additional \$20,909,000 in notes with an A-rating under S&P; see Note 27 to the Consolidated Financial Statement — Subsequent Events.

Business Segment Results:

The results of our reportable business segments are discussed below.

Small Business Finance

(In thousands):	2012	2011	2010	% Change	
				2012	2011
Revenue:					
Premium on loan sales	\$12,367	\$12,468	\$2,428	(1)%	414%
Servicing fee	6,861	3,098	2,564	121%	21%
Interest income	3,370	2,545	1,747	32%	46%
Management fees – related party	293	585	585	(50)%	— %
Other income	2,517	2,329	2,047	8%	14%
Total revenue	<u>25,408</u>	<u>21,025</u>	<u>9,371</u>	21%	124%
Net change in fair value of:					
SBA loans transferred, subject to premium recourse	—	(3,366)	3,366	(100)%	(200)%
SBA loans held for sale	(163)	265	413	(162)%	(36)%
SBA loans held for investment	(851)	(2,392)	(285)	(64)%	739%
Warrants	(111)	—	—	(100)%	— %
Total net change in fair value	<u>(1,125)</u>	<u>(5,493)</u>	<u>3,494</u>	80%	(257)%

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(In thousands):	2012	2011	2010	% Change	
				2012	2011
Expenses:					
Salaries and benefits	6,124	4,689	3,620	31%	30%
Interest	3,836	2,030	1,916	89%	6%
Management fees – related party	—	—	460	0%	(100)%
Professional fees	700	474	450	48%	5%
Depreciation and amortization	919	893	790	3%	13%
Provision for loan loss	805	751	1,849	7%	(59)%
Insurance expense-related party	20	—	—	(100)%	— %
Other general and administrative costs	3,785	2,560	1,735	48%	48%
Total expenses	<u>16,189</u>	<u>11,397</u>	<u>10,820</u>	42%	5%
Income before income taxes	<u>\$ 8,094</u>	<u>\$ 4,135</u>	<u>\$ 2,045</u>	96%	102%

Business Overview

The small business finance segment is comprised of NSBF which is a non-bank SBA lender that originates, sells and services loans for its own portfolio as well as portfolios of other institutions, and NBC which provides accounts receivable financing and billing services to business. Revenue is derived primarily from premium income generated by the sale of the guaranteed portions of SBA loans, interest income on SBA loans held for investment and held for sale, servicing fee income on the guaranteed portions of SBA loans sold, servicing income for loans originated by other lenders for which NSBF is the servicer, and financing and billing services, classified as other income above, provided by NBC. Most SBA loans originated by NSBF charge an interest rate equal to the Prime rate plus an additional percentage amount; the interest rate resets to the current Prime rate on a monthly or quarterly basis, which will result in changes to the amount of interest accrued for that month and going forward and a re-amortization of a loan's payment amount until maturity.

Accounting Policy

On October 1, 2010, we elected to utilize the fair value option for SBA 7(a) loans funded on or after that date. For these fair value loans, premium on loan sales equals the cash premium and servicing asset paid by the purchaser in the secondary market, the discount created on the unguaranteed portion from the sale which formerly reduced premium income is now included in the fair value line item, and, by not capitalizing various transaction expenses, the salaries and benefits and loan processing expense lines portray a value closer to the cash cost to operate the lending business. The fair value measurement, currently recorded as a 7.5% upfront discount of the unguaranteed principal balance of SBA loans held for investment, is based upon internal quantitative data on our portfolio with respect to historical default rates and future expected losses as well as the investor price paid for the senior interest in our unguaranteed loans with respect to the 2013 securitized transaction, and adjusted for the estimated servicing and interest income to be retained by the trust over an estimated repayment term of three years. This was further adjusted to reflect the estimated default rate on the senior notes based on the default rate on our loan portfolio, assuming a worst case scenario of no recoveries. Should the performance of the underlying loans to the senior notes change, this could impact the assumptions used in the estimated repayment term as well as the estimated default rate and thus result in a higher or lower discount rate taken in the future; management reviews these assumptions regularly. If a loan measured at fair value is subsequently impaired, then the fair value of the loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. The significant unobservable inputs used in the fair value measurement of the impaired loans involve management's judgment in the use of market data and third party estimates regarding collateral values. Such estimates are further discounted by 20% - 80% to reflect the cost of liquidating the various assets under collateral. Any subsequent increases or decreases in any of the inputs would result in a corresponding decrease or increase in the reserve for loan loss or fair value of SBA loans, depending on whether the loan was

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originated prior or subsequent to October 1, 2010. Because the loans bear interest at a variable rate, NSBF does not have to factor in interest rate risk.

Consideration in arriving at the provision for loan loss includes past and current loss experience, current portfolio composition, future estimated cash flows, and the evaluation of real estate and other collateral as well as current economic conditions. For all loans originated on or prior to September 30, 2010, management performed a loan-by-loan review for the estimated uncollectible portion of non-performing loans; subsequent to September 30, 2010, management began recording all loan originations on a fair value basis which requires a valuation reduction of the unguaranteed portion of loans held for investment to a level that takes into consideration future losses. This valuation reduction is reflected in the line item above: Net Change in Fair Value of SBA Loans Held for Investment.

2012

Small Business Finance Summary

(In thousands):	For the Year ended December 31,					
	2012		2011		2010	
	# Loans	\$ Amount	# Loans	\$ Amount	# Loans	\$ Amount
Loans sold/transferred during the period	105	84,743	102	73,871	101	57,517
Loans originated during the period	104	107,425	102	97,129	106	65,655
Loans that achieved sale status, originated in prior period	—	—	47	30,783	—	—
Premium income recognized (1)	—	\$ 12,367	—	\$ 12,468	—	\$ 2,428
Average sale price as a percent of principal balance (2)		114.16%		111.35%		110.33%

- (1) Of the total premium recognized for the year ended December 31, 2011, \$3,196,000 was from previously originated loans that achieved sale status as a result of the warranty period expiring.
- (2) Premiums greater than 110.00% must be split 50/50 with the SBA.

For the year ended December 31, 2012, we recognized \$12,367,000 of premium income from 105 loans sold aggregating \$84,743,000. During 2011, we recognized \$9,272,000 of premium income from 102 loans sold totaling \$73,871,000 not subject to the premium warranty, and 47 loans aggregating \$30,783,000 previously subject to the premium warranty that achieved sale status during 2011. The decrease in premium income for the year ended December 31, 2012 as compared with the prior period was due entirely to the reversal of the fair value adjustment of \$3,196,000 associated with SBA loans transferred, subject to premium recourse, which increased premium income for the same amount for the year ended December 31, 2011. Sale prices on guaranteed loan sales averaged 114.16% for the twelve months ended December 31, 2012 compared with 111.35% for the twelve months ended December 31, 2011.

Servicing Portfolios and related Servicing fee income

(In thousands):	Year ended December 31,			% Change	
	2012	2011	2010	2012	2011
	Total NSBF originated servicing portfolio (1)	\$351,736	\$286,113	\$218,223	23%
Third party servicing portfolio	176,988	136,971	73,886	29%	85%
Aggregate servicing portfolio	\$528,724	\$423,084	\$292,109	25%	45%
Total servicing income earned NSBF portfolio	\$ 2,298	\$ 1,635	\$ 1,784	41%	(8)%
Total servicing income earned external portfolio	\$ 4,564	\$ 1,466	\$ 784	211%	87%
Total servicing income earned	\$ 6,862	\$ 3,101	\$ 2,568	121%	21%

- (1) Of this amount, the total average NSBF originated portfolio earning servicing income was \$238,590,000, \$192,126,000 and \$159,873,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

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The \$3,761,000 improvement in total servicing income was attributable primarily to third party loan servicing, which increased by \$3,098,000 for the year ended December 31, 2012 compared to the year ended December 31, 2011. The twelve month average third party servicing portfolio increased from \$96,398,000 to \$200,737,000 for the 2011 and 2012 annual periods, respectively. In addition, servicing fees received from the SBA on repurchased loans increased by \$154,000 and the remaining increase of \$512,000 was attributable to the expansion of the NSBF portfolio, in which we earn servicing income, which increased from an average of \$192,126,000 for the twelve month period ended December 31, 2011 to an average of \$238,590,000 for the same twelve month period in 2012. This increase was the direct result of increased loan originations throughout 2011 and 2012.

Interest income increased by \$825,000 for the year ended December 31, 2012 as compared to 2011. This increase was attributable to an additional \$1,169,000 of interest income as a result of the average outstanding performing portfolio of SBA loans held for investment increasing to \$48,512,000 from \$29,649,000 for the years ended December 31, 2012 and 2011, respectively. Results for 2011 included \$344,000 in interest earned from SBA loans transferred, subject to recourse; all transferred loans achieved sales status as of December 31, 2011.

Other income increased by \$188,000 primarily due to a \$277,000 increase in revenues at NBC. Fees earned on receivable advances increased by \$118,000 which was attributable to an increase in the average of financed receivables from \$4,937,000 in 2011, to \$6,025,000 in 2012. Annual fees, due diligence fees and under minimum fees increased by an aggregate of \$237,000 year over year, while commissions, late fees and billing service revenue, along with other miscellaneous fees decreased by an aggregate of \$78,000 year over year. Increases in other income attributable to NBC was offset by an \$86,000 reduction in other income at NSBF attributable to recognizing fewer expense recoveries and packaging fees.

The increase in the net change in fair value associated with SBA loans transferred, subject to premium recourse, is the direct result of all previously transferred loans having achieved sale status during 2011 as well as the SBA removing the warranty provision allowing us to recognize premium income on the date of sale. During the year ended December 31, 2011, as a result of the expiration of the premium warranty, all previously transferred loans were recognized as sales, thereby reducing the corresponding fair value adjustment by \$3,366,000. The change in fair value associated with SBA loans held for sale is related to the total amount of loans converted from partially funded to fully funded status during a given period. The decrease in the change in fair value on SBA loans held for investment is a result of reducing the upfront discount recognized on unguaranteed loans, from 11% to 9.5% during the first quarter of 2012 and further reduced to 7.5% at December 31, 2012. This reduction was determined based upon internal quantitative data on our portfolio with respect to historical default rates and future expected losses as well as the investor price paid for the senior interest in our unguaranteed loans with respect to our two securitized transactions, adjusted for the estimated servicing and interest income retained by the trust over an estimated repayment term of three years and further adjusted to reflect the estimated default rate on the senior notes based on the default rate on our loan portfolio, assuming a worst case scenario of no recoveries. During the year ended December 31, 2012, loans originated and held for investment aggregated \$24,076,000 resulting in a corresponding fair value loss of \$851,000, representing an improvement of \$1,542,000 over 2011. In connection with the Summit financing transaction which closed in April 2012, we recorded a fair value loss of \$111,000 for the twelve months ended December 31, 2012 to reflect the fair value of warrants issued as part of the transaction. The warrants have since been replaced to remove the anti-dilutive provision which reflected management's and Summit's original intent regarding the nature of the warrants, and as such will no longer be marked to market.

Salaries and benefits increased by \$1,435,000 primarily due to increases in salaries, bonus accrual, as well as the addition of staff in the originating, servicing and liquidation departments for both internal and external loan portfolios. Combined headcount increased by 22% from an average of 51 employees for the year ended December 31, 2011, to an average of 62 for the year ended December 31, 2012.

Interest expense increased by \$1,806,000 for the year ended December 31, 2012 compared with the same period in 2011, due primarily to \$1,422,000 of interest expense associated with the Summit financing transaction

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which closed in April 2012. While the Summit financing was transacted with the parent company, these funds were provided to and utilized by NSBF; as a result, the corresponding expense has been recorded in the lending segment. The \$1,422,000 includes interest, payment-in-kind interest, discount on the valuation of the warrant and amortization of deferred financing costs. Additionally, NSBF experienced an increase in interest expense of \$624,000 in connection with the closing of the second securitization transaction in December 2011 and an additional \$56,000 increase related to the Capital One line of credit which increased from an average outstanding balance of \$7,654,000 for the year ended December 31, 2011 to \$10,674,000 for the same period in 2012. NBC experienced an increase in interest expense of \$55,000 under the Sterling credit facility due to increased borrowings under the Sterling credit facility as a result of an increasing portfolio. Other interest expense paid to third party increase by \$20,000. These increases were offset by a reduction of \$344,000 attributable to the liability for SBA loans transferred, subject to premium recourse, which was reduced to zero in 2011 and a decrease of interest expense at NBC by \$27,000 due to the write off of the remaining deferred financing cost under the Wells Fargo line in 2011.

Professional fees for the year ended December 31, 2012 increased by \$226,000 when compared with the year ended December 31, 2011 primarily due to an increase in consulting fees associated with third party servicing, due diligence fees, search fees and fees associated with the trustee for the loan portfolio securitization.

Loan Loss Reserves and Fair Value Discount

(In thousands):	Year ended December 31:			% Change	
	2012	2011	2010	2012	2011
Total reserves and discount, beginning of year	\$ 5,566	\$ 3,844	\$ 3,985	45%	(4)%
Provision for loan loss	805	751	1,849	7%	(59)%
Discount, loans held for investment at fair value (1)	851	2,393	285	(64)%	740%
Charge offs (net of recoveries)	(1,130)	(1,422)	(2,275)	(21)%	(37)%
Total reserves and discount, end of year	\$ 6,092	\$ 5,566	\$ 3,844	9%	45%
Gross portfolio balance, end of year	\$64,609	\$47,030	\$31,760	37%	48%
Total impaired nonaccrual loans, end of year	\$ 6,757	\$ 6,766	\$ 7,990	— %	(15)%

- (1) The upfront discount taken on unguaranteed loans was reduced from 11% to 9.5% during the first quarter of 2012 and further reduced to 7.5% at December 31, 2012 based upon internal quantitative data on our portfolio with respect to historical default rates and future expected losses. We also utilized the investor price paid for the senior interest in our unguaranteed loans with respect to the 2013 securitized transaction, adjusted for the estimated servicing and interest income to be retained by the trust over an estimated repayment term of three years. This was further adjusted to reflect the estimated default rate on the senior notes based on the default rate on our loan portfolio, assuming a worst case scenario of no recoveries.

The combined provision for loan loss and net change in fair value decreased from \$3,144,000 for the year ended December 31, 2011 to \$1,656,000 for year ended December 31, 2012, a net decrease of \$1,488,000 period over period. The allowance for loan loss together with the cumulative adjustment related to SBA loans held for investment increased from \$5,566,000 or 11.8% of the gross portfolio balance of \$47,030,000 at December 31, 2011 to \$6,092,000 or 9.4% of the gross portfolio balance of \$64,609,000 at December 31, 2012. This decrease in reserve percentage is a result of the decrease in the upfront discount from 11% to 7.5% as well as the positive performance of the portfolio. Total impaired non-accrual loans decreased from \$6,766,000 or 14.4% of the total portfolio at December 31, 2011 to \$6,757,000 or 10.5% at December 31, 2012 with \$2,417,000 or 35.7% and \$2,189,000 or 32.4% of the allowance for loan losses being allocated against such impaired non-accrual loans, respectively. The year over year reduction in non-performing loan percentage results from an improvement in the overall economic climate, as well as a shift in the underwriting and origination of loans from start-up type businesses to existing businesses and business acquisitions. The year over year reduction in the specific reserve reflects both the relatively high level of overall collateralization on the non-performing portfolio as well as the

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increase in the portion of that portfolio making periodic payments pending return to performing status, reducing the need for a specific reserve at this time.

Other general and administrative costs increased by \$1,225,000 due primarily to the increase in loan originating, processing and servicing costs in the amount of \$397,000 as a result of the increase in loans originated and portfolios serviced and an increase of \$490,000 in loan recovery costs, which includes expenses and losses associated with the sale of foreclosed properties and collateral preservation costs, as compared with the same period in 2011. Additionally, marketing costs increased by \$204,000 primarily in conjunction with the launch of NEWTEK® *The Small Business Authority*, a new marketing campaign initiated by us in May 2012.

The increase of loan originations and the size of the portfolio, combined with improvements in sale pricing as well as servicing and interest, generated by the addition to and enhanced performance of the portfolio, and an increase in third party servicing, were sufficient to offset additional salaries, servicing and origination expenses. The resulting pretax income of \$8,094,000 for the year ended December 31, 2012 was a 96% improvement over pretax income of \$4,135,000 for the year ended December 31, 2011.

2011

Revenue is derived primarily from premium income generated by the sale of the guaranteed and unguaranteed portions of SBA loans. Additionally, we derive revenue from interest income on SBA loans held for investment and held for sale, servicing fee income on the guaranteed portions of SBA loans previously sold, servicing income for loans originated by other lenders for which NSBF is the servicer, and financing and billing services, classified as other income above, provided by NBC. Most SBA loans originated by NSBF charge an interest rate equal to the Prime rate plus an additional percentage amount; the interest rate resets to the current Prime rate on a monthly or quarterly basis, which will result in changes to the amount of interest accrued for that month and going forward and a re-amortization of a loan's payment amount until maturity.

The implementation of ASC Topic 860 "Transfers and Servicing," which became effective January 1, 2010, delayed the recognition of premium income for sales of the guaranteed portions of SBA loans. In 2010 and prior, SBA Form 1086 required, as part of the transferor's representations and warranties, that the transferor repay any premium received from the transferee if either the SBA 7(a) loan borrower prepays the loan within 90 days of the transfer settlement date or fails to make one of its first three loan payments after the settlement date in a timely fashion and then proceeds to default within 275 days of the settlement date. Under ASC Topic 860, such recourse precludes sale treatment of the transferred guaranteed portions during this warranty period; rather NSBF was required to account for this as a financing arrangement with the transferee. Until the warranty period expired such transferred loans were classified as "SBA loans transferred, subject to premium recourse" with a matching liability "Liability on SBA loans transferred, subject to premium recourse." In January 2011, the SBA issued a notice stating that Form 1086 would be revised to remove all reference to a warranty period for loans sold in the secondary market. This change became effective February 7, 2011 and allowed us to recognize premium income concurrent with the date of transfer, as was done prior to January 1, 2010.

In 2010, we elected the fair value option for valuing "Liability on SBA loans transferred, subject to premium recourse," and also elected to utilize the fair value option for SBA 7(a) loans funded on or after that date. As a result, we recorded changes in the fair value for the guaranteed portions that were not transferred at period end ("SBA loans held for sale") and for loans transferred in the secondary market that did not achieve sale status under ASC Topic 860 ("SBA loans transferred, subject to recourse"). At the expiration of the warranty period, the sale of the guaranteed portions of these loans as well as the corresponding gain was recognized into premium income, and the asset and liability eliminated.

On October 1, 2010, we elected to utilize the fair value option for SBA 7(a) loans funded on or after that date. For loans funded on or after October 1, 2010, the income statement separates the revenue and expense components mixed into premium on loan sales: premium on loan sales equals the cash premium and servicing

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asset paid by purchaser in the secondary market, the discount created on the unguaranteed portion is included in the fair value line item, and by not capitalizing various transaction expenses the salary and benefit and loan processing costs expense lines portray a value closer to the cash cost to operate the lending business.

For the year ended December 31, 2011, we originated 102 loans totaling \$97,129,000 and recognized \$9,272,000 of premium income from 102 loans sold aggregating \$73,871,000 which were not subject to the premium warranty and \$3,196,000 in premium income associated with 47 loans aggregating \$30,783,000 which were subject to the premium warranty and previously transferred, and achieved sale status during 2011. Because of the premium warranty in existence during 2010 that delayed sale recognition, we recorded premium income for the year ended December 31, 2010 for 54 of the 101, or \$25,965,000 of the \$57,517,000 guaranteed loans transferred, representing the \$2,428,000 in premium income and a corresponding fair value gain as discussed below. Premiums on guaranteed loan sales for the twelve months averaged 111.35% with 1% servicing in 2011 compared with 110.33% with 1% servicing in 2010.

Servicing fee income increased by \$534,000 due primarily to revenue generated by the FDIC servicing contract, which totaled \$1,389,000 for the year ended December 31, 2011 compared with \$784,000 for the year ended December 31, 2010; the FDIC contracts, for both servicing and consulting, run through December 2014. The revenue for the latter is included in other income. In addition, the average NSBF originated serviced portfolio increased from \$142,719,000 for the year ended December 31, 2010 to \$192,126,000 for the same period in 2011. This improvement was the direct result of an increase in loan originations which began at the end of 2009. This increase was partially offset by a \$174,000 reduction in servicing fee income related to guaranteed loan repurchases by the SBA.

Interest income increased by \$798,000 due primarily to interest on SBA loans, which increased by \$892,000 as a result of the growth and positive performance of the portfolio; the average outstanding performing portfolio of SBA loans held for investment increased from \$21,504,000 to \$29,649,000 for the year ended December 31, 2010 and 2011, respectively. In addition, interest earned from SBA loans transferred, subject to premium recourse, decreased by \$96,000 for the year ended December 31, 2011; all of the transferred loans which had been subject to premium warranty achieved sales status, and interest earned from SBA loans transferred ceased during the fourth quarter of 2011.

Other income increased by \$282,000 primarily due to an increase in revenue earned by Newtek Business Credit. Fees earned on receivables purchased and billing services increased by \$164,000 for the year ended December 31, 2011 as compared with the year ended December 31, 2010, which was primarily attributable to an increase in the number of clients serviced as well as an increase in the amount of receivables purchased from existing clients. Additionally, \$198,000 of packaging fee income, which had previously been capitalized at NSBF, is now recognized upfront as a result of the adoption of fair value accounting for loans funded on or after October 1, 2010. NSBF also realized an increase of \$58,000 in other loan related revenue such as late fees and recoveries year over year. These increases were partially offset by a \$132,000 reduction in income earned under the FDIC consulting contract in the current year.

For the year ended December 31, 2010, we recorded a net fair value gain of \$3,366,000 related to 101 guaranteed loans transferred aggregating \$56,735,000, of which 54 achieved sale status during the year. During the same period 2011, as a result of the elimination of the premium warranty, all remaining loans transferred during 2010 achieved sale status in 2011, thereby reversing the corresponding fair value adjustment by a net amount of \$3,366,000. In addition, we recorded a fair value gain of \$265,000 for "SBA loans held for sale." For the year ended December 31, 2011, loans originated and held for investment aggregated \$22,308,000 resulting in a corresponding fair value loss of \$2,392,000.

Salaries and benefits increased by \$1,069,000 primarily due to the addition of staff in the originating, servicing and liquidation departments, as well as an increase in staff to service outside contracts. Combined headcount increased by 18.6% from an average of 43 for the year ended December 31, 2010 to an average of 51

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for the year ended December 31, 2011. Additionally, prior to October 1, 2010, certain direct salary and benefit costs to originate loans were deferred and amortized over the contractual life of the SBA loan using a method that approximated the effective interest method. For the year ended December 31, 2010, this equated to \$201,000 of expense being deferred. Subsequent to September 30, 2010, we began recording the origination of loans based on the fair value method which requires the upfront expensing of such direct costs.

Interest expense increased by \$114,000 for the year ended December 31, 2011 compared with the same period in 2010, due primarily to an increase of \$318,000 of interest expense associated with NSBF financing agreements with Capital One Bank and the securitization of \$27,779,000 comprising a \$16,000,000 transaction in December 2010, and a second in December 2011 totaling \$11,779,000, which increased the average debt outstanding from \$12,156,000 to \$21,966,000 for the years ended December 31, 2010 and 2011, respectively. Interest expense on NSBF debt increased from \$748,000 to \$1,065,000 period over period, while the average interest rate decreased from 6.40% to 4.74%. The average debt outstanding at NBC increased from \$3,757,000 to \$4,560,000 for the years ended December 31, 2010 and 2011 resulting in an increase to interest expense of \$32,000, while the average interest rate decreased from 7.33% to 6.26% during the same period. Additionally, the amortization of deferred financing costs by NSBF decreased by \$167,000 for the year ended December 31, 2011 when compared with the prior year. The decrease in amortized of deferred financing costs for 2011 was due to the acceleration of amortization in connection with the repayment of the term loan with Capital One in the fourth quarter of 2010. The amortization of deferred financing costs associated with the line of credit held by NBC increased by \$33,000 for the year ended December 31, 2011 as compared with the prior period. This increase was due to the acceleration of amortization in connection with the refinancing of the term loan with Wells Fargo, and the securing of a new term loan with Sterling National Bank in the first quarter 2011. In addition, interest expense on SBA loans transferred, subject to premium recourse, decreased by \$96,000 for the year ended December 31, 2011.

Consideration in arriving at the provision for loan loss includes past and current loss experience, current portfolio composition, future estimated cash flows, and the evaluation of real estate and other collateral as well as current economic conditions. For all loans originated on or prior to September 30, 2010, management performed a loan-by-loan review for the estimated uncollectible portion of non-performing loans. Subsequent to September 30, 2010, management began recording all loan originations on a fair value basis which requires a valuation reduction of the unguaranteed portion of loans held for investment to a level that takes into consideration future losses. This valuation reduction is reflected in the line item above: Net Change in Fair Value of SBA Loans Held for Investment.

The decrease in the loan loss provision of \$1,098,000 from \$1,849,000 in 2010 to \$751,000 in 2011 was offset by a \$2,107,000 increase in the net change in fair value of SBA loans held for investment for loans originated subsequent to September 30, 2010. The combined provision for loan loss and net change in fair value of SBA loans held for investment increased from \$2,135,000 for the year ended December 31, 2010 to \$3,144,000 for the corresponding period in 2011. This net increase of \$1,009,000 period over period is consistent with the expansion of the unguaranteed portfolio during 2011. The allowance for loan loss including the net change in fair value increased from \$3,845,000 or 12.1% of the gross portfolio balance of \$31,759,000 at December 31, 2010 to \$5,567,000 or 11.8% of the gross portfolio balance of \$47,030,000 at December 31, 2011. This decrease as a percentage of the gross portfolio balance reflects the positive performance of the portfolio, resulting in a return to more historical levels of reserves. Total impaired non-accrual loans decreased from \$7,990,000 or 26.3% of the total portfolio at December 31, 2010 to \$6,766,000 or 15% at December 31, 2011 with \$2,516,000 or 31.5% and \$2,417,000 or 35.7% of the allowance for loan losses being allocated against such impaired non-accrual loans, respectively. The year over year reduction in non-performing loans results from an improvement in the overall economic climate and less delinquent loans in the portfolio. The year over year reduction in the specific reserve reflects both the overall collateralization on the non-performing portfolio as well as the increase in the portion of that portfolio making periodic payments pending return to performing status reducing the need for a specific reserve at this time.

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Other general and administrative costs increased by \$825,000 due primarily to us recording loan related expenses based on the fair value method which requires the upfront expensing of such direct costs as well as an increase in such loan processing and servicing costs as a result of the increase in loans originated during the current year. Additionally, marketing costs increased by \$194,000 primarily in conjunction with the launch of NEWTEK® *The Small Business Authority*, a new marketing campaign initiated by us in January 2011.

The increase in premium income combined with improvements in servicing, interest, and other income generated by the addition to and enhanced performance of the portfolio, were sufficient to offset an increase in compensation and other expenses, and resulted in an improvement to income before income taxes of \$2,090,000 for the year ended December 31, 2011, when compared to the same period of 2010.

Electronic Payment Processing

(In thousands):	2012	2011 (Restated)	2010	% Change	
				2012	2011
Revenue:					
Electronic payment processing	\$85,483	\$ 82,475	\$80,920	4%	2%
Interest income	6	11	16	(46%)	(31%)
Total revenue	<u>85,489</u>	<u>82,486</u>	<u>80,936</u>	4%	2%
Expenses:					
Electronic payment processing costs	\$72,183	\$ 69,388	\$68,177	4%	2%
Salaries and benefits	3,991	3,995	4,101	— %	(3%)
Professional fees	323	270	346	20%	(22%)
Depreciation and amortization	743	1,419	1,632	(48%)	(13%)
Insurance expense – related party	61	51	34	20%	50%
Other general and administrative costs	1,147	1,206	962	(5)%	25%
Total expenses	<u>78,448</u>	<u>76,329</u>	<u>75,252</u>	3%	1%
Income before income taxes	<u>\$ 7,041</u>	<u>\$ 6,157</u>	<u>\$ 5,684</u>	14%	8%

2012

EPP revenue increased \$3,008,000 or 4% between years. Revenue increased due to a combination of growth in processing volumes, selective fee increases, both card association and third-party processor cost increases passed through to merchants (other than debit card transactions) and additions to services provided to our merchants. Processing volumes were favorably impacted by an increase of 3% in the average number of processing merchants under contract between periods. In addition, growth in revenue between periods increased due to an increase of approximately 7% in the average monthly processing volume per merchant, due in part to the addition of several larger volume processing merchants as well as year-over-year growth in processing volumes from existing merchants. The overall increase in revenue between years was adversely impacted by approximately 6% due to the effect of lower pass-through pricing on debit card transactions due to government mandated limits on underlying interchange costs for such transactions, as well as the overall pricing mix of merchant sales volumes realized between periods.

Electronic payment processing costs (“EPP costs”) increased \$2,795,000 or 4% between years. The increase in EPP costs includes a provision for charge-back losses of \$1,271,000 and \$244,000 in 2012 and 2011, respectively, related to a group of merchants affiliated with one of its independent sales agents. Subsequent to December 31, 2012, significant cardholder transaction charge-backs in excess of related cash reserves held at one of our sponsor banks were noted to have occurred for the particular agent’s group of merchants. As a result of the exhaustion of such related cash reserves and the likelihood of additional charge-backs continuing in 2013 relating

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to such merchants, management concluded that based on an analysis of past processing activity of such merchants (who are no longer processing with us) that an additional provision for charge-back losses was required as of December 31, 2012. As discussed more fully in Note 26, this loss was the result of violations of credit policy by a senior member of management in the EPP division. The activities and decisions of this manager lead to the \$1,271,000 and \$244,000 charge-back provision in 2012 and 2011, respectively, for chargebacks incurred by a group of merchants unilaterally approved by the senior manager. The overall increase in EPP costs between years was also affected by lower interchange costs on debit card transactions. Beginning in the fourth quarter of 2011, the EPP segment began experiencing lower EPP costs as interchange costs on debit card transactions were reduced for interchange plus priced merchants, as well as others. Processing revenues less electronic payment processing costs ("margin") decreased from 15.9% in 2011 to 15.6% in 2012. The decrease in margin due to the \$1,271,000 provision for charge-backs was 1.5%. The negative impact on the margin percentage of the additional charge-back loss provision was partially offset by the impact on revenues and EPP costs of the debit card pricing and interchange cost changes also noted above, net of higher residual payments to sales agents which increased \$2,889,000 or 38% between years, as well as changes in the mix of merchant sales volumes processed. Overall, the decrease in margin dollars was \$213,000 between years.

Excluding electronic payment processing costs, other costs decreased \$676,000 or 10% between years. Depreciation and amortization decreased \$676,000 between periods as the result of previously acquired portfolio intangible assets becoming fully amortized between periods. During 2012, office relocation costs of approximately \$50,000 were incurred. Payroll related costs decreased \$4,000 as a decline in average headcount of 2% between years was substantially offset by increased costs related to payroll taxes and employee benefits. Professional fees increased \$53,000 due to several new consulting arrangements entered into during 2012 which were partially offset by lower audit fees between years.

Income before income taxes increased \$884,000 to \$7,041,000 in 2012 from \$6,157,000 in 2011. The increase in income before income taxes was principally due to the decrease in depreciation and amortization cost of \$676,000 between years and was partially offset by the decrease in the margin (operating revenues less electronic payment processing costs) of \$213,000 due to the reasons noted above.

2011- Restated

Electronic payment processing revenue increased \$1,555,000 or 2% between years due to organic growth of 2%. Revenue from acquired portfolios decreased overall revenue growth by less than 1% due to merchant attrition and other factors. Revenue from organic growth increased due to a combination of growth in processing volumes, selective fee increases and additions to services provided to our merchants. Processing volumes were favorably impacted by an increase in the average number of processing merchants under contract between periods of 6%. In addition, organic growth in revenue between periods increased due to an increase of approximately 2% in the average monthly processing volume per merchant. The increase in the average monthly processing volume per merchant is due in part to the addition of several larger volume processing merchants as well as year-over-year growth in processing volumes from existing merchants. Total revenue from non-acquired business in 2011 was adversely impacted by approximately 6% due to the overall pricing mix of merchant sales volumes realized between periods as well as price decreases under certain merchant processing contracts.

Electronic payment processing costs increased \$1,211,000, including \$244,000 for merchant charge-back losses, or 2% between years. Electronic payment processing costs resulting from acquired portfolios had the overall effect of decreasing such costs by less than 1% between years. Electronic payment processing costs associated with non-acquired business had the effect of increasing electronic payment processing costs by less than 2% between years. Beginning in the fourth quarter of 2011, the EPP segment began experiencing lower EPP costs as interchange costs on debit card transactions were reduced for interchange plus priced merchants as well as others. Processing revenues less electronic payment processing costs ("margin") increased from 15.7% in 2010 to 15.9% in 2011. The effect of a lower margin from acquired portfolios decreased the gross margin percentage by 0.3%. The introduction of new, higher margin products and services in both 2010 and 2011 and the impact on revenues and EPP costs as a result of the debit card pricing and interchange cost changes noted above, more than offset the impact in 2011 of

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lower margins realized due to a change in the mix of merchants and their related transaction processing activity between years. The increase in margin dollars was \$344,000 between years.

Excluding electronic payment processing costs, other costs decreased \$134,000 or 2% between years. Depreciation and amortization decreased \$213,000 between periods as the result of previously acquired portfolio intangible assets becoming fully amortized between periods. Remaining costs increased \$79,000 as an increase in marketing related costs of \$169,000 was partially offset by cost reductions in salaries and wages and professional fees between years. Marketing expense increased in conjunction with the launch of NEWTEK® *The Small Business Authority*, a new marketing campaign initiated by us beginning in January 2011.

Income before income taxes increased \$473,000 to \$6,157,000 in 2011 from \$5,684,000 in 2010. The increase in income before income taxes was due to the increase in the dollar margin of operating revenues less electronic payment processing costs of \$344,000 due to the reasons noted above and the decrease in other expenses between years.

Managed Technology Solutions

(In thousands):	2012	2011	2010	% Change	
				2012	2011
Revenue:					
Web hosting and design	\$ 18,211	\$ 19,183	\$ 19,164	(5%)	0%
Interest income	—	1	4	(100%)	(75%)
Total revenue	<u>18,211</u>	<u>19,184</u>	<u>19,168</u>	(5%)	0%
Expenses:					
Salaries and benefits	5,216	4,755	4,910	10%	(3%)
Interest	80	104	107	(23%)	(3%)
Professional fees	465	692	551	(33%)	26%
Depreciation and amortization	1,214	1,387	1,828	(13%)	(24%)
Insurance expense – related party	17	4	27	325%	(85)%
Other general and administrative costs	6,965	7,405	7,042	(6%)	5%
Total expenses	<u>13,957</u>	<u>14,347</u>	<u>14,465</u>	(3%)	(1%)
Income before income taxes	<u>\$ 4,254</u>	<u>\$ 4,837</u>	<u>\$ 4,703</u>	(12%)	3%

2012

Revenue is derived primarily from recurring fees from hosting websites, including monthly contracts for shared hosting, dedicated servers and cloud instances (the “plans”). In addition, less than 2% of revenues are derived from contracted services to design web sites. Revenue between years decreased \$973,000, or 5%, to \$18,211,000 in 2012. The decrease in revenues included a decrease in web hosting revenue of \$750,000 and web design revenues of \$223,000 between years. The decrease in web hosting revenue is the result of a decrease in the average monthly number of total plans by 5,631 or 10% between years to 50,720 plans in 2012 from 56,351 plans in 2011. Partially offsetting the decrease in web hosting revenue resulting from the decline in plans was an increase in the average monthly revenue per plan of 5% to \$29.92 in 2012 from \$28.37 in 2011. The increase in the average revenue per plan reflects a growth in cloud instances and customers purchasing higher cost plans including additional options and services. The average number of cloud instances increased by 267 to an average of 634 from 367 in 2011 reflecting our introduction of a customer scalable cloud offering in 2011. The decrease in the average total plans occurred in the shared and dedicated segments. The average monthly number of dedicated server plans in 2012, which generate a higher monthly fee versus shared hosting plans, decreased by 355 between years, or 19%, to an average of 1,485 from an average of 1,840 in 2011. The average monthly number of shared hosting plans in 2012 decreased by 5,542, or 10%, to an average of 48,601 from 54,143 in 2011. Competition from other web hosting providers as well as alternative website services continues to have a negative effect on web hosting plan count and revenue growth.

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It continues to be management's intent to increase revenues and margin per plan through higher service offerings to customers, although this may result in a lower number of plans in place overall. In addition, management has begun to lessen its dependency on the Microsoft web platform by broadening its platform capabilities to include more open source web applications which have become increasingly more attractive to web developers and resellers.

Total expenses of \$13,957,000 in 2012 declined 3% from \$14,347,000 in 2011. Salaries and benefits increased \$461,000 or 10% between years to \$5,216,000. The growth in salaries and benefits is principally due to adding additional staffing in customer service areas and executive management as well as wage rate increases between periods. Depreciation and amortization cost decreased \$173,000 between years to \$1,214,000 due to reduced capital expenditures in recent years as a result of lower replacement costs for new equipment overall, more efficient use of existing equipment within the data center for shared and dedicated plans and the utilization of cloud architecture to more efficiently provide services to customers. The decrease of \$227,000 in professional fees was primarily due to a decrease in web design development costs as a result of a decrease in web design revenues between years. In addition, professional fees also decreased due to the timing of the incurrence of security assurance services between years. Other general and administrative costs decreased \$440,000 or 6% between years. Included in other expenses in 2011 was an expense of \$190,000 resulting from the resolution of a licensing dispute. Excluding the one-time settlement in 2011, other expense decreased \$250,000 between years. Increases in domain costs of \$50,000 and hardware maintenance and support of \$121,000, principally due to the restructuring of previous contracts in those areas, were more than offset by a reduction in bad debt expense of \$184,000 due to lower revenues in 2012 and improved collection efforts between years. In addition, lease expense and utility costs decreased by \$237,000 between years due to a new lease resulting from moving to a new management office location in 2012 and lower data center utility costs.

Income before income taxes decreased 12% or \$583,000 to \$4,254,000 in 2012 from \$4,837,000 in 2011. The decrease in profitability is principally due to a decline in web hosting revenue between years as increases in revenue per site have not offset an overall decline in revenue due to site attrition and, additionally, such decline in revenue has only been partially offset by cost reductions (including the impact of a \$190,000 licensing settlement cost in 2011).

2011

Revenue is derived primarily from recurring fees from hosting websites, including monthly contracts for shared hosting, dedicated servers, and cloud instances (the "plans"). In addition, revenues are derived from contracted services to design web sites. Revenue between years increased \$19,000, or less than 1%, to \$19,183,000 in 2011. The increase in revenues included an increase in web design revenues of \$177,000 to \$532,000 in 2011 and offset by a decrease in web hosting revenue of \$158,000. The decrease in web hosting revenue is the result of a decrease in the average monthly number of total plans by 4,575 or 8% between years to 56,351 plans in 2011 from 60,926 plans in 2010. Partially offsetting the decrease in web hosting revenue resulting from the decline in such plans was an increase in the average revenue per plan of 7% to \$330.98 from \$308.73. The increase in the average revenue per plan reflects a growth in cloud instances and customers purchasing higher-cost plans including additional options and services. The average number of cloud instances increased by 174, or 90%, to an average of 367 from 193 for 2010 reflecting our introduction of a customer scalable cloud offering in 2011. The decrease in the average total plans is mainly reflected in the shared and dedicated segments. The average monthly number of dedicated server plans for 2011, which generate a higher monthly fee versus shared hosting plans, decreased by 306 between periods, or 14%, to an average of 1,840 from an average of 2,146 for 2010. The average monthly number of shared hosting plans for 2011 decreased by 4,444, or 8%, to an average of 54,143 from 58,587 for 2011. Competition from other web hosting providers as well as alternative website services continues to have a negative effect on web hosting plan count and revenue growth.

Customer service and competitive pricing by NTS lowered the rate of attrition between years, but sales and marketing efforts have yet to provide sufficient new accounts to keep the overall plan count from declining. It is

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management's intent to increase revenues and margin per plan through higher service offerings to customers, although this may result in a lower number of plans in place overall.

Total expenses decreased by 1% or \$118,000 in 2011 compared to 2010. The decrease in total expenses includes a decrease in salaries and benefits between years of \$155,000 and a \$441,000 decrease in depreciation and amortization due to reduced capital expenditures in recent years as a result of lower replacement costs for new equipment overall, more efficient use of existing equipment within the data center for shared and dedicated plans and the utilization of cloud architecture to more efficiently provide services to customers. The \$155,000 decrease in salaries and benefits was principally due to an increase in capitalized wages for internally used software of \$53,000 and an additional amount charged to other Newtek segments (\$114,000) between years which is reflected as a reduction of salaries and wages for segment reporting purposes. The increase of \$141,000 in professional fees was primarily due to an increase in audit fees for a SOC 1 engagement and an increase in web design costs in direct connection with the additional service offering to customers for custom website development. The \$363,000 increase in other general and administrative costs is primarily due to a one-time expense of \$190,000 as a result of the resolution of a licensing dispute and an increase of \$136,000 in marketing expense. Marketing expense increased in conjunction with the launch of NEWTEK® *The Small Business Authority*, a new marketing campaign initiated by us in January 2011.

Income before income taxes increased 3% or \$134,000 to \$4,837,000 for 2011 from \$4,703,000 for 2010. The improvement in profitability resulted primarily from the decrease in salaries and benefits and depreciation and amortization.

All Other

(In thousands):	2012	2011	2010	% Change	
				2012	2011
Revenue:					
Insurance commissions	\$ 1,204	\$1,071	\$ 886	12%	21%
Insurance commissions – related party	153	127	180	20%	(29)%
Other income	419	627	400	(33)%	57%
Other income – related party	82	—	—	100%	0%
Interest income	2	10	61	(80)%	(84)%
Total revenue	<u>1,860</u>	<u>1,835</u>	<u>1,527</u>	1%	20%
Expenses:					
Salaries and benefits	2,040	1,881	1,563	8%	20%
Other than temporary decline in value of Investments	—	—	510	0%	(100)%
Professional fees	253	181	174	40%	4%
Depreciation and amortization	36	80	135	(55)%	(41)%
Insurance expense – related party	9	—	—	100%	0%
Other general and administrative costs	560	427	567	31%	(25)%
Total expenses	<u>2,898</u>	<u>2,569</u>	<u>2,949</u>	13%	(13)%
Loss before income taxes	<u><u>\$ (1,038)</u></u>	<u><u>\$ (734)</u></u>	<u><u>\$ (1,422)</u></u>	(41)%	48%

The All other segment includes revenues and expenses primarily from Newtek Insurance Agency, LLC, NPS and qualified businesses that received investments made through our Capcos which cannot be aggregated with other operating segments.

2012

Total revenue increased by 1%, or \$25,000 for the twelve months ended December 31, 2012 compared to the year ago period. Total insurance commissions increased by \$159,000 during 2012 compared with 2011, due

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primarily to an increase in force placed insurance commissions, as well as an increase in related party commission revenue. The \$126,000 decrease in combined other income in 2012 was due to a \$337,000 gain on an investment held by an equity method investee which was sold in 2011. Partially offsetting this decrease was a \$225,000 improvement in revenue by NPS, which increased the number of clients from 93 in 2011 to 262 in 2012. All related party revenue, which represents insurance commissions earned on policies sold by NIA and fees charged by NPS to Newtek and subsidiaries, are eliminated upon consolidation.

Salaries and benefits increased by \$159,000, and other general and administrative costs increased by \$133,000 during 2012 both of which were due primarily to activities related to NPS. Average headcount increased by 30% between years, and the increase in other expense related to servicing the new clients added at NPS. The \$72,000 increase in professional fees was attributable to broker commissions for insurance policies sold by NIA during 2012.

2011

Insurance commission revenue increased by \$185,000, or 21%, for the year ended December 31, 2011 compared to the prior year primarily due to an increase in agency bill policies and the expansion of the force placed insurance portfolio. Related party commission revenue decreased in 2011 as compared with 2010 due to a reduction in commissions earned on our group health policies. The increase in other income was primarily due to a \$337,000 gain on an investment held by an equity method investee sold in 2011. Interest income decreased in 2011 as a result of a reduction in invested cash.

Salaries and benefits increased by \$318,000 or 20% to \$1,881,000 for 2011, as compared to \$1,563,000 for 2010 primarily due to the addition of five employees in our new payroll services entity, NPS. The \$510,000 decrease in other than temporary decline was related primarily to a cost investment which was written-off in the prior year. Depreciation and amortization decreased \$55,000, or 41%, as a result of fixed assets that had become fully depreciated. Other general administrative costs decreased by \$140,000 or 25%, to \$427,000 for 2011 as compared to \$567,000 for 2010 due to decreases in insurance, travel and other general office expenses.

Corporate activities

(In thousands):	2012	2011	2010	% Change	
				2012	2011
Revenue:					
Management fees – related party	\$ 776	\$ 1,067	\$ 2,217	(27)%	(52)%
Interest income	4	21	24	(81)%	(13)%
Other income	5	4	16	25%	(75)%
Total revenue	<u>785</u>	<u>1,092</u>	<u>2,257</u>	(28)%	(52)%
Expenses:					
Salaries and benefits	4,943	5,695	5,178	(13)%	10%
Professional fees	969	1,193	1,165	(19)%	2%
Depreciation and amortization	118	163	312	(28)%	(48)%
Lease restructuring charges (amortization)	—	990	—	(100)%	100%
Insurance expense – related party	57	72	119	(21)%	(39)%
Other general and administrative costs	2,209	3,148	2,418	(30)%	30%
Total expenses	<u>8,296</u>	<u>11,261</u>	<u>9,192</u>	(26)%	23%
Loss before income taxes	<u>\$(7,511)</u>	<u>\$(10,169)</u>	<u>\$(6,935)</u>	26%	(46)%

The Corporate activities segment implements business strategy, directs marketing, provides technology oversight and guidance, coordinates and integrates activities of the other segments, contracts with alliance

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partners, acquires customer opportunities, and owns our patented NewTracker® referral system and all other intellectual property rights. This segment includes revenue and expenses not allocated to other segments, including interest income, Capco management fee income, and corporate operating expenses. These operating expenses consist primarily of internal and external public accounting expenses, internal and external corporate legal expenses, corporate officer salaries, sales and marketing expense and rent for the principal executive offices.

2012

Revenue is derived primarily from management fees earned from the Capcos. Related party management fee revenue declined 27% or \$291,000 to \$776,000 for 2012 from \$1,067,000 for 2011. Related party management fees, which are eliminated upon consolidation, will continue to decline in the future as the Capcos mature and utilize their cash. If a Capco does not have current or projected cash sufficient to pay management fees, then such fees are not accrued.

Salaries and benefits decreased by 13% or \$752,000 for the year ended December 31, 2012 as compared to the prior year due to staff reductions in accounting, finance and executive personnel. The \$224,000 decline in professional fees during 2012 compared with 2011 was primarily related to a one-time payment in the prior year for costs related to securing a subtenant at the 1440 Broadway location. In addition, legal fees and accounting and audit fees also decreased in the current year. Depreciation and amortization decreased by \$45,000 year over year due to fixed assets becoming fully depreciated over the twelve month period. The decrease in other general and administrative costs of \$648,000 is primarily attributable to various one-time expenses incurred in 2011 including a \$236,000 bad debt charge related to an uncollectible loan, a \$250,000 accrual related to a contract dispute, and an accrual for commercial rent taxes. In addition, we continued to benefit through cost savings in connection with the corporate office relocation which occurred during the fourth quarter of 2011 including a credit to rent expense of approximately \$291,000 from the reduction in the accrued lease loss for the year ended December 31, 2012. Other decreases in IT costs, travel and office expenses were offset by an increase of \$33,000 in advertising and marketing expense, related to new national marketing campaigns designed to increase awareness of us as NEWTEK® *The Small Business Authority*. In sum, total expenses decreased \$2,965,000, or 26%, for the year ended December 31, 2012 as compared to the prior year.

2011

Management fee revenue declined 52% or \$1,150,000 to \$1,067,000 for 2011, from \$2,217,000 for 2010. Management fees, which are eliminated upon consolidation, will continue to decline in the future as the Capcos mature and utilize their cash. If a Capco does not have current or projected cash sufficient to pay management fees, then such fees are not accrued.

Total expenses increased \$2,069,000, or 23%, for 2011 as compared to 2010. Salaries and benefits increased by \$517,000 or 10% to \$5,695,000 for 2011 as compared to \$5,178,000 for 2010 due to increased salary costs primarily related to executive and employee stock compensation of approximately \$269,000 in 2011 versus \$57,000 in 2010, and \$276,000 of severance pay related to the departure of an executive officer recognized in 2011. As described in Note 20, the lease restructuring charges of \$990,000 in 2011 represents the accrued loss recognized on the present value of the amount by which the rent and other direct costs paid by us to the landlord exceeds any rent paid to us by our tenant under the new sublease over the remainder of the lease term, which expires in October 2015. As a result of the relocation and sublease, we anticipate reduced rent expense in the future. Other general and administrative costs increased \$730,000 or 30% to \$3,148,000 for 2011 from 2010 due to several factors. We had an increase of \$496,000 in marketing relating to the launch of NEWTEK® *The Small Business Authority* and the WABC radio advertising campaign, experienced a \$236,000 bad debt charge related to an uncollectible loan, as well as a \$250,000 accrual related to a contract dispute and \$86,000 in stock compensation to the board of directors. These increased in expenses were partially offset by \$330,000 of decreases in telephone, computer, travel and other expenses.

Capco

As described in Note 3 to the consolidated financial statements, effective January 1, 2008, we adopted fair value accounting for our financial assets and financial liabilities concurrent with our election of the fair value option for substantially all credits in lieu of cash, notes payable in credits in lieu of cash and prepaid insurance. These are the financial assets and liabilities associated with our Capco notes that are reported within the our Capco segment. The tables below reflect the effects of the adoption of fair value measurement on the income and expense items (income from tax credits, interest expense and insurance expense) related to the revalued financial assets and liability for the years ended December 31, 2012, 2011 and 2010. In addition, the net change to the revalued financial assets and liability for the years ended December 31, 2012 and 2011 is reported in the line “Net change in fair market value of Credits in lieu of cash and Notes payable in credits in lieu of cash” on the consolidated statements of income.

We do not anticipate creating any new Capcos in the foreseeable future and the Capco segment will continue to incur losses going forward. The Capcos will continue to earn cash investment income on their cash balances and incur cash management fees and operating expenses. The amount of cash available for investment and to pay management fees will be primarily dependent upon future returns generated from investments in qualified businesses. Income from tax credits will consist solely of accretion of the discounted value of the declining dollar amount of tax credits the Capcos will receive in the future; the Capcos will continue to incur non-cash interest expense.

(In thousands):	2012	2011	2010	% Change	
				2012	2011
Revenue:					
Income from tax credits	\$ 522	\$ 1,390	\$ 2,380	(62)%	(42)%
Interest income	40	42	51	(5)%	(18)%
Other income	121	65	11	86%	491%
Total revenue	683	1,497	2,442	(54)%	(39)%
Net change in fair value of:					
Credits in lieu of cash and Notes payable in credits in lieu of cash	3	(131)	38	(102)%	(445)%
Expenses:					
Interest expense	\$ 567	\$ 1,282	\$ 2,452	(56)%	(48)%
Management fees – related party	1,069	1,653	2,342	(35)%	(29)%
Professional fees	293	438	498	(33)%	(12)%
Other general and administrative costs	158	190	386	(17)%	(51)%
Total expenses	2,087	3,563	5,678	(41)%	(37)%
Loss before income taxes	<u>\$(1,401)</u>	<u>\$(2,197)</u>	<u>\$(3,198)</u>	(36)%	(31)%

2012

Revenue is derived primarily from non-cash income from tax credits. The decrease in total revenue for the year ended December 31, 2012 versus 2011 reflects the effect of the declining dollar amount of tax credits remaining in 2012 partially offset by a \$100,000 gain on the sale of an investment with a zero carrying basis recognized in 2012. The amount of future income from tax credits revenue will fluctuate with future interest rates. However, over future periods through 2016, the amount of tax credits and, therefore, the income we will recognize, will decrease to zero.

Expenses consist primarily of management fees and non-cash interest expense. Related party management fees decreased 35%, or \$584,000, to \$1,069,000 for the twelve months ended December 31, 2012 from \$1,653,000 for the same period ended 2011. Related party management fees, which are eliminated upon

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consolidation, are expected to continue to decline in the future as the Capcos mature and utilize their cash. Interest expense decreased 56%, or \$715,000, from \$1,282,000 to \$567,000 for the year ended December 31, 2012 as a result of the declining dollar amount of tax credits payable in 2012.

Professional fees decreased by \$145,000 from \$438,000 to \$293,000, between periods primarily due to a reduction in consulting fees related to one of our Capcos which is now decertified, and a decrease in audit fees which were lowered as a result of the reduced activity in this segment. Other expense declined as a result of a reduction of bank charges related to escrow accounts that were terminated over the course of 2012, as well as reductions in rent, filing fees and other miscellaneous expenses occurring as a result of the maturation of a number of Capcos.

2011

Revenue is derived primarily from non-cash income from tax credits. The decrease in total revenue for 2011 versus 2010 reflects the effect of the declining dollar amount of tax credits remaining in 2011 slightly offset by the recovery of an investment previously written off. The amount of future income from tax credits revenue will fluctuate with future interest rates. However, over future periods through 2016, the amount of tax credits, and therefore the income we will recognize, will decrease to zero.

Expenses consist primarily of management fees and non-cash interest expense. Management fees decreased 29%, or \$689,000, to \$1,653,000 for 2011 from \$2,342,000 in 2010. Management fees, which are eliminated upon consolidation, are expected to decline in the future as the Capcos mature and utilize their cash. Interest expense decreased 48%, or \$1,170,000, to \$1,282,000 for 2011 from \$2,452,000 in 2010 as a result of the declining amount of tax credits payable in 2011 versus 2010. Professional fees decreased \$60,000 as a result of a reduction in legal and consulting fees. The \$196,000 decrease in other general and administrative costs was primarily due to a decrease in rent expenses of \$80,000 resulting from income received from a sublease recorded as an offset to the account, to a one-time adjustment for a loan that was previously written off and a receivable recorded for the guaranteed portion of \$51,000 and also due to a recognition of a loss in 2010 of approximately \$70,000 on the sublease of an existing leasehold which did not recur in 2011, offset by a \$5,000 increase in Salaries and benefits expenses.

Critical Accounting Policies and Estimates

The following discussion relates to our historical accounting policies as an operating company, prior to the BDC Conversion and this offering. After the BDC Conversion, we will follow accounting rules applicable to investment companies under the 1940 Act and Regulation S-X. For example, certain consolidated subsidiaries of Newtek Business Services, Inc. will become non-consolidated portfolio companies of Newtek Business Services Corp. and will be valued accordingly. For a discussion of our expected accounting policies after the BDC Conversion, see “- Critical BDC Accounting Policies.”

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The most significant estimates include:

- allowance for loan losses;
- sales and servicing of SBA loans;
- chargeback reserves;
- fair value measurement used to value certain financial assets and financial liabilities;
- valuation of intangible assets and goodwill including the values assigned to acquired intangible assets;
- stock-based compensation; and
- income tax valuation allowance.

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Management continually evaluates its accounting policies and the estimates it uses to prepare the consolidated financial statements. In general, the estimates are based on historical experience, on information from third-party professionals and on various other sources and assumptions that are believed to be reasonable under the facts and circumstances at the time such estimates are made. Our critical accounting policies are reviewed periodically with the audit committee of the board of directors. Management considers an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate, or the use of different estimating methods, could have a material impact on our consolidated results of operations or financial condition.

Actual results could differ from those estimates. Significant accounting policies are described in Note 1 to our Consolidated Financial Statements. In many cases, the accounting treatment of a particular transaction is specifically indicated by Accounting Principles Generally Accepted in the United States of America. Certain of our accounting policies are deemed “critical,” as they require management’s highest degree of judgment, estimates and assumptions. The following critical accounting policies are not intended to be a comprehensive list of all of our accounting policies or estimates.

Fair Value Measurements

As discussed in Note 3 to our Consolidated Financial Statements we adopted fair value accounting effective January 1, 2008. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price) and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels for disclosure purposes. We carry our credits in lieu of cash, prepaid insurance and notes payable in credits in lieu of cash at fair value. We also carry impaired loans, servicing asset and other real estate owned at fair value. The fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets for identical assets or liabilities and gives the lowest priority to unobservable inputs (Level 3). An asset or liability’s classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The levels of the fair value hierarchy are as follows:

- | | |
|----------------|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts and residential mortgage loans held-for-sale. |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly structured or long-term derivative contracts. |

Revenue Recognition

Electronic payment processing revenue: Electronic payment processing and fee income is derived from the electronic processing of credit and debit card transactions that are authorized and captured through third-party networks. Typically, merchants are charged for these processing services on a percentage of the dollar amount of each transaction plus a flat fee per transaction. Certain merchant customers are charged miscellaneous fees, including fees for handling charge-backs or returns, monthly minimum fees, statement fees and fees for other miscellaneous services. Revenues derived from the electronic processing of MasterCard® and Visa® sourced credit and debit card transactions are reported gross of amounts paid to sponsor banks.

Web hosting revenue: Managed technology solutions revenue is primarily derived from monthly recurring service fees for the use of its web hosting, web design and software support services. Customer set-up fees are billed upon service initiation and are recognized as revenue over the estimated customer relationship period of 2.5 years. Payment for web hosting and related services, excluding cloud plans, is generally received one month to one year in advance. Deferred revenues represent customer payments for web hosting and related services in advance of the reporting period date. Revenue for cloud related services is based on actual consumption used by a cloud customer.

Income from tax credits: Following an application process, a state will notify a company that it has been certified as a Capco. The state or jurisdiction then allocates an aggregate dollar amount of tax credits to the Capco. However, such amount is neither recognized as income nor otherwise recorded in the financial statements since it has yet to be earned by the Capco. The Capco is entitled to earn tax credits upon satisfying defined investment percentage thresholds within specified time requirements. Newtek has Capcos in seven states and the District of Columbia. Each statute requires that the Capco invest a threshold percentage of “certified capital” (the funds provided by the insurance company investors) in businesses defined as qualified within the time frames specified. As the Capco meets these requirements, it avoids grounds under the statute for its disqualification for continued participation in the Capco program. Such a disqualification, or “decertification” as a Capco results in a permanent recapture of all or a portion of the allocated tax credits. The proportion of the possible recapture is reduced over time as the Capco remains in general compliance with the program rules and meets the progressively increasing investment benchmarks. As the Capco progresses in its investments in Qualified Businesses and, accordingly, places an increasing proportion of the tax credits beyond recapture, it earns an amount equal to the non-recapturable tax credits and records such amount as income, with a corresponding asset called “credits in lieu of cash” in the balance sheet.

The amount earned and recorded as income is determined by multiplying the total amount of tax credits allocated to the Capco by the percentage of tax credits immune from recapture (the earned income percentage) at that point. To the extent that the investment requirements are met ahead of schedule, and the percentage of non-recapturable tax credits is accelerated, the present value of the tax credit earned is recognized currently and the asset, credits in lieu of cash, is accreted up to the amount of tax credits deliverable to the certified investors. The obligation to deliver tax credits to the certified investors is recorded as notes payable in credits in lieu of cash. On the date the tax credits are utilizable by the certified investors, the Capco decreases credits in lieu of cash with a corresponding decrease to notes payable in credits in lieu of cash.

Interest and SBA Loan Fees: Interest income on loans is recognized as earned. Loans are placed on non-accrual status if they exceed 90 days past due with respect to principal or interest and, in the opinion of management, interest or principal on individual loans is not collectible, or at such earlier time as management determines that the collectability of such principal or interest is unlikely. Such loans are designated as impaired non-accrual loans. All other loans are defined as performing loans. When a loan is designated as non-accrual, the accrual of interest is discontinued, and any accrued but uncollected interest income is reversed and charged against current operations. While a loan is classified as non-accrual and the future collectability of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding.

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We pass certain expenditures we incur to the borrower, such as forced placed insurance, insufficient funds fees, or fees we assess, such as late fees, with respect to managing the loan. These expenditures are recorded when incurred. Due to the uncertainty with respect to collection of these passed through expenditures or assessed fees, any funds received to reimburse us are recorded on a cash basis as other income.

Insurance commissions: Revenues are comprised of commissions earned on premiums paid for insurance policies and are recognized at the time the commission is earned. At that date, the earnings process has been completed and we can estimate the impact of policy cancellations for refunds and establish reserves. The reserve for policy cancellations is based on historical cancellation experience adjusted by known circumstances.

Other income: Other income represents revenues derived from operating units that cannot be aggregated with other business segments. In addition, other income represents one time recoveries or gains on investments. Revenue is recorded when there is strong evidence of an agreement, the related fees are fixed, the service and, or product has been delivered, and the collection of the related receivable is assured.

Capco Debt Issuance: The Capco notes require, as a condition precedent to the funding of the notes, that insurance be purchased to cover the risks associated with the operation of its Capcos. This insurance has been purchased from Chartis Specialty Insurance Company and National Union Fire Insurance Company of Pittsburgh, both subsidiaries of Chartis, Inc. ("Chartis"), an international insurer. In order to comply with this condition precedent to the funding, the notes closing is structured as follows: (1) the certified investors wire their funds directly into an escrow account; (2) the escrow agent, pursuant to the requirements under the note and escrow agreement, automatically and simultaneously funds the purchase of the insurance contract from the proceeds received. Newtek's Capco is not entitled to the use and benefit of the net proceeds received until the escrow agent has completed the purchase of the insurance. The Chartis insurance subsidiaries noted above are "A+" credit rated by S&P.

Under the terms of this insurance, which is for the benefit of the certified investors, the Capco insurer incurs the primary obligation to repay the certified investors a substantial portion of the debt (including all cash payments) as well as to make compensatory payments in the event of a loss of the availability of the related tax credits. The Capco remains secondarily liable for such payments and must periodically assess the likelihood that it will become primarily liable and, if necessary, record a liability at that time. The parent company, Chartis, has not guaranteed the obligations of its subsidiary insurers, although it has committed to move the payment obligations to an affiliated company in the event the Capco insurer is materially downgraded in its credit rating.

Investment Accounting and Valuation: The various interests that the Capcos and Newtek acquire as a result of their investments are accounted for under three methods: consolidation, equity method and cost method. The applicable accounting method is generally determined based on our voting interest in a company and whether the company is a variable interest entity where we are the primary beneficiary, and quarterly valuations are performed so as to keep our records current in reflecting the operations of all of its investments.

Companies in which we directly or indirectly owns more than 50% of the outstanding voting securities, those Newtek has effective control over, or are deemed as a variable interest entity that needs to be consolidated, are generally accounted for under the consolidation method of accounting. Under this method, an investment's results of operations are reflected within the consolidated statement of operations. All significant inter-company accounts and transactions are eliminated. The results of operations and cash flows of a consolidated entity are included through the latest interim period in which Newtek owned a greater than 50% direct or indirect voting interest, exercised control over the entity for the entire interim period or was otherwise designated as the primary beneficiary. Upon dilution of voting interest at or below 50%, or upon occurrence of a triggering event requiring reconsideration as to the primary beneficiary of a variable interest entity, the accounting method is adjusted to the equity or cost method of accounting, as appropriate, for subsequent periods.

Companies that are not consolidated, but over which we exercise significant influence, are accounted for under the equity method of accounting. Whether or not Newtek exercises significant influence with respect to a

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company depends on an evaluation of several factors including, among others, representation on the board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities, including voting rights associated with Newtek's holdings in common, preferred and other convertible instruments. Under the equity method of accounting, a company's accounts are not reflected within our consolidated statements of income; however, Newtek's share of the investee's earnings or losses are reflected in other income in our consolidated statements of income.

Companies not accounted for under the consolidation or the equity method of accounting are accounted for under the cost method of accounting, for which quarterly valuations are performed. Under this method, our share of the earnings or losses of such companies is not included in the consolidated statements of income, but the investment is carried at historical cost. In addition, cost method impairment charges are recognized as necessary, in the consolidated statements of income if circumstances suggest that this is an "other than temporary decline" in the value of the investment, particularly due to losses. Subsequent increases in value, if any, of the underlying companies are not reflected in our financial statements until realized in cash. We record as income amounts previously written off only when and if we receive cash in excess of its remaining investment balance.

On a quarterly basis, the investment committee of each Capco meets to evaluate each of our investments. Newtek considers several factors in determining whether an impairment exists on the investment, such as the companies' 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 particular company's industry, to determine if an other than temporary decline in value exists in each Capco's and Newtek's investment.

Impairment of Goodwill: Our management considers the following to be some examples of important indicators that may trigger an impairment review outside its annual goodwill impairment review: (i) significant under-performance or loss of key contracts acquired in an acquisition relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of the acquired assets or in our overall strategy with respect to the manner or use of the acquired assets or changes in our overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in our stock price for a sustained period of time; and (vi) regulatory changes. In assessing the recoverability of our goodwill and intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. The fair value of an asset could vary, depending upon the estimating method employed, as well as assumptions made. This may result in a possible impairment of the intangible assets and/or goodwill, or alternatively an acceleration in amortization expense. For the years ended December 31, 2012 and 2011, the goodwill was determined to not be impaired.

SBA Loan Held for Investment: For loans that completed funding before October 1, 2010, SBA loans held for investment are reported at their outstanding unpaid principal balances adjusted for charge-offs, net deferred loan origination costs and the allowance for loan losses. For loans that completed funding on or after October 1, 2010, management elected to fair value SBA loans held for investment within the fair value hierarchy that prioritizes observable and unobservable inputs utilizing Level 3 unobservable inputs which reflect our own expectations about the assumptions that market participants would use in pricing the asset (including assumptions about risk). We consider the pricing reflected in our securitization activities to be the best indicator of the fair value discount used to measure loans held for investment. If a loan measured at fair value is subsequently impaired, then the fair value of the loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. Because the loans bear interest at a variable rate, NSBF does not have to factor in interest rate risk.

Allowance for SBA Loan Losses: For loans funded before October 1, 2010, the allowance for loan losses for performing loans is established by management through provisions for loan losses charged against income. The amount of the allowance for loan losses is inherently subjective, as it requires making material estimates which may vary from actual results. Management's ongoing estimates of the allowance for loan losses are particularly affected by the changing composition of the loan portfolio over the last few years as well as other

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portfolio characteristics, such as industry concentrations and loan collateral. The adequacy of the allowance for loan losses is reviewed by management on a monthly basis at a minimum, and as adjustments become necessary, are reflected in operations during the periods in which they become known. Considerations in this evaluation include past and anticipated loss experience, risks inherent in the current portfolio and evaluation of real estate collateral as well as current economic conditions. In the opinion of management, the allowance, when taken as a whole, is adequate to absorb estimated loan losses inherent in our entire loan portfolio. The allowance consists of specific and general components. The specific component relates to loans that are classified as either loss, doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

For loans funded on or after October 1, 2010, the loan is reported at its fair value. Changes in the value of the loan, whether performing or impaired, are reported as a net change in the fair value of SBA loans held for investment.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Other factors considered by management in determining impairment include payment status and collateral value. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. Impaired loans for which the carrying amount is based on fair value of the underlying collateral are included in assets and reported at estimated fair value on a non-recurring basis, both at initial recognition of impairment and on an on-going basis until recovery or charge-off of the loan amount. The determination of impairment involves management's judgment in the use of market data and third party estimates regarding collateral values. For loans funded before October 1, 2010, the impairment of a loan resulted in management establishing an allowance for loan losses through provisions for loan losses charged against income; for subsequent loans at fair value, impairment results in a net change in the fair value of SBA loans held for investment. Amounts deemed to be uncollectible are charged against the allowance for loan losses or reduces the fair value and subsequent recoveries, if any, are credited to the allowance or increases the fair value.

Our charge-off policy is based on a loan-by-loan review for which the estimated uncollectible portion of nonperforming loans is charged off against the corresponding loan receivable and the allowance for possible loan losses or against the reduction in fair value.

SBA Loans Held for Sale: For guaranteed portions funded, but not yet traded at each measurement date, management elected to fair value SBA loans held for sale within the fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value utilizing Level 2 assets. These inputs include debt securities with quoted prices that are traded less frequently than exchange-traded instruments or have values determined using a pricing model with inputs that are observable in the market. The secondary market for the guaranteed portions is extremely robust with broker dealers acting as primary dealers. NSBF sells regularly into the market and can quickly price its loans for sale. We value the guaranteed portion based on market prices equal to the guaranteed loan amount plus a premium that includes both an upfront cash payment (utilizing quoted prices) and the value of a stream of payments representing servicing income received in excess of NSBF's servicing cost (valued using a pricing model with inputs that are observable in the market).

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Securitization Activities: NSBF engaged in securitizations of the unguaranteed portions of its SBA 7(a) loans. Because the transfer of these assets did not meet the criteria of a sale, these transactions were treated as a secured borrowing. NSBF continues to recognize the assets of the secured borrowing in loans held for investment and recognize the associated financing in Bank notes payable.

Sales and Servicing of SBA Loans: NSBF originates loans to customers under the SBA program that generally provides for SBA guarantees of 50% to 90% of each loan, subject to a maximum guarantee amount. This guaranteed portion is generally sold to a third party via an SBA regulated secondary market transaction utilizing SBA Form 1086 for a price equal to the guaranteed loan amount plus a premium that includes both an upfront cash payment and the fair value of future net servicing income. Prior to October 1, 2010, NSBF recognized the revenue item "Premium on loan sales" net of capitalized loan expenses and the discount on the retained unguaranteed portion; subsequent to the adoption of fair value of SBA 7(a) loans on October 1, 2010, NSBF recognizes premium on loan sales as equal to the cash premium plus the fair value of the servicing income. Revenue is recognized on the trade date of the guaranteed portion, except as described below.

Upon recognition of each loan sale, we retain servicing responsibilities and receive servicing fees of a minimum of 1% of the guaranteed loan portion sold. We are required to estimate our adequate servicing compensation in the calculation of our servicing asset. The purchasers of the loans sold have no recourse to us for failure of customers to pay amounts contractually due.

Subsequent measurements of each class of servicing assets and liabilities may use either the amortization method or the fair value measurement method. NSBF has chosen to apply the amortization method to its servicing asset, amortizing the asset in proportion to, and over the period of, the estimated future net servicing income on the underlying sold guaranteed portion of the loans and assessing the servicing asset for impairment based on fair value at each reporting date. In the event future prepayments are significant or impairments are incurred and future expected cash flows are inadequate to cover the unamortized servicing assets, additional amortization or impairment charges would be recognized. In evaluating and measuring impairment of servicing assets, NSBF stratifies its servicing assets based on year of loan and loan term which are the key risk characteristics of the underlying loan pools. We use an independent valuation specialist to estimate the fair value of the servicing asset by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, servicing costs and discount rates that NSBF believes market participants would use for similar assets. If NSBF determines that the impairment for a stratum is temporary, a valuation allowance is recognized through a charge to current earnings for the amount the amortized balance exceeds the current fair value. If the fair value of the stratum were to later increase, the valuation allowance may be reduced as a recovery. However, if NSBF determines that impairment for a stratum is other than temporary, the value of the servicing asset and any related valuation allowance is written-down.

Management's impairment analysis indicated no valuation adjustment for 2012 and 2011.

Share-Based Compensation. We record all share-based payments to employees based on their fair values using an option-pricing model at the date of grant.

Income Taxes. Deferred tax assets and liabilities are computed based upon the differences between the financial statement and income tax basis of assets and liabilities using the enacted tax rates in effect for the year in which those temporary differences are expected to be realized or settled. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized.

New Accounting Standards

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2012-02, "Intangibles—Goodwill and Other (ASC Topic 350): Testing Indefinite-Lived Intangible

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Assets for Impairment,” which permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30 (ASU 2011-08). This new standard is effective for fiscal years that begin after September 15, 2012; we are still evaluating the impact of adopting of this standard, but it is not anticipated to have a material impact on our consolidated financial condition or results of operations.

Liquidity and Capital Resources

Cash requirements and liquidity needs over the next twelve months are anticipated to be funded primarily through cash generated from operations, available cash and cash equivalents, existing credit lines and securitizations of the Company’s SBA lender’s unguaranteed loan portions. As more fully described below, the Company’s SBA lender will require additional funding sources to maintain SBA loan originations in the latter part of 2013 under anticipated conditions; although the failure to find these sources may require the reduction in the Company’s SBA lending and related operations, it will not impair the Company’s overall ability to operate.

The Company’s SBA lender depends on the continuation of the SBA 7(a) guaranteed loan program of the United States Government. The Company’s SBA lender depends on the availability of purchasers for SBA loans for sale in the secondary market and the premium earned therein to support its lending operations. At this time, the secondary market for the SBA loans is robust.

The Company’s SBA lender has historically financed the operations of its lending business through loans or credit facilities from various lenders and will need to continue to do so in the future. Such lenders invariably require a security interest in the SBA loans as collateral which, under the applicable law, requires the prior approval of the SBA. If the Company should ever be unable to obtain the approval for its financing arrangements from the SBA, it would likely be unable to continue to make loans.

As an alternative to holding indefinitely the portions of SBA loans remaining after sale of the guaranteed portions in the SBA supervised secondary market, the Company has undertaken to securitize these unguaranteed portions. In December 2010, the first such securitization trust established by the Company issued to one investor notes in the amount of \$16,000,000 which received a Standard & Poor’s (“S&P”) rating of “AA.” A second securitization, an amendment to the original transaction, was completed in December 2011, and resulted in an additional \$14,900,000 of notes issued to the same investor. A third securitization was completed in March 2013 for \$20,909,000 of notes issued to multiple investors, which received an “A” rating from S&P. The SBA lender used the cash generated from the first transaction to retire its outstanding term loan from Capital One, N.A. and to fund a \$3,000,000 account which during the first quarter of 2011 purchased unguaranteed portions originated subsequent to the securitization transaction. Similarly, the proceeds from the second and third securitizations in 2011 and 2013 were used to pay down its outstanding revolver loan with Capital One, N.A., and to fund a \$5,000,000 and \$4,175,000 prefunding account, respectively, which were used to purchase unguaranteed portions of loans in the first quarter of 2012 and April 2013, respectively. While this securitization process can provide a long-term funding source for the SBA lender, there is no certainty that it can be conducted on an economic basis. In addition, the securitization mechanism itself does not provide liquidity in the short-term for funding SBA loans.

In December 2010, the SBA lender entered into a revolving loan agreement with Capital One, N.A. for up to \$12,000,000 to be used to fund the guaranteed portions of SBA loans and to be repaid with the proceeds of the sale in the secondary market of those portions. Also, in June 2011, the SBA lender entered into a revolving loan agreement with Capital One N.A., for up to \$15,000,000 to be used to fund the unguaranteed portions of SBA loans and to be repaid with the proceeds of loan repayments from the borrowers as well as excess cash flow of NSBF. In October 2011, the term of the loans were extended by nine months through September 30, 2013. In July 2013 the SBA lender, received an extension on the availability of its warehouse lines, totaling \$27 million, with Capital One, N.A. from September 30, 2013 to May 31, 2015, at which time the outstanding balance will be

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converted into a three year term loan. The extension also enhanced the terms of the credit facilities by removing the \$15 million funding sublimit for the non-guaranteed portions of the SBA 7(a) loans NSBF originates, and increasing the advance rate to 55% from 50% for the non-guaranteed portions of the SBA 7(a) loans.

On February 28, 2011, NBC entered into a three year line of credit of up to \$10,000,000 with Sterling National Bank to purchase and warehouse receivables. In December 2012, an amendment was signed providing that upon the achievement of certain profitability levels, the maximum amount of the line of credit under the Agreement can be increased from \$10,000,000 to \$15,000,000 at a later date upon NBC's request. The Amendment also extended the maturity date from February 28, 2014 to February 28, 2016. There is no cross collateralization between the Sterling lending facility and the Capital One credit facility; however, a default under the Capital One loan will create a possibility of default under the Sterling line of credit. The availability of the Sterling line of credit and the performance of the Capital One loans are subject to compliance with certain covenants and collateral requirements as set forth in their respective agreements, as well as limited restrictions on distributions or loans to the Company by the respective debtor, none of which are material to the liquidity of the Company. At September 30, 2013, the Company and its subsidiaries were in full compliance with applicable loan covenants. The Company guarantees these loans for the subsidiaries up to the amount borrowed; in addition, the Company deposited \$750,000 with Sterling to collateralize that guarantee. As of September 30, 2013, the Company had no unused sources of liquidity in unrestricted cash and cash equivalents.

Restricted cash of \$10,399,000 as of September 30, 2013 is primarily held in Small business finance, All Other, the Capcos and Corporate segments. For Small business finance, approximately \$2,672,000 is held by the securitization trusts as a reserve on future nonperforming loans, and \$3,046,000 is due to participants, the SBA and others. For All other, PMT holds tax deposits for their clients until such payments are due to the respective state or federal authority, and NIA segregates premiums collected from insureds. For the Capcos, restricted cash can be used in managing and operating the Capcos, making qualified investments and for the payment of taxes on Capco income. In addition, as discussed above, the Company deposited \$750,000 with Sterling to collateralize its guarantee, which is included in the Corporate segment.

In summary, Newtek generated and used cash as follows:

(In thousands)	Nine Months Ended	
	September 30,	
	2013	2012
Net cash used in operating activities	\$ (1,257)	\$ (1,897)
Net cash used in investing activities	(24,231)	(15,708)
Net cash provided by financing activities	19,020	24,708
Net (decrease) increase in cash and cash equivalents	(6,468)	7,103
Cash and cash equivalents, beginning of period	14,229	11,201
Cash and cash equivalents, end of period	<u>\$ 7,761</u>	<u>\$ 18,304</u>

Net cash used in operating activities increased by \$640,000 to cash used of \$(1,257,000) for the period ended September 30, 2013 compared to cash used in operations of \$(1,897,000) for the period ended September 30, 2012. The change primarily reflects the operation of the SBA lender, which originated \$91,598,000 of SBA loans held for sale and sold \$90,167,000 compared with \$55,147,000 originated and \$56,397,000 sold in the first nine months of 2012. In addition, cash used for prepaid expense, accrued interest receivable and other assets decreased by \$(6,454,000) for the nine months is mostly related to increases in loan and FDIC receivables and capitalized loan costs recorded on the SBA lender, and additional capitalized and costs related to the potential BDC corporate restructuring and tax receivables included in the Corporate segment.

Net cash used in investing activities includes the unguaranteed portions of SBA loans, the purchase of fixed assets and customer accounts, changes in restricted cash and activities involving investments in qualified

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businesses. Net cash used in investing activities decreased by \$(8,523,000) to cash used of \$(24,231,000) for the period ended September 30, 2013 compared to cash used of \$(15,708,000) for the period ended September 30, 2012. The decrease was due primarily to a greater amount of SBA loans originated for investment of \$(28,405,000) for the nine month period in 2013 compared with \$(17,105,000) in 2012. This use of cash was partially offset by increases in investments and the return of investments in qualified businesses, which provided a combined \$3,082,000 of cash in 2013 versus a \$(1,550,000) cash use in the same period of 2012.

Net cash provided by financing activities primarily includes the net borrowings and (repayments) on bank lines of credit and notes payable as well as securitization activities. Net cash provided by financing activities decreased by \$5,688,000 to cash provided of \$19,020,000 for the period ended September 30, 2013 from cash provided of \$24,708,000 for the period ended September 30, 2012. While the current period included a cash provision of \$20,909,000 related to the Company's March 2013 securitization transaction, additional cash was used to repay bank lines of credit, a decrease of \$(8,534,000) compared with the nine months ended September 30, 2012, as well as the change in restricted cash which decreased by \$(5,662,000). In addition, cash proceeds of \$10,000,000 from a term loan, and an additional \$2,763,000 resulting from the consolidation of Exponential of New York, LLC, an affiliated Capco company, were provided during the nine months ended September 30, 2012.

Off Balance Sheet Arrangements

None.

Impact of Inflation

The impact of inflation and changing prices on our results of operations is not material.

Quantitative and Qualitative Disclosures about Market Risk.

We consider the principal types of risk in our business activities to be fluctuations in interest rates and loan portfolio valuations and the availability of the secondary market for our SBA loans held for sale. Risk management systems and procedures are designed to identify and analyze our risks, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs.

Our SBA lender primarily lends at an interest rate of prime, which resets on a quarterly basis, plus a fixed margin. Our receivable financing business purchases receivables priced to equate to a similar prime plus a fixed margin structure. The Capital One term loan and revolver loan, the securitization notes and the Sterling line of credit are on a prime plus a fixed factor basis. As a result, the Company believes it has matched its cost of funds to its interest income in its financing activities. However, because of the differential between the amount lent and the smaller amount financed a significant change in market interest rates will have a material effect on our operating income. In a rising interest rate climate, our cost of funds will increase at a slower rate than the interest income earned on the loans we have made; however, this benefit may be offset by a reduction in premium income. A rise in interest rates may cause an increase in prepayments, thus decreasing the future cash flows of a loan and impacting the premium price paid in the secondary market. Conversely, in a decreasing rate environment, the Company may experience a reduction in interest rate spread; that is, interest income will decline more quickly than interest expense resulting in a net reduction of benefit to operating income, offset by an increase in premium income.

Our lender depends on the availability of secondary market purchasers for the guaranteed portions of SBA loans and the premium received on such sales to support its lending operations. At this time the secondary market for the guaranteed portions of SBA loans is robust but during the 2008 and 2009 financial crisis the Company had difficulty selling its loans for a premium; although not expected at this time, if such conditions did recur our SBA lender would most likely cease making new loans and could experience a substantial reduction in profitability.

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We do not have significant exposure to changing interest rates on invested cash which was approximately \$18,160,000 at September 30, 2013. We do not purchase or hold derivative financial instruments for trading purposes. All of our transactions are conducted in U.S. dollars and we do not have any foreign currency or foreign exchange risk. We do not trade commodities or have any commodity price risk.

We believe that we have placed our demand deposits, cash investments and their equivalents with high credit-quality financial institutions. Invested cash is held almost exclusively at financial institutions with ratings from S&P of A- or better. The Company invests cash not held in interest free checking accounts or bank money market accounts mainly in U.S. Treasury-only money market instruments or funds and other investment-grade securities. As of September 30, 2013, cash deposits in excess of FDIC and SIPC insurance totaled approximately \$3,582,000 and funds held in U.S. Treasury-only money market funds or equivalents in excess of SIPC insurance totaled approximately \$1,139,000.

BUSINESS

Our Business

We are a leading national lender and own and control certain portfolio companies (our “controlled portfolio companies,” as defined below) that provide a wide range of business and financial products to SMBs. In particular, we and our controlled portfolio companies provide comprehensive lending, payment processing, managed technology, personal and commercial insurance and payroll solutions to over 100,000 SMB accounts, across all industries. We have an established and reliable platform that is not limited by client size, industry type or location. As a result, we have a strong and diversified client base across every state in the U.S and across a variety of different industries. In addition, we have developed a financial and technology based business model that enables us and our controlled portfolio companies to acquire and process our SMB clients in a very cost effective manner. This capability is supported in large part by NewTracker®, our patented prospect management technology software. We believe that this technology and business model distinguishes us from our competitors.

We and our controlled portfolio companies operate as an integrated operational business with internal management. As a business development company, we will be internally managed and focus on serving the SMB market, which we estimate to be over 27 million businesses in the U.S. These businesses have historically been underserved by traditional financial institutions and typically lack the capital resources to build a competitive business and marketing infrastructure on their own. Further, in today’s economic climate, SMBs have particular difficulty obtaining capital from traditional lending sources. While we do not compete directly with alternative online lenders such as OnDeck Capital, Inc. and Kabbage Inc., we do provide similar financing solutions as an alternative to traditional lending. We believe there is significant demand for such alternative financing among SMBs. Our lending solutions and our controlled portfolio companies’ outsourced business solutions help clients manage and grow their businesses and compete effectively in today’s marketplace. We obtain our customers through referrals from various business partners, such as banks, credit unions and other affinity groups, as well as through our own direct sales force and advertising campaigns. We source, acquire and process SMB customers in a cost effective manner without reliance on high cost sales staff and time consuming application processes.

In lending, we believe we are a leading capital provider to SMBs based on our loan volume of more than \$600 million through approximately 1,100 transactions since 2003 and we currently are the largest non-financial institution U.S. SBA licensed lender under the federal Section 7(a) loan program based on annual origination volume. We originate loans through a variety of sourcing channels and, through a rigorous underwriting process, seek to achieve attractive risk-weighted returns. Our multi-faceted relationships with certain borrowers allows us to closely monitor their credit profile and take an active role in managing our investment. Further, our lending capabilities coupled with the broad outsourced business solutions of our controlled portfolio companies creates attractive cross-selling opportunities within our client base. We believe our business model creates powerful network effects which will help drive growth and operating leverage in our business. In addition, our SBA loans are structured so that the government guaranteed portion can be rapidly sold, which, based on our historic ability to securitize the unguaranteed portions and assuming the continuation of current market conditions, allows us to quickly recover our principal and earn excess capital on each loan, usually in less than a year. We may in the future determine to retain the government guaranteed or unguaranteed portions of loans pending deployment of excess capital.

Our proprietary and patented technology platform which we make available to our controlled portfolio companies enables them to provide our clients with a real-time management solution that organizes all of a business’s critical transaction and economic, eCommerce and website traffic data on a smartphone, tablet, laptop or personal computer. This technology provides critical consumer and marketing intelligence, including data mining, and provides a range of differentiated solutions and analytical tools that may be easily customized and integrated within their clients’ existing business processes. It also provides clients with seamless connectivity to a payment and managed technology infrastructure that is secure, fully compliant and regularly updated with the latest capabilities, services and functionalities. The platform is highly scalable to facilitate growth and meet the needs of new clients and consists solely of cloud-based offerings.

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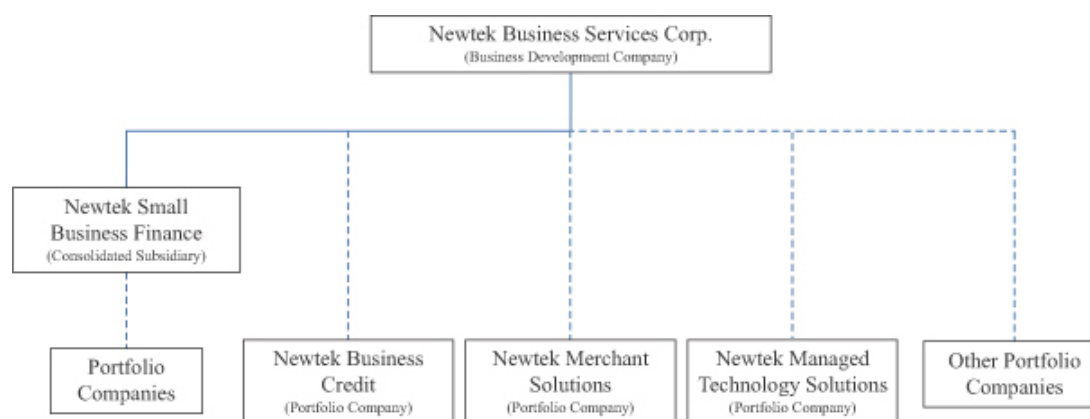
Newtek and its controlled portfolio companies all use NewTracker®, our patented and proprietary technology for receiving, processing and monitoring prospective customers. This enables all operations to acquire SMB customers in a highly cost effective manner as it is all accomplished by skilled staff using state of the art technology without the need for high cost sales staff or applications processors. It also permits our referral partners to have a real time window into the back office processing of their referrals giving. The software automatically pre-populates any necessary forms or applications so the processing is efficient and also highly cost effective. Finally, it also identifies opportunities for the cross-sale of other Newtek products or services.

For the years 2010, 2011 and 2012 and the nine months ended September 30, 2013, our revenue was \$112.7 million, \$125.3 million, \$131.1 million and \$105.9 million, respectively. In the same periods, our net income attributable to Newtek Business Services, Inc. was \$1.4 million, \$3.3 million, \$5.6 million and \$5.1 million, respectively.

New Business Structure

We intend to file an election to be regulated as a BDC under the 1940 Act prior to the completion of this offering, and we intend to operate subsequently as an internally managed, non-diversified closed-end investment company. We also intend to elect to be treated as a RIC under Subchapter M of the Code for U.S. federal income tax purposes.

Set forth below is a diagram of our organizational structure following this offering:



We intend to use the net proceeds of this offering primarily to expand our SMB lending, make direct investments in portfolio companies in accordance with our investment objective and strategies described in this prospectus and for general corporate purposes. We believe that transitioning to a BDC and RIC will provide us with access to lower-cost capital and a business structure conducive to expanding our lending activities and will assist in maximizing our value to shareholders by, among other things, permitting us to value our assets and controlled portfolio companies at fair value. As a BDC, we will seek to generate both current income and capital appreciation primarily through loans originated by our small business finance platform and our equity investments in certain portfolio companies that we control. While our primary investment focus as a BDC will be making loans and providing business services to SMBs through our controlled portfolio companies, we may also make opportunistic investments in larger or smaller companies. We expect to continue to grow our business organically, both directly and through our controlled portfolio companies, as we have historically. We expect to have the ability to increase our quarterly distributions to our stockholders over time as we invest the proceeds of this offering and increase the size of our investment portfolio. Our transition to a BDC and RIC will have certain consequences on our balance sheet and net asset value. See “Selected Financial and Other Data” and “Capitalization.”

Small Business Finance

Our debt portfolio consists of loans that were made through our small business finance platform, comprised of Newtek Small Business Finance, Inc. (“NSBF”), a nationally licensed SBA lender, and CDS Business Services, Inc. d/b/a Newtek Business Credit (“CDS”). NSBF originates, sells and services federal Section 7(a) loan program (“SBA 7(a) loans”) to qualifying SMBs, which are partially guaranteed by the SBA. The small business finance platform also includes CDS, a portfolio company, which provides receivables financing and management services to SMBs which may obtain \$10,000 to \$2,000,000 per month through the sale of their trade receivables. In addition, NBC offers back office receivables services for SMBs, such as billing and cash collections. An additional wholly-owned subsidiary, Small Business Lending, Inc., engages in third party loan servicing for SBA and non-SBA loans.

As a BDC, we plan to expand our small business finance platform primarily by making senior secured loans through NSBF. NSBF is one of 14 SBA licensed Small Business Lending Corporations that provide loans nationwide under the SBA 7(a) loan program. NSBF has received preferred lender program (“PLP”) status, a designation whereby the SBA authorizes the most experienced SBA lenders to place SBA guarantees on loans without seeking prior SBA review and approval. PLP status allows NSBF to serve its clients in an expedited manner since it is not required to present applications to the SBA for concurrent review and approval. We believe our SBA license, combined with our PLP designation, provides us with a distinct competitive advantage over other SMB lenders that have not overcome these significant barriers-to-entry in our primary loan market. NSBF has historically originated in excess of \$110 million of SBA 7(a) loans annually and currently manages a portfolio of approximately \$509 million of SBA 7(a) loans, which includes as of October 31, 2013 \$576 million of SBA 7(a) loans that NSBF services on behalf of third parties. NSBF anticipates originating approximately \$175 million of SBA 7(a) loans during 2013 and to select these loans from the large volume of loan proposals we annually receive; in 2012 we received proposals totaling \$2.5 billion and expect to receive that double that amount in 2013. In November 2013, we entered into a Letter of Commitment with Goldman Sachs Bank USA for a new credit facility of \$75 million to be used to support this lending. We believe that we will continue to be introduced to a variety of high-quality investment opportunities through our existing loan sourcing channels and our controlled portfolio companies’ relationships with their clients, and that our transition to a BDC will help fuel the growth of our loan portfolio by providing us with better access to lower-cost capital. We have the technology and infrastructure in place presently to significantly grow our SMB lending and we can do it cost effectively in all 50 states and across many industries.

The SBA is an independent government agency that facilitates one of the nation’s largest source of SMB financing by providing credit guarantees for its loan programs. Under the SBA’s 7(a) lending program, a bank or other lender such as NSBF underwrites a loan between \$50,000 and \$5 million for a variety of general business purposes based on the SBA’s guidelines and the SBA provides a partial guarantee on the loan. Depending on the loan size, the SBA typically guarantees between 75% and 85% of the principal and interest due. The recoveries and expenses on the unguaranteed portions of these loans are shared *pari passu* between the SBA and the lender, which substantially reduces the loss severity on the unguaranteed portion of a loan for all SBA 7(a) loan investors. SBA 7(a) loans are typically between five and 25 years in maturity, are four to five years in duration and bear interest at the prime rate plus a spread from 2.25% to 2.75%. Since the guaranteed portions of SBA 7(a) loans carry the full faith and credit of the U.S. government, lenders may, and frequently do, sell the guaranteed portion of SBA 7(a) loans in the capital markets, hold the unguaranteed portion and retain all loan servicing rights.

NSBF has a dedicated capital markets team that sells or securitizes the guaranteed and the unguaranteed portions of its SBA 7(a) loans. Historically, NSBF has sold the guaranteed portion of its originated SBA 7(a) loans within two weeks of origination and retained the unguaranteed portion until accumulating sufficient loans for a securitization. The SBA-guaranteed portions of SBA 7(a) loans have historically traded at a premium ranging from 110% to 120% of par value and have never traded below par value. Since inception, NSBF has sold approximately \$412 million of the SBA guaranteed portions of SBA 7(a) loans at premiums ranging from 106% to 120% of par value and typically any portion of the premium that was above 110% of par value was shared equally between NSBF and the SBA. In December 2010, NSBF launched its securitization program for

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unguaranteed portions of its SBA 7(a) loans and has successfully completed three securitization transactions with Standard & Poor's AA and A ratings and attractive advance rates of approximately 70% of par value. NSBF intends to do additional securitizations in the future which may be on comparable although not necessarily identical terms and conditions. We may determine to retain the government guaranteed or unguaranteed portions of loans pending deployment of excess capital.

NSBF's senior lending team has focused on making smaller loans, approximately \$1 million or less, in order to maintain a diversified pool of loans that are dispersed both geographically and among industries, which limits NSBF's exposure to regional and industry-specific economic downturns. Specifically, NSBF's current loan portfolio consists of 620 loans originated across 43 states in 68 different industries as defined by the North American Industry Classification System. The following charts summarize NSBF's mix of investment concentrations by industry and geography as of September 30, 2013.

Industry Type	Number of Loans	Aggregate Balance (\$'000)	Average Balance (\$'000)	Percentage of Balance
Food Services and Drinking Places	65	6,857	105	7.87%
Amusement, Gambling, and Recreation Industries	32	5,336	167	6.13%
Ambulatory Health Care Services	69	5,142	75	5.90%
Fabricated Metal Product Manufacturing	18	4,876	271	5.60%
Truck Transportation	13	4,114	316	4.72%
Professional, Scientific, and Technical Services	33	4,464	135	5.13% ^{5/8}
Merchant Wholesalers, Durable Goods	17	3,900	229	4.48%
Repair and Maintenance	32	3,215	100	3.69%
Gasoline Stations	12	3,196	266	3.67%
Food Manufacturing	13	3,035	233	3.49%
Other	339	42,957	127	49.32%
Total	643	\$ 87,092	\$ 135	100.00%

State	Number of Loans	Aggregate Balance (\$'000)	Average Balance (\$'000)	Percentage of Balance
NY	89	\$ 10,606	\$ 119	12.18%
FL	76	8,388	110	9.63%
TX	38	6,232	164	7.16%
CA	43	5,991	139	6.88%
GA	28	5,902	211	6.78%
NJ	43	5,883	137	6.75%
CT	35	5,691	163	6.53%
PA	31	5,399	174	6.20%
LA	16	2,811	176	3.23%
OH	15	2,577	172	2.96%
Other	229	27,612	6,236	31.70%
Total	643	\$ 87,092	\$ 135	100.0%

NSBF evaluates the credit quality of its loan portfolio by employing a risk rating system that is similar to the Uniform Classification System, which is the asset classification system adopted by the Federal Financial Institution Examinations Council. NSBF's risk rating system is granular with multiple risk ratings in both the Acceptable and Substandard categories. Assignment of the ratings are predicated upon numerous factors, including credit risk scores, collateral type, loan to value ratios, industry, financial health of the business, payment history, other internal metrics/analysis, and qualitative assessments. Risk ratings are refreshed as

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appropriate based upon considerations such as market conditions, loan characteristics, and portfolio trends. NSBF's gross SBA loans by credit quality indicator are as follows:

Risk Rating	Count	Aggregate Balance (\$'000)	Average Balance (\$'000)	Percentage of Balance
Risk Rating 1-4	563	\$ 79,085	\$ 140	90.81%
Risk Rating 5	16	1,867	1,167	2.14%
Risk Rating 6	42	3,304	79	3.79%
Risk Rating 6/7 and 7	22	2,836	129	3.26%
Total	643	\$ 87,092	\$ 135	100.00%

The weighted average term to maturity and weighted average interest rate of NSBF's loan portfolio as of September 30, 2013 was 178 months and 6.0%, respectively.

As a BDC, using the origination platform and borrower relationships that we have developed over a ten-year period and our experience and knowledge with SBA 7(a) lending, we intend to develop a conventional lending platform that will be similar to the SBA 7(a) lending program in terms of high credit quality and rigorous underwriting, but without the SBA's guarantee. To compensate for the lack of the SBA's guarantee, we intend to charge higher double-digit interest rates on our loans. By leveraging our infrastructure in this way, we believe we will be able to grow our lending business at a faster rate than we have done historically and potentially provide better returns to our shareholders.

Controlled Portfolio Companies

In addition to our debt investments in portfolio companies, either directly or through our small business finance platform, we also hold controlling interests in certain portfolio companies that, as of September 30, 2013, represented approximately 50% of our total investment portfolio on a pro forma fair value basis. Specifically, we hold a controlling interest in Universal Processing Services of Wisconsin, LLC, d/b/a Newtek Merchant Solutions ("NMS"), CrystalTech Web Hosting, Inc. d/b/a/ Newtek Managed Technology Solutions® ("NTS"), CDS Business Services, Inc. ("CDS") and Newtek Insurance Agency, LLC ("NIA"). In addition, one of our subsidiaries holds a controlling interest in PMTWorks Payroll, LLC, d/b/a Newtek Payroll Services ("NPS"). We refer to these entities, collectively, as our "controlled portfolio companies." Our controlled portfolio companies provide us with an extensive network of business relationships that supplement our referral sources and that we believe will help us to maintain a robust pipeline of lending opportunities and expand our small business finance platform.

The revenues that our controlled portfolio companies generate, after deducting operational expenses, may be distributed to us. As a BDC, our board of directors will determine quarterly the fair value of our controlled portfolio companies in a similar manner as our other investments. In particular, our investments in our controlled portfolio companies are valued using a valuation methodology that incorporates both the market approach (public comparable company analysis) and the income approach (discounted cash flow analysis). In following these approaches, factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading comparables, the portfolio company's earnings and discounted cash flows, comparisons of financial ratios of peer companies that are public, and enterprise values, among other factors. In addition, the Company has engaged a third party valuation firm to provide valuation consulting services for the valuation of Newtek Merchant Solutions and Newtek Managed Technology Solutions.

As of September 30, 2013, our estimated valuation of Newtek Merchant Solutions was approximately \$45 million, which represents an enterprise value to LTM EBITDA multiple of 4.75x, and our estimated valuation of Newtek Managed Technology Solutions was approximately \$22.5 million, which represents an enterprise value to LTM EBITDA multiple of 3.75x. Such valuations and multiples reflect our current estimates and final valuations will be determined by our board of directors.

Electronic Payment Processing (NMS)

NMS, our “Electronic payment processing” segment, markets credit and debit card processing services, check approval services and ancillary processing equipment and software to merchants who accept credit cards, debit cards, checks and other non-cash forms of payment. It utilizes a multi-pronged sales approach of both direct and indirect sales. NMS’s primary sales efforts focus on direct sales through our *The Small Business Authority* brand. Its indirect sales channels consist of alliance partners, principally financial institutions (banks, credit unions and other related businesses), and independent sales agents across the U.S. These referring organizations and associations are typically paid a percentage of the processing revenue derived from the respective merchants that they successfully refer to NMS. In 2012, NMS processed over \$4.2 billion in volume, an increase of more than \$400 million from the previous year. NMS’s merchant base has grown from approximately 1,200 merchants at the end of 2002 to approximately 14,600 merchants through both organic growth and selective portfolio acquisitions. In January 2013, NMS made significant changes in the management of its business, adding Eric Turille, with over 20 years of experience in large scale payment processing acquisition businesses, including as the President of First National Bank of Omaha, Merchant Services, COO and Head of Sales at Vital Processing and COO of Retriever Merchant Services. Mr. Turille has also served on several VISA and MasterCard committees. In addition, Randy Sagar, along with two experienced executives, joined NMS as Executive Vice President of Business Development and opened an office in Louisville, Kentucky. Mr. Sagar is an accomplished executive in the electronic payment processing and technology space and was previously a partner in Financial Alliance. He also served as the EVP of sales and marketing for National Processing Company of Kentucky (“NPC”) and its successor Bank of America Merchant Services, where he was responsible for building a team of professionals who added over 8,000 new merchant accounts per month through its wholesale, ISO, agent banks and direct programs. Finally, in July 2013, Tom Harkins, with over 30 years of high level experience in risk management and operations in the electronic payment processing business was hired as Chief Risk Officer. NMS intends to build the growth and increased profitability of this segment with these additions.

NMS has a number of competitive advantages which we believe will enable us to exceed industry growth averages. These are:

- we rely on non-traditional business generation: referral relationships, wholesale solicitations and financial institutions rather than independent agents;
- we are a market leader in the implementation of technology in the payment processing business;
- we own the rights, through one of our Capco investments, to a payment processing gateway;
- we maintain our own staff of trained and skilled customer service representatives; and
- we are in the process of launching the latest in point-of-sale technology hardware, implementation of the EMV system (Europay, MasterCard, Visa inter-operative integrated circuit cards) and continuous cyber-security services.

NMS maintains its principal customer service and sales support offices in Milwaukee, Wisconsin, Brownsville, Texas and Louisville, Kentucky with additional specialists located in Phoenix, Arizona and New York. NMS’s personnel at these locations assist merchants with initial installation of equipment and on-going service, as well as any other special processing needs that they may have.

NMS’s development and growth are focused on selling its services to internally generated referrals, merchant referrals identified for NMS by Newtek alliance partners, and, with increasing emphasis in January 2013, by Newtek independent sales representatives, at which time NMS added a team of professionals experienced in the development and management of large scale independent sales forces. NMS is still different than most electronic payment processing companies who acquire their clients primarily through independent agents. NMS believes that its business model provides it with a competitive advantage by enabling it to acquire new electronic payment processing merchants at a lower cost level for third-party commissions than the industry average. NMS’s business model allows it to own the customer as well as the stream of residual payments, as opposed to models which rely more heavily on independent sales agents.

Managed Technology Solutions (NTS)

NTS provides website hosting, dedicated server hosting, cloud hosting, web design and development, internet marketing, ecommerce, data storage and backup, and other related services to more than 132,000 customer accounts in 120 countries and manages over 100,000 domain names. While there are many competitors in this space, NTS is the only technology company with the exclusive focus on the SMB market with products tailored to the specific needs of these business customers.

NTS provides a full suite of outsourced IT infrastructure services, including shared server hosting, dedicated server hosting, and cloud server (virtual) instances under the Newtek Managed Technology Solutions®, Newtek Web Services®, Newtek Web Hosting, and CrystalTech® brands, for which it receives recurring monthly fees, as well as other fees such as set-up fees, consulting fees, domain name registration, among others. Ninety percent of all fees are paid in advance by credit card.

NTS has recognized the continuing decline in Microsoft being utilized in the design of web sites and the market shift to Linux, Nginx and a proliferation of Word Press sites being built on non-Microsoft based platforms. This decline has caused a marked downward trend in the historical site count of NTS Microsoft hosted sites. NTS has responded by launching Linux Apache and Linux Nginx platforms within its environment and created associated control panels, service/support and billing to participate more fully in 100% of the market as compared to the present 33% of the new web design growth represented by Microsoft. All platforms are available within NTS's cloud and non-cloud environment and are fully managed offerings as compared to NTS's competitors. In addition, Newtek has created a proprietary platform and filed an associated patent for Newtek Advantage which leverages NTS's underlying technologies to deliver real time information and actionable business intelligence to its existing and new customer base.

NTS has launched a complete line of cloud based business and eCommerce packages, Cloud Spaces, to streamline the decision process for business owners and accommodate designers and developers that wish to build sites in both Microsoft and Linux environments. Included with this service offering is our standard, full customer service with a real human interface available on a 24/7/356 basis and this further distinguishes us from our competitors since they usually offer co-location hosting without the supported needed for the SMB market customer.

NTS's cloud offerings provide for a consumption-based hosting model that allows customers to pay only for the resources they need, which not only saves them money compared to traditional server hosting, but also enables them to scale larger or smaller on demand.

NTS delivers services not just to customers seeking hosting, but also to wholesalers, resellers, and web developers by offering a range of tools for them to build, resell, and deliver their web content. NTS primarily uses the Microsoft Windows® 2008 R2 platform to power its technology. Microsoft has described NTS as one of the largest hosting services in the world providing Microsoft Windows hosting. NTS currently operates a 5,000 square foot fortress-strength data center located in Scottsdale, Arizona, utilizing redundant networking, electrical and back-up systems, affording customers what management believes to be a state-of-the-art level of performance and security. NTS is PCI certified, Service Organization Control 1 ("SOC 1") audited, and is currently completing a SASE 16 audit, all of which mean that it meets the highest industry standards for data security.

Throughout its affiliation with Newtek, over seventy percent of new NTS customers have come as a result of internal and external referrals without material expenditures by the Company for marketing or advertising. Many of NTS's competitors are very price sensitive, offering minimal services at cut-rate pricing. While being cost competitive with most Linux- and Windows-based web hosting services, NTS has emphasized higher quality uptime, service and support as well as multiple control panel environments for the designer and developer community.

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NTS has diversified its product offerings to SMBs under different brands, all under Newtek Managed Technology Solutions, including Newtek Hosting, Newtek Web Services, Newtek Data Storage® and Newtek Web Design and Development®. NTS focuses specifically on select markets such as restaurants, financial institutions, medical practices, law firms, accountants, retail and technology service providers for channel business and reselling.

NTS has also launched a turnkey hosting service to meet financial institution needs for dedicated servers, hosting and/or data storage, enabling these entities to comply with their strict regulatory requirements that demand very high security protocols and practices be in place.

Insurance Services (NIA)

NIA, which is licensed in 50 states, offers SMB insurance products and services. NIA serves as a retail and wholesale agency specializing in the sale of personal, commercial and health/benefits lines insurance products to customers of all of the Newtek affiliated companies as well as Newtek alliance partners. NIA offers insurance products from multiple insurance carriers providing a wide range of choice for its customers. NIA has formed strategic alliances with American International Group, E-Insure, Credit Union National Association, Pershing and others to provide agent services to SMB clients referred by them. NIA is continuing its efforts to implement programs with alliance partners to market commercial and personal insurance. In December 2012, NIA, working with another of the Newtek subsidiaries, acquired a portfolio of insurance business from a major health care insurance agency based in the New York City area. This has added approximately 340 group health insurance policies that NIA is servicing and will form the basis on which NIA plans to grow this aspect of the insurance business. We also expect that recent health care legislation will increase the demand for these services among SMBs. A major sales channel for NIA is the SMB customer base of our lending platform and the other controlled portfolio companies which allow for many opportunities for cross sales between business lines.

Newtek Payroll Services (NPS)

NPS became affiliated with Newtek in 2010, and offers an array of industry standard and very competitively priced payroll management, payment and tax reporting services to SMBs. Based in New York, NPS has built up its business during 2012 and the first half of 2013 to approximately 440 customers in 37 states with total payroll under management of approximately 2,170 employees, of which approximately 18% were Newtek employees, an increase in customer count of 393% and employee count of 137% for the year 2012. These payroll services are being marketed through all of Newtek's available channels including the alliance partnerships and direct marketing campaigns. NPS also benefits by the access to the SMB customer base of the lending platform and the other controlled portfolio companies.

NPS provides full service payroll solutions across all industries, processing payroll any via SaaS or phone solutions. We have an established and reliable proprietary platform that is not limited by client size, industry type or delivery interface. NPS assists clients in managing their payroll processing needs by calculating, collecting and disbursing their payroll funds, remitting payroll taxes and preparing and filing all associated tax returns. In addition, NPS offers clients a range of ancillary service offerings, including workers' compensation insurance, time and attendance, 401(k) administration, paycards, employee benefit plans, employee background screening, COBRA services, tax credit recovery, Section 125 and flexible benefits spending plans and expense management services.

Certified Capital Companies (Capcos)

Our Capcos have historically invested in SMBs and generated non-cash income from tax credits and non-cash interest and insurance expenses in addition to cash management fees and expenses. We have deemphasized our Capco business in favor of growing the operations of our controlled portfolio companies and do not anticipate creating any new Capcos. While observing all requirements of the Capco programs and, in particular, financing qualified businesses meeting applicable state requirements as to limitations on the proportion of

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ownership of qualified businesses, we have been able to use this funding source as a means to facilitate the growth of our controlled portfolio companies, which are strategically focused on providing goods and services to SMBs such as those in which our Capcos invest. We continue to invest in and lend to SMBs through our existing Capcos and meet the goals of the Capco programs.

As the Capcos reach 100% investment we will seek to decertify them as Capcos, liquidate their remaining assets and thereby reduce their operational costs, particularly the legal and accounting costs associated with compliance. Four of our original sixteen Capcos have reached this stage.

Newtek Branding

We have developed our branded line of products and services to offer a full service suite of business and financial solutions for the U.S. SMB market. Newtek reaches potential customers through its integrated multi-channel approach featuring direct, indirect and direct outbound solicitation efforts. Although we continue to utilize and grow our primary marketing channel of strategic alliance partners, more recently, and consistent with our intent to elect to be regulated as a BDC, we have initiated a direct marketing strategy to SMB customers through our new “go to market” brand, *The Small Business Authority*[®]. Through a coordinated radio and television advertising campaign built around this brand, and our web presence, www.thesba.com, we are establishing ourselves as a preferred “go-to” provider for SMB financing and the services offered by our controlled portfolio companies. In addition, we supplement these efforts with extensive efforts to present the Company as the real authority on small businesses. We have developed the SB Authority Index[®], a proprietary, multi-dimensional index of small business activity which we prepare and release monthly and which has appeared in numerous media outlets. We also conduct a Market Sentiment Survey each month on a topic which is or should be of vital concern to the SMB market and release these results each month. Finally, we are an approved contributor to the Forbes.com website and we frequently post content relevant to the SMB and wider business markets and our Chief Executive Officer is a frequent guest on various business related TV programs on the Fox, Fox Business News, CNN, CNBC and MSNBC networks.

We market services through referrals from our strategic alliance partners such as AIG, Credit Union National Association, EInsure, ENT Federal Credit Union, General Motors Minority Dealers Association, Iberia Bank, Legacy Bank, Morgan Stanley Smith Barney, Navy Federal Credit Union, New York Community Bank, Pershing, Sterling National Bank and UBS Bank, among others, (using our patented NewTracker[®] referral management system) as well as direct referrals from our new web presence, www.thesba.com. Our NewTracker[®] referral system has a software application patent covering the systems and methods for tracking, reporting and performing processing activities and transactions in association with referral data and related information for a variety of product and service offerings in a business to business environment. This provides for security and transparency between referring parties and has been material in our ability to obtain referrals from a wide variety of sources. This patented system allows us and our alliance partners to review in real time the status of any referral as well as to provide real time compliance oversight by the respective alliance partner, which we believe creates confidence among the referred business client, the referring alliance partner and us. We own the NewTracker[®] patent, as well as all trademarks and other patented intellectual property used by us or our controlled portfolio companies.

Additional referrals are obtained from individual professionals in geographic markets that have signed up to provide referrals and earn commissions through our BizExec and TechExec Programs. These individuals are traditionally information technology professionals, CPAs, independent insurance agents and sales and/or marketing professionals. In addition, electronic payment processing services are marketed through independent sales representatives and web technology and ecommerce services are marketed through internet-based marketing and third-party resellers. A common thread across all business lines and of our controlled portfolio companies relates to acquiring customers at low cost and making strategic alliances primarily where we only pay fees for successful referrals. We seek to bundle our marketing efforts through our brand, our portal, our patented NewTracker[®] referral system, our new web presence as *The Small Business Authority*[®] and one easy entry point of contact. We expect that this approach will allow us to continue to cross-sell the financing services of our small

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business finance platform to customers of our controlled portfolio companies and build upon our extensive deal sourcing infrastructure. The compensation which we pay for referrals is consistent with industry practices.

Senior Lending Team and Executive Committee

The key members of our senior lending team, which includes Barry Sloane, Peter Downs, John Cox, David Leone, Gail Johnstone and Matthew Ash (our “senior lending team”), have worked together for more than 10 years, and each have over 25 years of experience in finance-related fields. In particular, they have originated over \$600 million of SBA 7(a) loans over the past ten years and currently manage a portfolio of approximately \$509 million of SBA 7(a) loans, which as of October 31, 2013 includes \$576 million of SBA 7(a) loans serviced on behalf of third parties. These investment professionals have worked together, screening opportunities, underwriting new investments in, and managing a portfolio of, investments in SMBs through two recessions, a credit crunch, the dot-com boom and bust and a historic, leverage-fueled asset valuation bubble. Each member brings a complementary component to a team well-rounded in finance, accounting, operations, strategy, business law and executive management.

Because we will be internally managed by our executive officers, which include Barry Sloane, Craig J. Brunet, Jennifer C. Eddelson and Matthew G. Ash (our “executive committee”), under the supervision of our board of directors, and will not depend on a third party investment advisor, we will not pay investment advisory fees and all of our income will be available to pay our operating costs and to make distributions to our stockholders. Our executive committee will also oversee our controlled portfolio companies and, to the extent that we may make additional equity investments in the future, the executive committee will also have primary responsibility for the identification, screening, review and completion of such investments. We do not expect to focus our resources on investing in additional stand-alone equity investments, but may elect to do so from time to time on an opportunistic basis. Messrs. Sloane, Brunet and Ash have been involved together in the structuring and management of equity investments for the past ten years.

Market Opportunity

We believe that the limited amount of capital and financial products available to SMBs, coupled with the desire of these companies for flexible and partnership-oriented sources of capital and other financial products, creates an attractive investment environment for us to further expand our small business finance platform and overall brand. We believe the following factors will continue to provide us with opportunities to grow and deliver attractive returns to stockholders.

The SMB market represents a large, underserved market. We estimate the SMB market to include over 27 million businesses in the U.S. We believe that SMBs, most of which are privately-held, are relatively underserved by traditional capital providers such as commercial banks, finance companies, hedge funds and collateralized loan obligation funds. Further, we believe that such companies generally possess conservative capital structures with significant enterprise value cushions, as compared to larger companies with more financing options. While the largest originators of SBA 7(a) loans have traditionally been regional and national banks, during 2012 and the first nine months of 2013, NSBF was the largest, independent non-bank originator of SBA 7(a) loans by dollar volume. As a result, we believe we are well positioned to provide financing to the types of SMBs that we have historically targeted and we have the technology and infrastructure in place presently to do it cost effectively in all 50 states and across many industries.

Recent credit market dislocation for SMBs has created an opportunity for attractive risk-weighted returns. We believe the credit crisis that began in 2007 and the subsequent exit of traditional capital sources, such as commercial banks, finance companies, hedge funds and collateralized loan obligation funds, has resulted in an increase in opportunities for alternative funding sources such as our SMB lending platform. We believe that the reduced competition in our market and an increased opportunity for attractive risk-weighted returns positions us well for future growth. The remaining lenders and investors in the current environment are requiring lower amounts of senior and total leverage, increased equity commitments and more comprehensive covenant packages

than was customary in the years leading up to the credit crisis. We do not expect a reversal of these conditions in the foreseeable future. In addition, while we anticipate originating approximately \$175 million of SBA 7(a) loans during 2013, we will select these loans from the large volume of loan proposals we annually receive; in 2012 we received proposals totaling \$2.5 billion and expect to receive double that amount in 2013.

Future refinancing activity is expected to create additional investment opportunities. A high volume of financings completed between 2005 and 2008 will mature in the coming years. We believe this supply of opportunities coupled with limited financing providers focused on SMBs will continue to offer investment opportunities with attractive risk-weighted returns.

The increased capital requirements and other regulations placed on banks will reduce lending by traditional large financial institutions and community banks. While many SMBs were previously able to raise debt financing through traditional large financial institutions, we believe this approach to financing will continue to be constrained for several years as implementation of U.S. and international financial reforms, such as Basel III, phase in and rules and regulations are promulgated under the Dodd-Frank Act. We believe that these regulations will increase capital requirements and have the effect of further limiting the capacity of traditional financial institutions to hold non-investment grade loans on their balance sheets. As a result, we believe that many of these financial institutions have de-emphasized their service and product offerings to SMBs, which we believe will make a higher volume of deal flow available to us.

Increased demand for comprehensive, business-critical SMB solutions. Increased competition and rapid technological innovation are creating an increasingly competitive business environment that requires SMBs to fundamentally change the way they manage critical business processes. This environment is characterized by greater focus on increased quality, lower costs, faster turnaround and heightened regulatory scrutiny. To make necessary changes and adequately address these needs, companies are focusing on their core competencies and utilizing cost-effective outsourced solutions to improve productivity, lower costs and manage operations more efficiently. Our controlled portfolio companies provide critical business solutions such as electronic payment processing, managed IT solutions, personal and commercial insurance services and full-service payroll solutions. We believe that each of these market segments are underserved for SMBs and since we are able to provide comprehensive solutions under one platform, we are well positioned to continue to realize growth from these product offerings.

Competitive Advantages

We believe that we are well positioned to take advantage of investment opportunities in SMBs due to the following competitive advantages:

- **Internally Managed Structure and Significant Management Resources.** We are internally managed by our executive officers under the supervision of our board of directors and do not depend on an external investment advisor. As a result, we do not pay investment advisory fees and all of our income is available to pay our operating costs, which include employing investment and portfolio management professionals, and to make distributions to our stockholders. We believe that our internally managed structure provides us with a lower cost operating expense structure, when compared to other publicly traded and privately-held investment firms which are externally managed, and allows us the opportunity to leverage our non-interest operating expenses as we grow our investment portfolio. Our senior lending team has developed one of the largest independent loan origination and servicing platforms that focuses exclusively on SMBs.
- **Business Model Enables Attractive Risk-Weighted Return on Investment in SBA Lending.** Our loans are structured so as to permit rapid sale of the U.S. government guaranteed portions, often within weeks of origination, and the unguaranteed portions have been successfully securitized and sold, usually within a year of origination. The return of principal and premium may result in a very advantageous risk-weighted return on our original investment in each loan. We may determine to retain the government guaranteed or unguaranteed portions of loans pending deployment of excess capital.

- **State of the Art Technology.** Our patented NewTracker® software enables us to board a SMB customer, process the application or inquiry, assemble necessary documents, complete the transaction and create a daily reporting system that is sufficiently unique as to receive a U.S. patent. This system enables us to identify a transaction, similar to a merchandise barcode or the customer management system used by Salesforce.com, then process a business transaction and generate internal reports used by management and external reports for strategic referral partners. It allows our referral partners to have digital access into our back office and follow on a real time, 24/7 basis the processing of their referred customers. This technology has been made applicable to all of the service and product offerings we make directly or through our controlled portfolio companies.
- **Established Direct Origination Platform with Extensive Deal Sourcing Infrastructure.** We have established a direct origination pipeline for investment opportunities without the necessity for investment banks or brokers as well as broad marketing channels that allow for highly selective underwriting. The combination of our brand, our portal, our patented NewTracker® technology, and our new web presence as *The Small Business Authority*® have created an extensive deal sourcing infrastructure. Although we pay fees for loan originations that are referred to us by our alliance partners, our non-commissioned investment team works directly with the borrower to assemble and underwrite loans. We rarely invest in pre-assembled loans that are sold by investment banks or brokers. As a result, we believe that our unique national origination platform allows us to originate attractive credits at a low cost. For example, in 2012 our small business finance platform reviewed over \$2.5 billion in investment opportunities of which we funded approximately 2% of the loans; we expect to review double that amount in 2013. We anticipate that our principal source of investment opportunities will continue to be in the same types of SMBs to which we currently provide financing. Our executive committee and senior lending team will also seek to leverage their extensive network of additional referral sources, including law firms, accounting firms, financial, operational and strategic consultants and financial institutions, with whom we have completed investments. Our current infrastructure and expansive relationships should continue to enable us to review a significant amount of high quality, direct (or non-brokered) investment opportunities.
- **Experienced Senior Lending Team with Proven Track Record.** We believe that our senior lending team is one of the leading capital providers to SMBs. Since we acquired NSBF in 2003 through September 30, 2013, NSBF has invested in excess of \$676 million in 1,182 transactions. We intend to use the net proceeds of this offering primarily to expand the financing activities of NSBF, our small business finance platform. Our senior lending team has expertise in managing the SBA process and has managed a diverse portfolio of investments with a broad geographic and industry mix. While our primary focus after the completion of this offering will be to expand the debt financing activities of NSBF in SBA 7(a) loans, our executive committee also has substantial experience in making debt and equity investments through our Capcos. Since 1999 through June 30, 2013 the Capcos have invested an aggregate of \$164 million in 184 transactions.
- **Flexible, Customized Financing Solutions for Seasoned, Smaller Businesses.** While our primary focus as a BDC will be to expand NSBF's lending by providing SBA 7(a) loans to SMBs, we will also seek to offer SMBs a variety of attractive financing structures, as well as cost effective and efficient business services, to meet their capital needs through our subsidiaries and controlled portfolio companies. In particular, we expect to offer larger loans, between \$5-\$10 million each, than available with the SBA guarantee, but with a higher interest rate to compensate for the increased risk. Unlike many of our competitors, we believe we have the platform to provide a complete package of service and financing options for SMBs, which allows for cross-selling opportunities and improved client retention. We expect that a large portion of our capital will be loaned to companies that need growth capital, acquisition financing or funding to recapitalize or refinance existing debt facilities. Our lending will continue to focus on making loans to SMBs that:
 - have 3 to 10 years of operational history;
 - significant experience in management;

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- i credit worthy owners who provide a personal guarantee for our investment;
- i show a strong balance sheet to collateralize our investments; and
- i show sufficient cash flow to be able to service the payments on our investments comfortably.

Although we may make investments in start-up businesses, we generally seek to avoid investing in high-risk, early-stage enterprises that are only beginning to develop their market share or build their management and operational infrastructure with limited collateral.

- ***Disciplined Underwriting Policies and Rigorous Portfolio Management.*** We pursue rigorous due diligence of all prospective investments originated through our platform. Our senior lending team has developed an extensive underwriting due diligence process, which includes a review of the operational, financial, legal and industry performance and outlook for the prospective investment, including quantitative and qualitative stress tests, review of industry data and consultation with outside experts regarding the creditworthiness of the borrower. These processes continue during the portfolio monitoring process, when we will conduct field examinations, review all compliance certificates and covenants and regularly assess the financial and business conditions and prospects of portfolio companies. We are also a Standard & Poor's rated servicer for commercial loans and our exceptional servicing capabilities with a compact timeline for loan resolutions and dispositions has attracted various third-party portfolios. For example, since the banking crisis in 2009, NSBF has been the sole servicer on behalf of the Federal Deposit Insurance Corporation ("FDIC") for its portfolio of approximately \$510 million in SBA 7(a) loans from institutions taken over by the FDIC. NSBF also services a portfolio of approximately \$117 million of SBA 7(a) loans for several commercial banks.

Business Development Company Conversion

On [], 2013, we effectuated the 1-for-[] Reverse Stock Split. Prior to the completion of this offering, we intend to merge with and into Newtek Business Services Corp., a newly-formed Maryland corporation, for the purpose of reincorporating in Maryland. Concurrently, we intend to elect to be regulated as a BDC under the 1940 Act. We refer to the foregoing actions, collectively, as the "BDC Conversion." In connection with the BDC Conversion, we anticipate our board of directors will declare a special dividend of \$[] per share, which may be paid all in cash or partially in cash and partially in our common shares, with such composition to be determined by our board of directors. Immediately following the BDC Conversion, we expect that our net asset value per common share will be approximately \$3.10 (excluding the effect of the proposed reverse stock split and anticipated special dividend). In addition, we expect our quarterly distributions during our first full year of operations as a BDC to be at an annual rate equal to approximately 9%-10% of our estimated net asset value. As a BDC, we will be required to meet regulatory tests, including the requirement to invest at least 70% of our gross assets in "qualifying assets." Qualifying assets generally include securities of private or thinly traded public U.S. companies and cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, as a BDC, we will not be permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our total assets). See "Regulation as a Business Development Company."

In connection with our election to be regulated as a BDC, we intend to elect to be treated for U.S. federal income tax purposes, and intend to qualify annually, as a RIC under Subchapter M of the Code. As a RIC, we generally will not have to pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders. To obtain and maintain our RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See "Price Range of Common Stock and Distributions" and "Material U.S. Federal Income Tax Considerations."

Investments

We engage in various investment strategies from time to time in order to achieve our overall investment objective.

Portfolio Company Characteristics

We have and will target investments and future portfolio companies that generate both current income and capital appreciation. In each case, the following criteria and guidelines are applied to the review of a potential investment; however, not all criteria are met in every single investment, nor do we guarantee that all criteria will be met in the investments we will make in the future. We have and will continue to limit our investments to the SMB market.

- **Experienced Senior Investment Teams with Meaningful Investment.** We seek to invest in companies in which senior or key managers have significant company- or industry-level experience and have significant equity ownership. It has been our experience that these senior investment teams are more committed to the company's success and more likely to manage the company in a manner that protects our debt and equity investments.
- **Significant Invested Capital.** We believe that the existence of an appropriate amount of equity beneath our debt capital provides valuable support for our investment. In addition, the degree to which the particular investment is a meaningful one for the portfolio company's owners (and their ability and willingness to invest additional equity capital as and to the extent necessary) are also important considerations.
- **Appropriate Capital Structures.** We seek to invest in companies that are appropriately capitalized. First, we examine the amount of equity that is being invested by the company's equity owners to determine whether there is a sufficient capital cushion beneath our invested capital. We also analyze the amount of leverage, and the characteristics of senior debt with lien priority over our senior subordinated debt. A key consideration is a strong balance sheet and sufficient free cash flow to service any debt we may invest.
- **Strong Competitive Position.** We invest in companies that have developed strong, defensible product or service offerings within their respective market segment(s). These companies should be well positioned to capitalize on organic and strategic growth opportunities, and should compete in industries with strong fundamentals and meaningful barriers to entry. We further analyze prospective portfolio investments in order to identify competitive advantages within their industry, which may result in superior operating margins or industry-leading growth.
- **Customer and Supplier Diversification.** We expect to invest in companies with sufficiently diverse customer and supplier bases. We believe these companies will be better able to endure industry consolidation, economic contraction and increased competition than those that are not sufficiently diversified. However, we also recognize that from time to time, an attractive investment opportunity with some concentration among its customer base or supply chain will present itself. We believe that concentration issues can be evaluated and, in some instances (whether due to supplier or customer product or platform diversification, the existence and quality of long-term agreements with such customers or suppliers or other select factors), mitigated, thus presenting a superior risk-weighted pricing scenario.

Investment Objectives

Debt Investments

We target our debt investments, which are principally made through our small business finance platform under the SBA 7(a) program, to produce a coupon rate of prime plus 2.75% which enables us to generate rapid sales of loans in the secondary market producing gains and with a yield on investment in excess of 25%. We typically structure our debt investments with the maximum seniority and collateral along with personal guarantees from portfolio company owners, in many cases collateralized by other assets including real estate. In most cases, our debt investment will be collateralized by a first lien on the assets of the portfolio company and a first or second lien on assets of guarantors. All SBA loans are made with personal guarantees from any owner(s)

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of 20% or more of the portfolio company's equity. As of September 30, 2013, 100% of our portfolio at fair value consisted of debt investments that were secured by first or second priority liens on the assets of the portfolio company.

- *First Lien Loans.* Our first lien loans generally have terms of one to twenty five years, provide for a variable interest rate, contain no prepayment penalties and are secured by a first priority security interest in all existing and future assets of the borrower. Our first lien loans may take many forms, including revolving lines of credit, term loans and acquisition lines of credit.
- *Second Lien Loans.* Our second lien loans generally have terms of five to twenty five years, also primarily provide for a variable interest rate, contain no prepayment penalties and are secured by a second priority security interest in all existing and future assets of the borrower. We typically only take second lien positions on additional collateral where we also have first lien positions on business assets.
- *Unsecured Loans.* We only make unsecured investments to our controlled portfolio companies, which because of our equity ownership are deemed to be more secure. Typically, these loans are to meet short term funding needs and are repaid within 6 to 12 months.

We typically structure our debt investments to include non-financial covenants that seek to minimize our risk of capital loss such as lien protection and prohibitions against change of control. Our debt investments have strong protections, including default penalties, information rights and, in some cases, board observation rights and affirmative, negative and financial covenants. Debt investments in portfolio companies, including the controlled portfolio companies, have historically and are expected to continue to comprise in excess of 95% of our overall investments in number and dollar volume.

Equity Investments

While the vast majority of our investments have been structured as debt, we have in the past and expect in the future to make selective equity investments primarily as either strategic investments to enhance the integrated operating businesses or, to a lesser degree, under the Capco programs. For investments in our controlled portfolio companies, we focus more on tailoring them to the long term growth needs of the companies than to immediate return. Our objectives with these companies is to foster the development of the businesses as a part of the integrated operational business of serving the SMB market, so we may reduce the burden on these companies to enable them to grow faster than they would otherwise as another means of supporting their development and that of the integrated whole.

In Capco investments, we often make debt investments in conjunction with being granted equity in the company in the same class of security as the business owner receives upon funding. We generally seek to structure our equity investments to provide us with minority rights provisions and event-driven put rights. We also seek to obtain limited registration rights in connection with these investments, which may include "piggyback" registration rights.

Investment Process

The members of our senior lending team and our executive committee are responsible for all aspects of our investment selection process. The discussion below describes our historic investment procedures as well as the investment procedures we will use as a BDC. The stages of our investment selection process are as follows:

Loan and Deal Generation/Origination

The combination of our brand, our portal, our patented NewTracker® technology, and our web presence as *The Small Business Authority* have created an extensive loan and deal sourcing infrastructure. This is maximized through long-standing and extensive relationships with industry contacts, brokers, commercial and investment

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bankers, entrepreneurs, services providers (such as lawyers and accountants), as well as current and former clients, portfolio companies and our extensive network of strategic alliance partners. We supplement this by the selective use of radio and television advertising aimed primarily at lending to the SMB market. We have developed a reputation as a knowledgeable and reliable source of capital, providing value-added advice, prompt processing, and management and operations support to our portfolio companies.

We market our loan and investment products and services, and those of our controlled portfolio companies, through referrals from our alliance partners such as AAIG, Credit Union National Association, EInsure, ENT Federal Credit Union, General Motors Minority Dealers Association, Iberia Bank, Legacy Bank, Morgan Stanley Smith Barney, Navy Federal Credit Union, New York Community Bank, Pershing, Sterling National Bank and UBS Bank using our patented NewTracker® referral system as well as direct referrals from our new web presence, *www.thesba.com*. The patent for our NewTracker® referral system is a software application patent covering the systems and methods for tracking, reporting and performing processing activities and transactions in association with referral data and related information for a variety of product and service offerings in a business-to-business environment providing further for security and transparency between referring parties. This system allows us and our alliance partners to review in real time the status of any referral as well as to provide real time compliance oversight by the respective alliance partner, which creates confidence between the referred business client, the referring alliance partner and us.

Additional deal sourcing and referrals are obtained from individual professionals in geographic markets that have signed up to provide referrals and earn commissions through our BizExec and TechExec Programs. These individuals are traditionally information technology professionals, CPAs, independent insurance agents and sales and/or marketing professionals. In addition, electronic payment processing services are marketed through independent sales representatives and web technology and ecommerce services are marketed through internet-based marketing and third-party resellers. A common thread across all business lines of our subsidiaries and controlled portfolio companies relates to acquiring customers at low cost. We seek to bundle our marketing efforts through our brand, our portal, our patented NewTracker® referral system, our new web presence as *The Small Business Authority* and one easy entry point of contact. We expect that this approach will allow us to continue to cross-sell the financing services of our small business finance platform to customers of our controlled portfolio companies and build upon our extensive deal sourcing infrastructure.

Screening

All potential debt or equity investment proposals that are received are screened for suitability and consistency with our investment criteria (see “Portfolio Company Characteristics,” above). In screening potential investments, our senior lending team and our executive committee utilize a value-oriented investment philosophy and commit resources to managing downside exposure. If a potential investment meets our basic investment criteria, a business service specialist or other member of our team is assigned to perform preliminary due diligence.

SBA Lending Procedures

We originate loans under the SBA 7(a) Program in accordance with our credit and underwriting policy, which incorporates by reference the SBA Rules and Regulations as they relate to the financing of such loans, including The United States Small Business Administration Standard Operating Procedures, Policies and Procedures for Financing (“SOP 50 10”).

During the initial application process for a loan originated under the SBA 7(a) Program, a business service specialist assists and guides the applicant through the application process, which begins with the submission of an online form. The online loan processing system collects required information and ensures that all necessary forms are provided to the applicant and filled out. The system conducts two early automatic screenings focused primarily on whether (i) the requested loan is for an eligible purpose, (ii) the requested loan is for an eligible

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amount and (iii) the applicant is an eligible borrower. If the applicant is eligible to fill out the entire application, the online system pre-qualifies the applicant based on preset credit parameters that meet the standards of Newtek and the SBA.

Once the online form and the application materials have been completed, our underwriting department (the “Underwriting Department”) becomes primarily responsible for reviewing and analyzing the application in order to accurately assess the level of risk being undertaken in making a loan. The Underwriting Department is responsible for assuring that all information necessary to prudently analyze the risk associated with a loan application has been obtained and has been analyzed. Credit files are developed and maintained with the documentation received during the application process in such a manner as to facilitate file review during subsequent developments during the life of the loan.

Required Information

For a loan originated under the SBA 7(a) Program, the primary application document is SBA Application Form 4 (“Form 4”) and the required attachments. Among other things, Form 4 requires the following information:

- amount of loan requested;
- purpose of loan requested;
- requested maturity date of the loan;
- the number of employees at the applicant and its affiliates and subsidiaries at the time the loan application is made and if the loan is approved, at the time the loan is approved;
- information regarding current, pending and previous indebtedness of the applicant to the SBA or other U.S. government agencies, including the amount of loss to the U.S. government;
- information regarding current business indebtedness; and
- information regarding management of the applicant.

In addition to Form 4, the following additional information is required:

- an SBA Form 912 (Statement of Personal History) for each proprietor or partner, and each officer, director or owner of 20% or more of the applicant;
- if collateral consists of (a) land and buildings, (b) machinery and equipment, (c) furniture and fixtures, (d) accounts receivable, (e) inventory or (f) other, an itemized list containing serial and identification numbers for all articles having an original value of \$5,000 or more;
- a current personal balance sheet for each proprietor, each limited partner owning 20% or more in interest and each general partner, or each stockholder owning 20% or more voting stock;
- a brief history of the applicant and the expected benefits of the loan;
- a resume or curriculum vitae for each member of management;
- balance sheets, profit and loss statements (or federal income tax returns) and reconciliations of net worth of the applicant or any other business for which the applicant, its owners or majority stockholders has a controlling interest for the previous three years and the most recent interim period, or a projection of earnings for at least one year where financial statements for the prior three years are unavailable;
- for each loan guarantor or unaffiliated co-signer on any loan, personal tax returns for the previous three years and the most recent interim period;
- a summary of agings of accounts receivable and payable;

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- a list of machinery or equipment or other non-real estate assets, if any, to be purchased with the loan proceeds and the cost of each item;
- information regarding prior bankruptcy or insolvency proceedings or pending lawsuits involving the applicant or any of its officers;
- if the applicant is a franchise, a copy of the franchise agreement and the related FTC disclosure statement;
- if the applicant buys from, sells to or uses the services of any concern in which any employee of the applicant has a financial interest, information regarding such business concern;
- information regarding any persons affiliated with the applicant who are employed by the SBA, any other federal agency, the Small Business Advisory Council, ACE, SCORE or the related lender; and
- for construction loans only, a statement of estimated cost of the project and other sources of funding and copies of preliminary construction plans.

We view current financial information as the foundation of sound credit analysis. To that end, we verify all business income tax returns with the Internal Revenue Service and generally request that financial statements be submitted on an annual basis after the loan closes. For business entities or business guarantors, we request federal income tax returns for each fiscal year-end to meet the prior three-year submission requirement. For interim periods, we will accept management-prepared financial statements. The most recent financial information may not be more than ninety days old at the time of the approval of the loan, but we generally request that the most recent financial information not be older than sixty days in order to provide time for underwriting and submission to SBA for guaranty approval. For individuals or personal guarantors, we require a personal financial statement dated within ninety days of the application (sixty days is preferred) and personal income tax returns for the prior three years. In connection with each yearly update of business financial information, the personal financial information of each principal must also be updated. Spouses are required to sign all personal financial statements in order for the Underwriting Department to verify compliance with the SBA's personal resource test. In addition, the Underwriting Department will ensure that there has been no adverse impact on financial condition of the applicant or its principals since the approval of the loan. If closing does not occur within ninety days of the date on which the loan is approved, updated business and personal financial statements must be obtained and any adverse change must be addressed before the proceeds of the loan may be disbursed. If closing does not occur within six months of the date on which the loan is approved, the applicant is generally required to reapply for the loan.

Stress Test

The standard underwriting process requires a stress test on the applicant's interest rate to gauge the amount of increase that can be withstood by the applicant's cash flow and still provide sufficient cash to service debt. The applicant's cash flow is tested up to a 2% increase in interest rate. If the applicant's debt service coverage ratio decreases to 1:1 or less than 1:1, the loan may only be made as an exception to our Underwriting Guidelines and would require the approval of our credit committee.

Required Site Visit

No loan will be funded without an authorized representative of Newtek first making a site visit to the business premises. We generally uses a contracted vendor to make the required site visit but may from time to time send our own employees to perform this function. Each site visit will generate a narrative of the business property as well as photographs of the business property. Additional site visits will be made when a physical on-site inspection is warranted.

Credit Assessment of Applicant

Loan requests are assessed primarily based upon an analysis of the character, cash flow, capital, liquidity and collateral involved in the transaction.

Character. We require a personal credit report to be obtained on any principal or guarantor involved in a loan transaction. Emphasis is placed upon the importance of individual credit histories, as this is a primary indicator of an individual's willingness and ability to repay debt. Any material negative credit information must be explained in writing by the principal, and must be attached to the personal credit report in the credit file. No loan will be made where an individual's credit history calls into question the repayment ability of the business operation. A loan request from an applicant who has declared bankruptcy within the ten years preceding the loan application will require special consideration. A thorough review of the facts behind the bankruptcy and impact on creditors will be undertaken in determining whether the principal has demonstrated the necessary willingness and ability to repay debts. In addition, we will examine whether the applicant and its principals and guarantors have abided by the laws of their community. Any situation where a serious question concerning a principal's character exists will be reviewed on a case-by-case basis. Unresolved character issues are grounds for declining a loan request regardless of the applicant's financial condition or performance.

Cash Flow. We recognize that cash flow is the primary and desired source of repayment on any loan, and therefore is the primary focus of the credit decision. Any transaction in which the repayment is not reasonably assured through cash flow will be declined, regardless of other possible credit strengths. At a minimum, combined Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") will be used to evaluate repayment ability. Other financial analysis techniques will be employed as needed to establish the reasonableness of repayment. Where repayment is based on past experience, the applicant must demonstrate minimum combined cash flow coverage of 1.2 times based upon the most recent fiscal year-end financial statement. A determination of the ability to repay will not be based solely upon interim operating results. Where repayment ability is not evident from historical combined earnings (including new businesses and changes of ownership), projections will be analyzed to determine whether repayment ability is reasonably assured. For changes in ownership, monthly cash flow forecasts will be analyzed to determine adequacy to meet all of the borrower's needs.

For business acquisition applications, the applicant will be required to submit projections and support such projections by detailed assumptions made for all major revenue and expense categories and an explanation of how the projections will be met. Analysis must include comparisons with relevant Risk Management Association ("RMA") industry averages. EBITDA must be reasonably forecast to exceed debt service requirements by at least 1.2 times, after accounting for the initial phase of operations. For change of ownership applications, projections will also be measured against the actual historical financial results of the seller of the business concern. Projections must demonstrate repayment ability of not less than 1.2 times.

Capital. Capital is a strong traditional indicator of the financial health of a business. For going concern entities, the pro-forma leverage position, as measured by the debt to tangible net worth ratio, may not exceed the RMA industry median or 4 to 1, whichever is greater. For change of ownership transactions, generally 25% of total project costs should be contributed as equity resulting in debt to tangible net worth ratio of 3 to 1.

For a change of ownership transaction where a substantial portion of intangibles are included within the transaction, adequacy of capital will be determined based upon an evaluation of the business value and level of injection. In determining the legitimacy of the business value, the loan underwriter must utilize two SBA approved valuation methods, as outlined in SOP 50 10. If the business value is found to be acceptable, and the equity injection into the project is within our requirements as outlined herein, then the capital position will be considered satisfactory.

As a general rule, stockholder and affiliate loans may be added back to net worth only if such loans will be subordinated for the life of the SBA loan, with no principal or interest payments to be made. Financing by the seller of the business may also be considered as equity if the loan will be placed on full standby for the life of the

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SBA loan. Adjustments to net worth to account for the difference between the book value and appraised value of fixed assets may be made only when supported by a current appraisal. Appraisals on a “subject to” basis are not acceptable.

Liquidity. Liquidity, as measured by the current ratio, must be in line with the RMA industry average. An assessment of the adequacy of working capital is required. An assessment of the liquidity of a business is essential in determining the ability to meet future obligations. Lending to cash businesses such as hotels and restaurants requires less analysis of the liquidity of the business due to the timing of cash receipts. Industries with large receivables, payables, and inventory accounts require thorough review of the cash cycle of the business and evaluation of the applicant’s ability to manage these accounts. The current and quick ratios and turnover of receivables, payables and inventory are measured against the RMA industry median in determining the adequacy of these liquidity measures.

Collateral. We are required to reasonably secure each loan transaction with all worthwhile and available assets. Pursuant to SOP 50 10, we may not (and will not) decline a loan if the only weakness in the application is the value of collateral in relation to the loan amount, provided that all assets available to the business and its principals have been pledged. As set forth in SOP 50 10, a loan is considered to be fully secured if the SBA has a security interest in assets with a combined “collateral” value that equals or exceeds the loan balance. The “collateral” value of an asset means the amount expected to be realized if the lender took possession after a loan default and sold the asset after conducting a reasonable search for a buyer and after deducting the costs of taking possession, preserving and marketing the asset, less the value of any existing liens (“Net Liquidation Value”). Collateral coverage will be based on “collateral” value and not market value. While the mortgage industry has historically used a “loan to value” ratio to help assume an acceptable level of collateral protection, the use of SBA’s “collateral” value on a case by case basis will provide room for considering experiences of individual lenders and local market conditions, resulting in a tailored collateral valuation for each transaction. “Collateral” value must be established and fully justified in each transaction. If coverage is not full and worthwhile assets are available to be pledged, they must be pledged or the loan application must be declined. However, if coverage is not full and worthwhile assets are not available to be pledged, the loan application may *not* be declined solely for lack of collateral, provided that all available assets have been offered.

We attempt to secure each loan transaction with as much real estate and liquid asset collateral as necessary; however, all collateral assets must be evaluated. Collateral is evaluated on the basis of the Net Liquidation Value to determine the realizable value among collateral types. Valuation factors are applied as follows:

- Commercial real estate — 75%
- Residential real estate — 80%
- Vacant land — 50%
- Machinery & Equipment — 50%
- Furniture & Fixtures — 10%
- Accounts receivable & inventory — 20%
- Leasehold improvements — 5%
- Certificate of Deposit — 100%
- Regulated Licenses — will vary dependent upon type of license and geographic area. The liquidation rate used must be fully justified.

In addition to an assessment of the criteria specified above, there are certain special industry-specific requirements that will be considered in the loan application decision.

Change of Ownership. The minimum equity injection required in a change of ownership transaction is generally 20% but may be lower for specific industries such as medical and dental practices, gas stations and convenience stores, flag hotels and “strong” non-lodging franchises.

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In the event of financing from the seller of the business, the applicant must inject not less than 10% of the project cost; the seller of the business may provide the balance on a complete standby basis for the life of the SBA loan. Exceptions to the equity requirement are reviewed on a case-by-case basis.

For a change of ownership transaction, the application must be accompanied by a business plan including reasonable financial projections. The financial performance of the seller of the business must be evaluated based upon three years of corporate income tax returns and a current interim financial statement. Projections for the applicant must be in line with the historical financial performance at the business location. In cases where financial performance of the seller of the business is poor, a satisfactory explanation must be provided to detail the circumstances of performance. Projections for the applicant must be accompanied by detailed assumptions and be supported by information contained in the business plan.

Management must have related experience in the industry and demonstrate the ability to successfully operate the business. In the absence of satisfactory related experience, an assessment of management's experience and capabilities, given the complexity and nature of the business, will be made. In the case of a franchise, we will generally take into account the reputation of a franchisor for providing worthwhile management assistance to its franchisees.

We give careful scrutiny to change of ownership transactions. The loan underwriter will review the contract for sale, which will be included in the credit file. The contract for sale must include a complete breakdown of the purchase price, which must be justified through either a third party appraisal or directly by the loan underwriter through an approved valuation method specified in SOP 50 10. The contract of sale must evidence an arm's length transaction (but transactions between related parties are permitted so long as they are on an arm's-length basis) which will preserve the existence of the small business or promote its sound development. In addition, a satisfactory reason for the sale of the business must be provided. The seller of the business must provide the prior three years of business tax returns and a current interim financial statement, as applicable.

Also in connection with a change of ownership transaction, the Loan Processing area of the Underwriting Department will order Uniform Commercial Code searches on the seller of the existing business. If such a search identifies any adverse information, the Loan Processor will advise the Underwriting Manager or Operations Manager so a prudent decision may be made with respect to the application.

Real Estate Transactions. Loan proceeds for the acquisition or refinancing of land or an existing building or for renovation or reconstruction of an existing building must meet the following criteria:

- the property must be at least 51% owner-occupied pursuant to SBA policies; and
- loan proceeds may not be used to remodel or convert any rental space in the property.

Loan proceeds for construction or refinancing of construction of a new building must meet the following criteria:

- the property must be at least 51% owner-occupied pursuant to SBA policies; and
- if building is larger than current requirements of the applicant, projections must demonstrate that the applicant will need additional space within three years, and will use all of the additional space within ten years.

Commercial real estate appraisals are required on all primary collateral prior to the loan closing. In general, appraisals will be required as follows:

- for loans up to \$100,000 — a formal opinion of value prepared by a real estate professional with knowledge of the local market area;

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- for loans from \$100,000 to \$500,000 — a limited summary appraisal completed by a state certified appraiser;
- for loans from \$500,000 to \$1 million — a limited summary appraisal by a Member of the Appraisal Institute (“MAI”) appraiser; and
- for loans over \$1 million — a complete self-contained appraisal by a MAI appraiser.

Environmental screenings and an environmental questionnaire are required for all commercial real estate taken as collateral.

In general, environmental reports are required as follows:

- for real estate valued up to \$500,000 — a transaction screen including a records review;
- for real estate valued in excess of \$500,000 — a Phase I Environmental Report; and
- for the following types of property, a Phase I Environmental Report will be required regardless of property value: gasoline service stations, car washes, dry cleaners and any other business known to be in environmentally polluting industries.

In all cases for commercial real estate taken as collateral:

- if further testing is recommended, the recommended level of testing will be performed prior to the loan closing; and
- if the report indicates remedial action to be taken by the business, such actions must be completed prior to the loan closing and a closure letter must be provided prior to funding.

Medical Professionals. In connection with a loan application relating to the financing of a medical business, all medical licenses will be verified, with the loss or non-renewal of license constituting grounds for denial of the application. In addition, medical professionals must provide evidence of malpractice liability insurance of at least \$2,000,000 or the loan amount, whichever is higher. Malpractice insurance must be maintained for the life of the loan.

Franchise Lending. All franchise loan applications will be evaluated as to eligibility by accessing SBA’s Franchise Registry. If the franchise is listed in the registry and the current franchise agreement is the same as the agreement listed in the registry, Newtek will not review the franchise agreement. However, the franchise agreement will be reviewed for eligibility by the loan underwriter when either of the following applies: (i) the franchise is not listed on the SBA’s Franchise Registry or (ii) the franchise is on the registry, but the franchisor has not provided a “Certification of No Change on Behalf of a Registered Franchisor” or a “Certification of Changes on Behalf of a Registered Franchisor.”

Credit Package

For each loan application, the loan underwriter will prepare a credit package (the “Credit Package”). All credit and collateral issues are addressed in the Credit Package, including but not limited to, the terms and conditions of the loan request, use of proceeds, collateral adequacy, financial condition of the applicant and business, management strength, repayment ability and conditions precedent. The Underwriting Department will recommend approval, denial or modification of the loan application. The Credit Package is submitted to our credit committee for further review and final decision regarding the loan application.

The SBA, through SOP 50 10, has provided certain reasons for declining a loan application. Other than rejections for ineligibility of the applicant, the type of business or the loan purpose, Newtek may decline a loan application for the following reasons:

- collateral, considered along with other factors, is not deemed sufficient to protect the interest of the U.S. government;

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- lack of reasonable assurance of ability to repay loan (and other obligations) from earnings;
- lack of reasonable assurance that the business can be operated at a rate of profit sufficient to repay the loan (and other obligations) from earnings;
- disproportion of loan requested and of debts to tangible net worth before and after the loan;
- inadequate working capital after the disbursement of the loan;
- the result of granting the financial assistance requested would be to replenish funds distributed to the owners, partners, or shareholders;
- lack of satisfactory evidence that the funds required are not obtainable without undue hardship through utilization of personal credit or resources of the owner, partners or shareholders;
- the major portion of the loan requested would be to refinance existing indebtedness presently financed through normal lending channels;
- credit commensurate with applicant's tangible net worth is already being provided on terms considered reasonable;
- gross disproportion between owner's actual investment and the loan requested;
- lack of reasonable assurance that applicant will comply with the terms of the loan agreement;
- unsatisfactory experience on an existing loan;
- economic or physical injury not substantiated; or
- for loan purposes, after taking into consideration prior liens and considered along with other credit factors, the net value of the collateral offered as security is not sufficient to protect the interests of the U.S. government.

If a loan application is accepted, we will issue a commitment letter to the applicant. After approval, the SBA and Newtek enter into a Loan Authorization Agreement which sets forth the terms and conditions for the SBA's guaranty on the loan. The closing of a loan is handled by an outside attorney, whose primary responsibility is closing the loan in accordance with the related Loan Authorization in a manner consistent with prudent commercial loan closing procedures, to ensure that the SBA will not repudiate its guaranty due to ineligibility, noncompliance with SBA Rules and Regulations or defective documentation. Before loan proceeds are disbursed, the closing attorney will verify the applicant's required capital injection, ensure that proceeds are being used for a permitted purpose and ensure that other requirements of the Loan Authorization Agreement (including, but not limited to, required insurance and lien positions and environmental considerations) and SBA Rules and Regulations (including the use of proper SBA forms) have been met.

Maintenance of Credit Files

A credit file is developed on each borrowing account. Credit files, in either hard copy format or electronic copy, are maintained by the Underwriting Department and organized according to a specified format. The file contains all documentation necessary to show: (a) the basis of the loan, (b) purpose, compliance with policy, conditions, rate, terms of repayment, collateral, and (c) the authority for granting the loan. The credit file is subject to review or audit by the SBA at any time. Upon final action being taken on a loan application, information necessary for closing and servicing will be copied and maintained, while information not considered necessary will be transferred to off-site storage. Once a loan has been disbursed in full, credit files containing all documentation will be transferred to the file room or other electronic storage media and maintained under the authority of the administration staff. Any individual needing an existing credit file must obtain it from the administration staff member having responsibility for safeguarding all credit files or access it by a prearranged electronic file process. Removal of any information from the file will compromise the credit file and is prohibited. Credit files will not be removed from office premises.

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Other, Primarily Equity Investments

Due Diligence and Underwriting

In making loans or equity investments other than SBA 7(a) loans or similar conventional loans to SMBs, our executive committee will take a direct role in screening potential loans or investments, in supervising the due diligence process, in the preparation of deal documentation and the completion of the transactions. The members of the executive committee complete due diligence and analyze the relationships among the prospective portfolio company's business plan, operations and expected financial performance. Due diligence addresses some or all of the following depending on the size and nature of the proposed investment:

- On-site visits with management and relevant key employees;
- In-depth review of historical and projected financial statements, including covenant calculation work sheets;
- Interviews with customers and suppliers;
- Management background checks;
- Review reports by third-party accountants, outside counsel and other industry, operational or financial experts; and
- Review material contracts.

During the underwriting process, significant, ongoing attention is devoted to sensitivity analyses regarding whether a company might bear a significant "downside" case and remain profitable and in compliance with assumed financial covenants. These "downside" scenarios typically involve assumptions regarding the loss of key customers and/or suppliers, an economic downturn, adverse regulatory changes and other relevant stressors that we attempt to simulate in our quantitative and qualitative analyses. Further, we continually examine the effect of these scenarios on financial ratios and other metrics.

Approval, Documentation and Closing

Upon the completion of the due diligence process, the executive committee will review the results and determine if the transaction should proceed to approval. Prior to the commencement of documentation, approval from our senior lending team and executive committee is sought and, if approved, the underwriting professionals heretofore involved proceed to documentation.

As and to the extent necessary, key documentation challenges are brought before our senior lending team and executive committee for prompt discussion and resolution. Upon the completion of satisfactory documentation and the satisfaction of closing conditions, final approval is sought from our executive committee before closing and funding.

Ongoing Relationships with Portfolio Companies

Monitoring, Managerial Assistance

We have and will continue to monitor our portfolio companies on an ongoing basis. We monitor the financial trends of each portfolio company to determine if it is meeting its business plan and to assess the appropriate course of action for each company. We generally require our portfolio companies to provide annual audits, quarterly unaudited financial statements with management discussion and analysis and covenant compliance certificates, and monthly unaudited financial statements. Using these monthly financial statements, we calculate and evaluate all financial covenants and additional financial coverage ratios that might not be part of our covenant package in the loan documents. For purposes of analyzing a portfolio company's financial performance, we sometimes adjust their financial statements to reflect pro-forma results in the event of a recent change of control, sale, acquisition or anticipated cost savings. Additionally, we believe that, through our integrated marketing and sale of each service line our wholly-owned subsidiaries and controlled portfolio companies to our portfolio companies (including electronic payment processing services through NMS, managed

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technology solutions through NMS, and payroll services through NPS), we have in place extensive and robust monitoring capabilities.

We have several methods of evaluating and monitoring the performance and fair value of our investments, including the following:

- Assessment of success in adhering to each portfolio company's business plan and compliance with covenants;
- Periodic and regular contact with portfolio company management to discuss financial position, requirements and accomplishments;
- Comparisons to our other portfolio companies in the industry, if any;
- Attendance at and participation in board meetings; and
- Review of monthly and quarterly financial statements and financial projections for portfolio companies.

As part of our valuation procedures, we risk rate all of our investments including loans. In general, our rating system uses a scale of 1 to 8, with 1 being the lowest probability of default and principal loss. Our internal rating is not an exact system, but is used internally to estimate the probability of: (i) default on our debt securities and (ii) loss of our debt or investment principal, in the event of a default. In general, our internal rating system may also assist our valuation team in its determination of the estimated fair value of equity securities or equity-like securities. Our internal risk rating system generally encompasses both qualitative and quantitative aspects of our portfolio companies.

Our internal loan and investment risk rating system incorporates the following eight categories:

<u>Rating</u>	<u>Summary Description</u>
1	Acceptable-Highest Quality – Loans or investments that exhibit strong financial condition and repayment capacity supported by adequate financial information. Generally as loans these credits are well secured by marketable collateral. These credits are current and have not demonstrated a history of late-pay or delinquency. There are no or few credit administration weaknesses. This score represents a combination of a strong acceptable credit and adequate or better credit administration. Newly underwritten loans or investments may be rated in this category if they clearly possess above-average attributes in all of the above areas. In general, as investments these credits are performing within our internal expectations, and potential risks to the applicable investment are considered to be neutral or favorable compared to any potential risks at the time of the original investment.
2	Acceptable – Average Quality – These loans or investments are supported by financial condition and repayment strengths that offset marginal weaknesses. Generally, as loans these credits are secured but may be less than fully secured. These loans are current or less than 30 days past due and may or may not have a history of late payments. They may contain non-material credit administration weaknesses or errors in verifying that do not put the guaranty at risk or cause wrong or poor credit decisions to be made. This risk rating should also be used to assign an initial risk rating to loans or investments that are recommended for approval by underwriting. Without a performance history and/or identified credit administration deficiencies, emphasis should be placed on meeting or exceeding underwriting standards collateral protection, industry experience, and guarantor strength. It is expected that most of our underwritten loans will be of this quality.
3	Acceptable – Below Average – These loans or investments are the low-end range of acceptable. Loans would be less than fully secured and probably have a history of late pay and/or delinquency, though not severe. They contain one or more credit administration weaknesses that do not put the guaranty at risk or cause wrong or poor credit decisions to be made. This risk rating may also be used to identify new loans or investments that may not meet or exceed all underwriting standards, but are approved because

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<u>Rating</u>	<u>Summary Description</u>
	of offsetting strengths in other areas. These credits, while of acceptable quality, typically do not possess the same strengths as those in the 1 or 2 categories. In general, the investment may be performing below internal expectations and quantitative or qualitative risks may have increased materially since the date of the investment.
4	Other Assets Especially Mentioned (OAEM or Special Mention) – Strong – These loans or investments are currently protected by sound worth and cash flow or other paying capacity, but exhibit a potentially higher risk situation than acceptable credits. While there is an undue or unwarranted credit risk, it is not yet to the point of justifying a substandard classification. Generally, these loans demonstrate some delinquency history and contain credit administration weaknesses. Performance may show signs of slippage, but can still be corrected. Credit does not require a specific allowance at this point but a risk of loss is present.
5	Substandard – Workout – These assets contain well defined weaknesses and are inadequately protected by the current sound worth and paying capacity of the borrower. Generally, loan collateral protects to a significant extent. There is a possibility of loss if the deficiencies are not corrected and secondary sources may have to be used to repay credit. Credit administration can range from very good to adequate indicating one or more oversights, errors, or omissions which are considered significant but not seriously misleading or causing an error in the loan decision. Performance has slipped and there are well-defined weaknesses. A specific allowance is in order or risk of loss is present.
6	Substandard – Liquidation – These assets contain well defined weaknesses and are inadequately protected by the current sound worth and paying capacity of the borrower or investee. In addition, the weaknesses are so severe that resurrection of the credit is unlikely. For loans, secondary sources will have to be used for repayment. Credits in this category would be severely stressed, nonperforming, and the business may be non-viable. There could be character and significant credit administration issues as well. A specific allowance should be established or the lack of one clearly justified.
7	Doubtful – This classification contains all of the weaknesses inherent in a substandard classification but with the added characteristic that the weaknesses make collection or repayment of principal in full, on the basis of existing facts, conditions and values, highly questionable and improbable. The probability of loss is very high, but the exact amount may not be estimable at the current point in time. Loans in this category are severely stressed, generally non-performing and/or involve a nonviable operation. Collateral may be difficult to value because of limited salability, no ready and available market, or unknown location or condition of the collateral. Credit administration weaknesses can range from few to severe and may jeopardize the credit as well as the guaranty. All such loans or investments should have a specific allowance.
8	Loss – Loans or investments classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is no longer warranted. This classification does not mean that the credit has no recovery or salvage value but, rather, it is not practical to defer writing off this asset. It is also possible that the credit decision cannot be supported by the credit administration process. Documents and verification are lacking; analysis is poor or undocumented, there is no assurance that the loan is eligible or that a correct credit decision was made. Loss loans are loans where a loss total can be clearly estimated. Losses should be taken during the quarter in which they are identified.

We will monitor and, when appropriate, change the investment ratings assigned to each loan or investment in our portfolio. In connection with our valuation process, our management will review these investment ratings on a quarterly basis, and our board of directors will affirm such ratings. The investment rating of a particular investment should not, however, be deemed to be a guarantee of the investment's future performance.

We have historically provided significant operating and managerial assistance to our portfolio companies and our controlled portfolio companies. As a BDC, we will continue to offer, and must provide upon request,

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managerial assistance to our portfolio companies. This assistance will typically involve, among other things, monitoring the operations and financial performance of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial assistance. We may sometimes receive fees for these services.

Valuation Procedures

We will conduct the valuation of our assets, pursuant to which our net asset value shall be determined, at all times consistent with GAAP and the 1940 Act. Our valuation procedures are set forth in more detail below:

Securities for which market quotations are readily available on an exchange shall be valued at such price as of the closing price on the day of valuation. We may also obtain quotes with respect to certain of our investments from pricing services or brokers or dealers in order to value assets. When doing so, we will determine whether the quote obtained is sufficient according to GAAP to determine the fair value of the security. If determined adequate, we will use the quote obtained.

Securities for which reliable market quotations are not readily available or for which the pricing source does not provide a valuation or methodology or provides a valuation or methodology that, in the judgment of our board of directors, does not represent fair value, which we expect will represent a substantial majority of the investments in our portfolio, shall be valued as follows: (i) each portfolio company or investment is initially valued by the investment professionals responsible for the portfolio investment; (ii) preliminary valuation conclusions are documented and discussed with our senior lending team and executive committee; (iii) independent third-party valuation firms engaged by, or on behalf of, the board of directors will conduct independent appraisals, review management's preliminary valuations and prepare separate preliminary valuation conclusions on a selected basis; (iv) the audit committee of the board of directors reviews the preliminary valuation of our senior lending team and executive committee and/or that of the third party valuation firm and responds to the valuation recommendation with comments, if any; and (v) the board of directors will discuss valuations and determine the fair value of each investment in our portfolio in good faith based on the input of the audit committee.

Determination of the fair value involves subjective judgments and estimates not susceptible to substantiation by auditing procedures. Accordingly, under current auditing standards, the notes to our financial statements will refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

The recommendation of fair value will generally be based on the following factors, as relevant:

- the nature and realizable value of any collateral;
- the portfolio company's ability to make payments;
- the portfolio company's earnings and discounted cash flow;
- the markets in which the issuer does business; and
- comparisons to publicly traded securities.

Securities for which market quotations are not readily available or for which a pricing source is not sufficient may include, but are not limited to, the following:

- private placements and restricted securities that do not have an active trading market;
- securities whose trading has been suspended or for which market quotes are no longer available;
- debt securities that have recently gone into default and for which there is no current market;
- securities whose prices are stale;

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- securities affected by significant events; and
- securities that our investment professional believe were priced incorrectly.

Competition

We compete for SBA 7(a) and other SMB loans with other financial institutions and various SMB lenders, as well as other sources of funding. Additionally, competition for investment opportunities has emerged among alternative investment vehicles, such as collateralized loan obligations (“CLOs”), some of which are sponsored by other alternative asset investors, as these entities have begun to focus on making investments in SMBs. As a result of these new entrants, competition for our investment opportunities may intensify. Many of these entities do have greater financial and managerial resources than we do but invariably lack the ability to process loans as quickly as we can and do not have the depth of our customer service capabilities. We believe we will be able to compete with these entities primarily on the basis of our financial technology infrastructure, our experience and reputation, our deep industry knowledge and ability to provide customized business solutions, our willingness to make smaller investments than other specialty finance companies, the breadth of our contacts, our responsive and efficient investment analysis and decision-making processes, and the investment terms we offer.

We and our controlled portfolio companies compete in a large number of markets for the sale of financial and other services to SMBs. Each of our controlled portfolio companies competes not only against suppliers in its particular state or region of the country but also against suppliers operating on a national or even a multi-national scale. None of the markets in which our controlled portfolio companies compete are dominated by a small number of companies that could materially alter the terms of the competition.

Our electronic payment processing segment competes with entities including Heartland Payment Systems, First National Bank of Omaha and Paymentech, L.P. Our Web hosting segment competes with 1&1, Hosting.com, Discount ASP, Maxum ASP, GoDaddy®, Yahoo!®, BlueHost®, iPowerWeb® and Microsoft Live among others. Our small business finance platform competes with regional and national banks and non-bank lenders. Intuit® is bundling electronic payment processing, web hosting and payroll services similar to ours in offerings that compete in the same small- to midsize-business market.

In many cases, we believe that our competitors are not as able as we are to take advantage of changes in business practices due to technological developments and, for those with a larger size, are unable to offer the personalized service that many SMB owners and operators seem to want.

While we compete with many different providers in our various business segments, we have been unable to identify any direct and comprehensive competitors that deliver the same broad suite of services focused on the needs of the SMB market with the same marketing strategy as we do. Some of our competitive advantages include:

- Our compatible products such as our e-commerce offerings that we are able to bundle to increase sales, reduce costs and reduce risks for our customers and enable us to sell two, three, or four products at the same time;
- Our patented NewTracker® referral system, which allows us to process new business utilizing a web-based, centralized processing point and provides back end scalability;
- Our focus on developing and marketing business services and financial products and services aimed at the SMB market;
- Our scalability, which allows us to size our business services capabilities very quickly to meet customer and market needs;
- Our ability to offer personalized service and competitive rates;
- A strategy of multiple channel distribution, which gives us maximum exposure in the marketplace;

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- High quality customer service 24x7x365 across all business lines, with a focus primarily on absolute customer service;
- Our telephonic interview process, as opposed to requiring handwritten or data-typing processes, which allows us to offer high levels of customer service and satisfaction, particularly for SMB owners who do not get this service from our competitors; and
- Our patented NewTracker® referral system, which allows our alliance partners to offer a centralized access point for their small- to medium-sized business clients as part of their larger strategic approach to marketing and allows such partners to demonstrate that they are focused on providing a suite of services to the SMB market in addition to their core service.

SBIC

Following the completion of this offering, we may apply for a Small Business Investment Company, or “SBIC,” license from the SBA if we believe that it will further our investment strategy and enhance our returns. If this application is approved, our SBIC subsidiary would be a wholly owned subsidiary and able to rely on an exclusion from the definition of “investment company” under the 1940 Act. Our SBIC subsidiary would have an investment objective substantially similar to ours and would be able to make similar types of investments in accordance with SBIC regulations.

Employees

As of September 30, 2013, we had a total of [318] employees. After the BDC Conversion, we expect to have approximately [] employees.

Properties

Our primary offices are located at 212 West 35th Street, 2nd Floor, New York, New York 10001 and 60 Hempstead Avenue, West Hempstead, NY 11552. We believe that our office facilities are suitable and adequate for our business as it is contemplated to be conducted.

Legal Proceedings

Other than the matters discussed below, neither the Company, nor any of its subsidiaries, is currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us. From time to time, the Company may be a party to certain other legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

Federal Trade Commission Complaint

During the quarter ended June 30, 2013, the Federal Trade Commission (the “FTC”) amended an existing complaint in the matter Federal Trade Commission v. WV Universal Management, LLC et al. to include Universal Processing Services of Wisconsin, LLC (“UPS” referred to herein as “NMS”), our merchant processing subsidiary, as an additional defendant on one count. The complaint alleges that two related merchants, who were accounts of UPS, and the principals of the merchants, and the independent sales agent who brought the merchants to UPS (collectively, not including UPS, the “Merchant Defendants”), engaged in various deceptive acts and/or practices in violation of the Federal Trade Commission Act and the Telemarketing and Consumer Fraud and Abuse Prevention Act (collectively, the “Acts”) in connection with the merchants’ telemarketing of its debt relief and credit card interest rate reduction services. More specifically, among other charges, the complaint alleges that the Merchant Defendants improperly charged consumers for their services, misrepresented material

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aspects of their debt relief services to consumers and made outbound calls to persons in violation of one or more of the Acts, including to persons on the Do Not Call Registry.

In the amended complaint, the FTC added one additional count to the complaint alleging that UPS (and its former President) assisted and facilitated the Merchant Defendants' purported violations of the Acts by providing the credit card processing services to the merchants used to collect payments from their clients for improper charges. The FTC is asserting that UPS knew or consciously avoided knowing that the Merchant Defendants were involved in deceptive telemarketing schemes.

The original complaint was filed on October 29, 2012 in the United States District Court for the Middle District of Florida, Orlando Division, and the amended complaint was filed on June 17, 2013. The FTC is seeking various forms of injunctive and monetary relief, including an injunction to prevent future violations of the Acts by each of the defendants and the refund of monies paid and disgorgement of purportedly ill-gotten monies.

We do not believe that the facts or the FTC's legal theory support the FTC's allegations against UPS as set forth in the complaint, and we intend to vigorously challenge the FTC's claims.

PORTFOLIO COMPANIES

The following tables sets forth certain information as of [•], 2013 regarding each portfolio company in which we had a debt or equity investment. The general terms of our expected debt and equity investments are described in “Business – Investments.” Other than these investments, our only formal relationships with our portfolio companies will be the managerial assistance we may provide upon request and the board observer or participation rights we may receive in connection with our investment.

<u>Name and Address of Portfolio Company</u>	<u>Nature of Business</u>	<u>Type of Investment & General Terms</u>	<u>Principal</u>	<u>Cost</u>	<u>Value</u>
[•]	[•]	[•]	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>
Total			<u>\$ [•]</u>	<u>\$ [•]</u>	<u>\$ [•]</u>

Set forth below is a brief description of each portfolio company representing greater than 5% of the Company’s gross assets as of [•], 2013.

[to be provided]

MANAGEMENT

Our business and affairs are managed under the direction of our board of directors. Our board of directors elects our officers who serve at its discretion. Our board of directors has four members, one of whom is an “interested person” as defined in Section 2(a)(19) of the 1940 Act and three of whom are not interested persons, whom we refer to as our independent directors. The responsibilities of each director will include, among other things, the oversight of our investment activity, the quarterly valuation of our assets, and oversight of our financing arrangements. Our board of directors has also established an Audit Committee and a Compensation, Nominating and Corporate Governance Committee, and may establish additional committees in the future.

Directors and Executive Officers

As of September 30, 2013, our directors and executive officers are as set forth below. The address for each director and executive officer is c/o Newtek Business Services, Inc., 212 W. 35th Street, 2nd floor, New York, New York 10001.

<u>Name</u>	<u>Age</u>	<u>Position with Us</u>	<u>Director Since</u>	<u>Expiration of Term (5)</u>
Non-Independent Directors:				
Barry Sloane (1)	53	Chairman, Chief Executive Officer and President	1999	2014
Peter Downs (4)	48	Director, Chief Lending Officer	—	—
Independent Directors				
David C. Beck (2)(3)	70	Director	2002	2014
Salvatore F. Mulia (2)(3)	65	Director	2005	2014
Sam Kirschner (2)(3)	64	Director	2010	2014

(1) Mr. Sloane is not an Independent Director because he is our President and Chief Executive Officer.

(2) Member of the Audit Committee.

(3) Member of the Compensation, Corporate Governance and Nominating Committee.

(4) Mr. Downs will be appointed to the Board in conjunction with the completion of the BDC Conversion.

(5) Following the BDC Conversion, Board members will serve staggered 3 year terms to expire in 2014, 2015 and 2016.

Executive Officers Who Are Not Directors

<u>Name</u>	<u>Age</u>	<u>Position with Us</u>
Craig J. Brunet	64	Executive Vice President and Chief Information Officer
Jennifer Eddelson	40	Executive Vice President and Chief Accounting Officer
Matthew G. Ash, Esq.	69	Secretary, Executive Vice President, Chief Legal Officer and Chief Compliance Officer
Steven Riegler	42	Treasurer
Edward Petrosky	63	Chief Risk Officer

The following is a summary of certain biographical information concerning our directors and executive officers.

Non-Independent Directors

Barry Sloane has served as our Chairman and Chief Executive Officer since 1999 and as our President since 2008. Mr. Sloane has been an executive officer of each of the Company-sponsored certified capital companies for more than five years. From September 1993 through July 1995, Mr. Sloane was a Managing Director of Smith Barney, Inc. While there, he directed the Commercial and Residential Real Estate Securitization Unit, and he was national sales manager for institutional mortgage and asset backed securities sales. From April 1991 through September 1993, Mr. Sloane was founder and President of Aegis Capital Markets, a consumer loan origination and securitization business which was eventually taken public with the name of “Aegis Consumer Funding.” From October 1988 through March 1991, Mr. Sloane was Senior Vice President of Donaldson, Lufkin and Jenrette, where he was responsible for directing sales of mortgage-backed securities. From August 1982 to September 1988 Mr. Sloane was a senior mortgage security salesman and trader for Bear Stearns, L.F. Rothschild, E.F. Hutton and Paine Webber. Mr. Sloane’s broad business and financial experience and his knowledge of the Company’s businesses has been of great value to the other members of the board.

Peter Downs is our Chief Lending Officer and will be appointed as director in connection with the BDC Conversion. He joined Newtek in 2003 and has been the President of Newtek Small Business Finance and a member of both Credit and Risk committees for the company. He has had primary responsibility for the development of the company’s lending policies and procedures, portfolio and marketing, from its inception. In 2008, Mr. Downs took on the additional responsibility as the Chief Credit Officer of Newtek Business Credit, with the primary responsibility to grow and manage the company’s accounts receivable finance and management business. In addition he has been a member of the credit committee for each of Company’s Capcos. Prior to joining Newtek in 2003, Mr. Downs spent sixteen years in various small business lending roles within the banking industry. From 1990 to 2001, he was employed with European American Bank (“EAB”), where he held various positions including New Business Development Officer for Small Business Lending and Group Manager of Retail Small Business Lending which encompassed the underwriting and servicing of the bank’s small business loan portfolio. With EAB’s acquisition by Citibank, Mr. Downs was asked to run the bank’s SBA lending portfolio in New York, eventually named the National Director of SBA lending, coordinating the bank’s SBA underwriting and sales efforts in all Citibank markets across the country. In addition to his banking experience, he has been involved in several non-profit small business advisory boards, and has been a member of the National Association of Government Guaranteed Lenders (NAGGL) Regional Technical Issues Committee.

Independent Directors

David C. Beck has served on Newtek’s board of directors since 2002, serves as the Chair of the Audit Committee and serves on the Compensation, Corporate Governance and Nominating Committee. Mr. Beck has been Managing Director of Copia Capital, LLC (“Copia”), a private equity investment firm, since September 1998. Prior to founding Copia, Mr. Beck was CEO of Universal Savings Bank, Milwaukee, WI and First Interstate Corporation of Wisconsin, a publicly traded company. Mr. Beck also served as Chairman of Universal Savings Bank’s holding company, Universal Saving Banc Holdings, Inc., from November 2002 until September 2009. He is a certified public accountant. Mr. Beck’s more than 30 years’ experience in the financial services industry qualifies him to serve on our board of directors. His experience and insight gained as a managing director of a private equity firm also provide a significant addition to the board of directors.

Sam Kirschner has served on Newtek’s board of directors since 2010 and serves on the Audit Committee and the Compensation, Corporate Governance and Nominating Committee. Mr. Kirschner has, since he co-founded MayerCap, LLC in 2003, been a Managing Member of the company. MayerCap, LLC manages investments in hedge funds, as a fund-of-funds, and is headquartered in New York City. MayerCap, LLC places particular emphasis on investing in newer and smaller hedge funds. Mr. Kirschner has also been since 1986 president of Nexus Family Business Consulting where he has specialized in advising owners, boards and senior executive of major family-owned businesses and large domestic and foreign banks on matters of succession planning, estate planning and strategic mergers and acquisitions. He has also consulted on the identification and

recruitment of senior executives. Mr. Kirschner holds a Ph.D. in clinical psychology and has taught at both New York University School of Continuing & Professional Studies and the Wharton School of Business at the University of Pennsylvania. Mr. Kirschner has many years of experience in working with small to medium sized firms and addressing the many issues which they face in growing their businesses. He is also very well versed in the latest developments in the social media area and has been very helpful in advising the Company on its product development and social media initiatives and this experience provides a significant addition to the board of directors.

Salvatore F. Mulia has served on Newtek's board of directors since 2005, serves on the Audit Committee and serves as Chair of the Compensation, Corporate Governance and Nominating Committee. Mr. Mulia has been a financial advisor at RTM Financial Services, Westport, CT, with an emphasis on leasing and lending advisory services since February 2003. From February 2001 to February 2003 Mr. Mulia was Executive Vice President of Pitney Bowes Capital Corp, Shelton, CT which was engaged in providing financial services to business customers. Prior to that, Mr. Mulia held senior management positions within General Electric's Financial Services Division, GE Capital Corporation ("GECC"), and from 1980 through 1993 he was responsible for developing new products and business initiatives in financial services. During his tenure at GECC Mr. Mulia was a principal in GEVEST, GECC's investment banking unit, where he headed syndication and led acquisition teams which acquired leasing companies with combined assets of \$3 billion including: TransAmerica Leasing, Chase Manhattan's leasing subsidiary and LeaseAmerica. Mr. Mulia has many years of experience with major financial companies working with smaller to mid-sized companies needing capital and debt. His understanding of the dynamics of these businesses has been particularly helpful in addressing similar issues of the Company and this experience provides a significant addition to the board of directors.

Executive Officers Who Are Not Directors

Craig J. Brunet has served as Executive Vice President and Chief Information Officer since January 1, 2012. Mr. Brunet previously served as Executive Vice President Strategic Planning and Marketing since July, 2006 and as Chairman and Chief Executive Officer of the Company's Harvest Strategies subsidiary since June, 2001. From 1984 – 1989, Mr. Brunet served as Director of Strategic Planning for AT&T, where he managed all special development and modifications to standard AT&T products to include non-standard pricing, terms and conditions, hardware and software strategic initiatives, FCC Tariffs, as well as joint venture and/or integration requirements for the top 50 AT&T accounts. In 1989, Mr. Brunet joined Entergy Corporation as Executive Vice President responsible for managing and directing the overall Entergy System retail and wholesale marketing effort including strategy development, policy preparation and administration, market development and market analysis and research. During his tenure with Entergy, he served as Chairman of the Strategic Planning Committee of the Electric Power Research Institute (EPRI) and served on the board of directors of Entergy Enterprises guiding decisions on unregulated activities including strategic acquisition and investments in generation, distribution and new technology assets domestically and internationally. From 1993 – 1996, Mr. Brunet served as Chairman, CEO and President of First Pacific Networks, a leader in the initial development and deployment of broadband technologies in the United States and Europe. During this period, he was also Chairman of the Board of Credit Depot Corporation, a publicly traded multi-state mortgage company and served as Chairman of both the audit committee and compensation committee.

Jennifer C. Eddelson is a certified public accountant licensed in the state of New York and has served as Executive Vice President and Chief Accounting Officer of Newtek Business Services, Inc. since July 2011. Previously Ms. Eddelson was employed by the Company as Corporate Controller since 2004, and Vice President of Financial Reporting since 2006, and in these and her current capacities has had a principal responsibility for the development and implementation of the Company's accounting policies and practices. Previously, Ms. Eddelson practiced as a certified public accountant for eight years with Janover, LLC, a public accounting firm located in New York, primarily in the audit and tax area. Ms. Eddelson is a member of the NYS Society of CPAs and a member of the AICPA.

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Matthew G. Ash has been Chief Legal Officer of the Company since 2007 and previously served as outside general counsel for the Company since its formation in 1998. In these capacities he has played a major role in the structuring of all business and financial transactions of the Company, acquisitions, stock offerings, internal procedures and all aspects of corporate governance. Mr. Ash has also been responsible for the day-to-day management of the 12 current Capcos and serves as Director of Capco Investment and Compliance. Mr. Ash is the corporate Secretary since 2010 and has been appointed Chief Compliance Officer in 2013.

Steven Riegler is a certified public accountant and has served as Treasurer of the Company since 2005 and Vice President of Finance since 2003. Previously, Mr. Riegler served as an audit manager with Eisner LLP, specializing in the technology and software industries, and prior to that as Corporate Controller for a software company. In these capacities with the Company, Mr. Riegler has assisted in numerous financing transactions and as well as day-to-day financial operations, cash management, preparation of the monthly and annual financial statements.

Edward Petrosky has been Chief Risk Officer of the Company since March 2013. Previously he served as President and CEO of Hanover Community Bank. Mr. Petrosky has over 35 years of experience in credit and risk management in the financial services industry, including money center, regional and community banks. Mr. Petrosky has served as the President/CEO/Chief Credit Officer of a number of successful turnaround situations and two start up banks, and has 15 years' experience as a Chief Credit/Chief Lending Officer in the banking industry.

Board of Directors

Newtek's board of directors and management are committed to responsible corporate governance to ensure that the Company is managed for the long-term benefit of its shareholders. To that end, the board of directors and management periodically review and update, as appropriate, the Company's corporate governance policies and practices. In doing so, the board of directors and management review published guidelines and recommendations of institutional shareholder organizations and current best practices of similarly situated public companies. The board of directors and management also regularly evaluate and, when appropriate, revise the Company's corporate governance policies and practices in accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the rules and listing standards issued by the SEC and The NASDAQ Stock Market, Inc. ("NASDAQ") where the Company's shares of common stock are listed and traded.

During the fiscal year ended December 31, 2012, the board of directors held a total of six meetings. Each director attended at least 75% of the total number of meetings of the board of directors and at least 75% of all committee meetings on which he served.

Corporate Governance Guidelines

The Company has adopted corporate governance guidelines titled "Governance Guidelines" which are available at the Investor Relations page of www.thesba.com. The Governance Guidelines are also available in print to any shareholder who requests them. These principles were adopted by the board of directors to best ensure that the board of directors is independent from management, that the board of directors adequately performs its function as the overseer of management and to help ensure that the interests of the board of directors and management align with the interests of the shareholders.

On an annual basis, each director and executive officer is obligated to complete a Directors' and Officers' Questionnaire which requires disclosure of any transactions with the Company in which the Director or executive officer, or any member of his or her immediate family, have a direct or indirect material interest.

Board of Directors Leadership Structure

Presently, Mr. Sloane serves as the chairman of our board of directors. Mr. Sloane is an “interested person” of Newtek as defined in Section 2(a)(19) of the 1940 Act because he is our Chief Executive Officer and President. We believe that Mr. Sloane’s familiarity with our investment platform, and extensive knowledge of the financial services industry and the investment valuation process in particular qualify him to serve as the chairman of our board of directors. We believe that our leadership structure is appropriate since Mr. Sloane has over 25 years of experience in our industry or related businesses, and under his leadership our senior lending team has executed a strategy that has significantly improved our earnings growth, cash flow stability and competitiveness.

Our board of directors does not currently have a designated lead independent director. We are aware of the potential conflicts that may arise when a non-independent director is chairman of the board, but believe these potential conflicts are offset by our strong corporate governance policies. Our corporate governance policies include regular meetings of the independent directors in executive session without the presence of interested directors and management, the establishment of audit and nominating and corporate governance committees comprised solely of independent directors and the appointment of a chief compliance officer, with whom the independent directors meet regularly without the presence of interested directors and other members of management, for administering our compliance policies and procedures. Matthew Ash currently serves as our chief compliance officer.

We recognize that different board leadership structures are appropriate for companies in different situations. We intend to re-examine our corporate governance policies on an ongoing basis to ensure that they continue to meet our needs.

Board of Directors Risk Oversight

While management is responsible for identifying, assessing and managing risk, our board of directors is responsible for risk oversight with a focus on the most significant risks facing the company. The board of directors’ risk oversight includes, but is not limited to, the following risks:

- strategic;
- operational;
- compliance; and
- reputational.

At the end of each year, management and the board of directors jointly develop a list of major risks that the company prioritizes in the following year. In 2012, the board of directors focused on the following areas of risk:

- management compensation;
- determining Newtek’s long-term growth;
- strategic and operational planning, including acquisitions and the evaluation of the Company’s capital structure and long term debt financing; and
- legal and regulatory compliance.

The board of directors also has delegated responsibility for the oversight of specific risks to board of directors committees. The Audit committee oversees risks associated with:

- the Company’s financial statements and financial reporting;
- mergers and acquisitions;
- internal controls over financial reporting;
- credit and liquidity;
- information technology; and
- security and litigation issues.

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The Compensation, Governance and Nominating committee considers the risks associated with:

- compensation policies and practices;
- management resources, structure, succession planning and management development;
- overall governance practices and the structure and leadership of the board of directors; and
- related person transactions and the code of conduct for all employees, officers and directors.

The board of directors is kept informed of each committee's risk oversight and any other activities deemed to engender risk via periodic reports from management and the committee chairs. Our board of directors recognizes the importance of risk oversight, and its role is consistent with the board of directors' leadership structure, the CEO and the senior management of the Company. Our senior management, including our Chief Compliance Officer, is responsible for assessing and managing risk exposure and the board of directors and committees of the board of directors provide the oversight consistent with those efforts.

We believe that our board's role in risk oversight is effective, and appropriate given the extensive regulation to which will be subject as a BDC. As a BDC, we will be required to comply with certain regulatory requirements that control the levels of risk in our business and operations. For example, our ability to incur indebtedness will be limited such that our asset coverage must equal at least 200% immediately after each time we incur indebtedness, we generally will have to invest at least 70% of our gross assets in "qualifying assets" and we will not generally be permitted to invest in any portfolio company in which one of our affiliates currently has an investment.

We recognize that different board roles in risk oversight are appropriate for companies in different situations. We intend to re-examine the manners in which the board administers its oversight function on an ongoing basis to ensure that they continue to meet our needs.

Committees of the Board of Directors

The board of directors currently has two standing committees: the Audit Committee and the Compensation, Corporate Governance and Nominating Committee. Each member of these committees is independent as defined by applicable NASDAQ and SEC rules. Each of the committees has a written charter approved by the board of directors, which is available on the Investor Relations page of on our website at www.thesba.com.

Audit Committee

The board of directors' Audit Committee consists of Messrs. Beck (Chair), Mulia and Kirschner and operates pursuant to its written charter. The Audit Committee held [•] meetings during the year ended [•]. The Audit Committee is authorized to examine and approve the audit report prepared by the independent auditors of the Company, to review and select the independent auditors to be engaged by the Company, to review the internal audit function and internal accounting controls and to review and approve conflict of interest or related party transactions and audit policies. Upon our election to be regulated as a BDC under the 1940 Act, our Audit Committee will also be responsible for establishing guidelines and making recommendations to our board of directors regarding the valuation of our loans and investments.

Director Beck, Chair of the Audit Committee, has been determined by the board of directors to be a "financial expert." In addition, the board of directors has determined that all members of the audit committee are "financially literate" as that term is defined by applicable NASDAQ and SEC rules.

Compensation, Corporate Governance and Nominating Committee

The Company's Compensation, Corporate Governance and Nominating Committee consists of Messrs. Mulia (Chair), Beck and Kirschner, all of whom are considered independent under the 1940 Act and NASDAQ

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rules. The Compensation, Corporate Governance and Nominating Committee evaluates the compensation and benefits of the directors, officers and employees, recommends changes, and monitors and evaluates employee performance. The Compensation, Corporate Governance and Nominating Committee met [•] times during the year ended [•]. The Compensation, Corporate Governance and Nominating Committee is generally responsible for identifying corporate governance issues, creating corporate governance policies, identifying and recommending potential candidates for election to the board of directors and reviewing executive and director compensation and performance.

Director Nominations

In considering whether to recommend any particular candidate for inclusion in the board of directors' slate of recommended director nominees, the Compensation, Corporate Governance and Nominating Committee applies the criteria set forth in the Governance Guidelines. These criteria include the candidate's integrity, business acumen, knowledge of our business and industry, experience, diligence, absence of conflicts of interest and the ability to act in the interest of all shareholders. The committee does not assign specific weights to particular criteria, and no particular criterion is a prerequisite for each prospective nominee. We believe that the backgrounds and qualifications of our directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will best allow the board of directors to fulfill its responsibilities.

The Compensation, Corporate Governance and Nominating Committee has not adopted a formal policy with regard to the consideration of diversity in identifying director nominees. In determining whether to recommend a director nominee, the Compensation, Corporate Governance and Nominating Committee considers and discusses diversity, among other factors, with a view toward the needs of the board of directors as a whole. The Compensation, Corporate Governance and Nominating Committee generally conceptualizes diversity expansively to include, without limitation, concepts such as race, gender, national origin, differences of viewpoint, professional experience, education, skill and other qualities that contribute to the board of directors, when identifying and recommending director nominees. The Compensation, Corporate Governance and Nominating Committee believes that the inclusion of diversity as one of many factors considered in selecting director nominees is consistent with the Compensation, Corporate Governance and Nominating Committee's goal of creating a board of directors that best serves our needs and the interests of our shareholders.

Shareholders may recommend individuals to the Compensation, Corporate Governance and Nominating Committee for consideration as potential director candidates by submitting their names, together with appropriate biographical information and background materials. The recommendation should be sent to the Compensation, Corporate Governance and Nominating Committee, c/o Matthew G. Ash, Secretary, Newtek Business Services, 212 West 35th Street, 2nd floor, New York, New York 10001. Assuming that appropriate biographical and background material has been provided on a timely basis, the committee will evaluate shareholder-recommended candidates by following substantially the same process, and applying substantially the same criteria, as it follows for candidates recommended by our board of directors or others. If the board of directors determines to nominate a shareholder-recommended candidate and recommends his or her election, then his or her name will be included in the proposal for election for the next annual meeting.

Shareholders also have the right under our Bylaws to nominate director candidates, without any action or recommendation on the part of the Compensation, Corporate Governance and Nominating Committee or the board of directors, by following the procedures set forth under "Shareholder Proposals" in our proxy statement. Candidates nominated by shareholders in accordance with the procedures set forth in our Bylaws may be included in our proxy statement and solicitation for the next annual meeting.

Compensation Committee Interlocks and Insider Participation

All members of the Compensation, Corporate Governance and Nominating Committee are independent directors, and none of them are present or past employees or paid officers of ours or any of our subsidiaries. No

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member of the Compensation, Corporate Governance and Nominating Committee has had any relationship with us requiring disclosure under Item 404 of Regulation S-K. None of our executive officers has served on the board or compensation committee (or other committee serving an equivalent function) of any other entity, one of whose executive officers has served on our board of directors or Compensation, Corporate Governance and Nominating Committee.

Code of Conduct

We have adopted a code of ethics, referred to as our Code of Conduct, which applies to all directors and employees, including the principal executive, financial and accounting officers. A copy of the Code of Conduct will be made available upon request directed to the executive offices of the Company and may be viewed on the Investor Relations page of our web site www.thesba.com. In addition, we post on our website all disclosures that are required by law or NASDAQ listing standards concerning any amendments to, or waivers from, any provision of the Code. We also post on our website any amendments to, or waivers from, our Code of Conduct that apply to our principal executive officer and principal financial and accounting officer.

In connection with the BDC Conversion, we will also adopt a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain transactions by our personnel. Our code of ethics generally will not permit investments by our employees in securities that may be purchased or held by us.

The Audit Committee or the board of directors reviews all potential related party transactions on an ongoing basis, and all such transactions must be approved by the Audit Committee or the board of directors. We have not adopted written procedures for review of, or standards for approval of, these transactions, but instead the Audit Committee or the board of directors intends to review such transactions on a case by case basis. In addition, the Compensation, Corporate Governance and Nominating Committee or the board of directors reviews and approves all compensation-related policies involving our directors and executive officers. See "Certain Relationships and Transactions."

Director Compensation

The board of directors has adopted a plan for compensation of non-employee directors which gives effect to the time and effort required of each of them in the performance of their duties. During 2012 compensation was paid in cash and is set forth in the table below. Since November 10, 2010, directors are paid the following annual fees:

- for participation on the board of directors: \$50,000;
- as chair of a committee: \$20,000; and
- as committee member: \$5,000.

Director Summary Compensation Table (1)

	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
David C. Beck	75,000	—	—	—	—	—	75,000
Salvatore F. Mulia	75,000	—	—	—	—	—	75,000
Sam Kirschner	60,000	—	—	—	—	—	60,000

- (1) Barry Sloane, the Company's Chairman, Chief Executive Officer and President, is not included in this table as he was an employee of the Company in 2012 and thus received no compensation for his services as a Director. The compensation received by Mr. Sloane as an employee of the Company is shown in the Summary Compensation Table below.

EXECUTIVE COMPENSATION

The following discussion relates to our historical executive compensation practices, prior to the BDC Conversion and this offering. As a result, all references in this subsection to “Newtek,” “our” or “we” refer to Newtek Business Services, Inc., including its consolidated subsidiaries. After the BDC Conversion, we will be subject to certain restrictions regarding the compensation of our officers and directors under the 1940 Act. For example, absent exemptive relief from the SEC, we may not issue (i) restricted stock to our officers, employees and directors, and (ii) stock options to our non-employee directors. See “Regulation as a Business Development Company” for additional detail. After obtaining any necessary approvals from shareholders or the SEC, we intend to utilize compensation programs in the same manner as presented in the historical discussion below.

The individuals who served as the Company’s Chief Executive Officer, Chief Information Officer and Chief Accounting Officer during 2012 are considered our “named executive officers.” References to the “Committee” in this section refer to the Compensation, Corporate Governance and Nominating Committee.

Compensation Philosophy and Objectives

All of our compensation programs are designed to attract and retain key employees and to motivate them to achieve, and reward them for achieving, superior performance. Different programs are geared to shorter- and longer-term performance, with the goal of increasing shareholder value over the long-term. Executive compensation programs impact all employees by setting general levels of compensation and helping to create an environment of goals, rewards and expectations. Because we believe the performance of every employee is important to our success, we are mindful of the effect of executive compensation and incentive programs on all of our employees.

We believe that the compensation of our executives should reflect their success as an executive committee, rather than just as individuals, in attaining key operating objectives, such as growth of sales, growth of operating earnings and earnings per share and growth or maintenance of market share and long-term competitive advantage, and ultimately, in attaining an increased market price for our stock. We believe that the performance of our executives in managing our Company, considered in light of general economic and specific company, industry and competitive conditions, should be the basis for determining their overall compensation. We also believe that their compensation should not be based on the short-term performance of our stock, whether favorable or unfavorable, but rather that the price of our stock will, in the long-term, reflect our operating performance and, ultimately, the management of the Company by our executives. We seek to have the long-term performance of our stock reflected in executive compensation through equity incentive programs, including stock options and restricted stock awards.

Role of Executive Officers in Compensation Decisions

The Compensation, Corporate Governance and Nominating Committee supervises the design and implementation of compensation policies for all executive officers (which include the named executive officers) and overall incentive equity awards to all employees of the Company. Decisions regarding the non-equity compensation of executive officers, other than named executive officers, are made by the Chief Executive Officer within the compensation philosophy set by the Committee. Decisions regarding the non-equity compensation of named executive officers are made by the Chief Executive Officer and the Committee for consistency with the Company’s compensation policies.

The Chief Executive Officer semi-annually reviews the performance of each member of the senior lending team and the executive committee, including named executive officers (other than himself whose performance is reviewed by the Compensation, Corporate Governance and Nominating Committee). The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award

amounts, are then presented to the Compensation, Corporate Governance and Nominating Committee by the Chief Executive Officer. The Compensation, Corporate Governance and Nominating Committee will review and approve the recommendations for consistency with the Company's compensation policies.

Setting Executive Compensation

During the course of each fiscal year, it has been the practice of the Chief Executive Officer to review the history of all the elements of each executive officer's total compensation and the Chief Executive Officer may also compare the compensation of the executive officers with that of the executive officers in an appropriate market comparison group of companies with a capitalization similar to that of the Company. We seek to set compensation levels that are perceived as fair, internally and externally, and competitive with overall compensation levels at other companies in our industry, including larger companies from which we may want to recruit employees. However, the Company does not establish individual objectives in the range of comparative data for each individual or for each element of compensation. Typically, the Chief Executive Officer sets compensation with respect to the executive officers who report to him and presents it to the Committee for conformity with the Company's overall compensation policies. The named executive officers are not present at the time of these deliberations. The Committee then performs a similar review of the Chief Executive Officer's total compensation and makes compensation decisions with respect to such officer, who does not participate in that determination.

We choose to pay each element of compensation in order to attract and retain the necessary executive talent, reward annual performance and provide incentive for balanced focus on long-term strategic goals as well as short-term performance. The amount of each element of compensation is determined by or under the direction of our Committee, which uses the following factors to determine the amount of salary and other benefits to pay each named executive officer:

- performance against corporate and individual objectives for the year;
- difficulty of achieving desired results in the coming year;
- value of their unique skills and capabilities to support long-term performance;
- performance of their general management responsibilities; and
- contribution as a member of the executive committee or the senior lending team.

We do not establish individual goals but focus on the overall profitable growth of our business.

Based on the foregoing objectives, we have structured the Company's annual and long-term incentive-based cash and non-cash executive compensation to motivate executives to achieve the business goals set by the Company and reward the executives for achieving such goals.

There is no pre-established policy or target for the allocation between either cash or non-cash compensation. Historically we have granted a majority of total compensation to executive officers in the form of cash compensation.

For the year ended December 31, 2012, the principal components of compensation for named executive officers were:

- base salary;
- performance-based incentive compensation based on the Company's and the executive's performance; and
- retirement and other benefits made available to all employees.

Base Salary

The Company provides named executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. Executive base salaries continue to reflect our operating philosophy, our performance driven corporate culture and business direction, with each salary determined by the skills, experience and performance level of the individual executive, and the needs and resources of the Company. Base salaries are targeted to market levels based on reviews of published salary surveys and the closest related peer company compensation since we do not believe that Newtek has any peer companies. Base salary ranges for named executive officers are determined for each executive based on his or her position and responsibility by using market data from published salary surveys such as Equilar, and the Company generally attempts to fix each named executive officer's salary within the range. We believe that the Company's most direct competitors for executive talent are not necessarily restricted to those companies that are included in the peer company index used to compare shareholder returns, but encompass a broader group of companies engaged in the recruitment and retention of executive talent in competition with the Company.

During the review of base salaries for senior level executives, including the named executive officers, we primarily consider:

- an internal review of each executive's compensation both individually and relative to other executive officers;
- individual performance of the executive; and
- a review of the Company's revenue growth, net income and cash flow metrics relative to the Company's annual plan as established by the board of directors.

Salary levels are typically considered annually as part of the Company's performance review process as well as upon a promotion or other change in job responsibility. Merit based increases to salaries are based on the Chief Executive Officer's assessment of the individual's performance. Merit based increases to the salaries of named executive officers other than the Chief Executive Officer are recommended by the Chief Executive Officer and confirmed by the Committee and those for the Chief Executive Officer are determined by the Committee.

Annual Bonus

Annual bonuses may be awarded to executive officers under the Company's cash bonus plan. The Company creates a bonus pool based on annually determined percentage of the salaries of all employees which it accrues as an expense. Payments under the plan are based on the Company's overall performance as determined by the Chief Executive Officer and the Committee. The Committee determines any bonus for the Chief Executive Officer based on, among other things, a review of the Company's revenue growth, net income and cash flow relative to the Company's annual plans as established by the board of directors. The Chief Executive Officer in consultation with the Committee with respect to the named executive officers, or in consultation with the named executive officers and other senior level officers with respect to lower level employees, determines annual bonuses for other employees based on such employee's performance. Factors considered include the achievement of business plans, defined goals and performance relative to other companies of a similar size and business strategy. The mix and weighting of the factors vary, depending on the business segment and the executive's responsibilities. The level of achievement and overall contribution by the executive determines the level of bonus.

Equity-Based Compensation

From time to time, at the discretion of the Committee, the Company has granted equity-based awards, such as stock options or restricted stock to the named executive officers and other employees to create a clear and strong alignment between compensation and shareholder return and to enable the named executive officers and

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other employees to develop and maintain a stock ownership position in the company that will vest over time and act as an incentive for the employee to remain with the Company. Prior to the BDC Conversion, restricted stock and options were granted pursuant to the Company's 2003 Stock Incentive Plan or its 2010 Stock Incentive Plan. The Company's 2000 Incentive Stock and Deferred Compensation Plan remains in existence but no additional option awards may be made under it since 2010 in accordance with its terms. In connection with the BDC Conversion, we expect to terminate these plans and replace them with new equity compensation plans with similar terms, subject to the approval of our stockholders and, in certain cases, the SEC.

Under applicable accounting rules, we are required to measure the value of equity awards based on the fair value of the award on the grant date. The cost is recognized in our statement of operations over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period.

Options are awarded at the average of the highest and lowest sale price of the Company's shares of common stock on the NASDAQ market on the date of the grant (the "Market Value"). In certain limited circumstances, the Committee may grant options to an executive at an exercise price in excess of the Market Value of the Company's shares of common stock on the grant date. The Committee has never granted options with an exercise price that is less than the Market Value of the Company's common shares on the grant date, nor has it granted options which are priced on a date other than the grant date.

Options granted by the Committee typically vest over the first two to five years of the ten-year option term, although in certain cases we have granted options that have vested immediately. Vesting rights cease upon termination of employment and vested options may be exercised within 90 days of termination (other than termination for cause). Prior to the exercise of an option, the holder has no rights as a shareholder with respect to the shares subject to such option, including voting rights and the right to receive dividends or dividend equivalents.

Upon a change of control, or if earlier, the execution of an agreement to effect a change of control, all options and restricted stock awards become fully vested and immediately exercisable, notwithstanding any other provision of the plan or any agreement.

Benefits and Perquisites

Our executives are generally not entitled to benefits that are not available to all of our employees. In this regard, it should be noted that we do not provide pension arrangements, post-retirement health coverage or similar benefits for our executives or employees. The Committee periodically reviews the levels of benefits provided to executive officers. The named executive officers participate in the Company's 401(k) savings plan and other benefit plans on the same basis as other similarly situated employees. The Company has adopted a match for the Company's 401(k) savings plan which consists of a discretionary match of 50% of the first 2% of employee contributions up to a maximum of 1% of the employee's compensation. At the Company's discretion the match may be in the form of cash or Company shares of common stock. In 2012, a match of \$105,992 in shares of the Company's common stock was approved and paid in March 2013.

The perquisites we provided in fiscal 2012 are as follows. We paid the premiums on life insurance policies for and certain travel costs for Mr. Sloane the Chief Executive Officer in the amount of \$4,432. In addition, we paid Mr. Brunet, the Executive Vice President and Chief Information Officer, relocation expenses in the amount of \$4,700.

Compensation of the Chief Executive Officer

The Committee determined the compensation for Barry Sloane, Chairman, Chief Executive Officer and President for 2012. While recognizing the Chief Executive Officer's leadership in building a highly talented senior lending team and in driving the Company forward, Mr. Sloane's salary was maintained at \$350,000 for

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2012 to which was added a bonus of \$300,000 which was paid in 2012. Mr. Sloane received a \$100,000 bonus in 2011 and a \$250,000 bonus in 2010. In addition Mr. Sloane received an award of 75,000 and 400,000 restricted shares of common stock in 2013 (for 2012 performance) and 2011, respectively with a value as of the date of award \$138,750 and \$680,000, respectively. The Committee has determined that this salary and bonus package is competitive with the labor market median for someone with his skills and talents and is reflective of the Company's current cash and financial position and the status of the Company's shares of common stock. Mr. Sloane's base compensation has remained unchanged from 2005 through 2012, but was raised to \$400,000 in 2013.

Compensation of the Other Named Executive Officers

The Committee approved the 2012 compensation for Craig J. Brunet, Executive Vice President and Chief Information Officer, and Jennifer Eddelson, Executive Vice President and Chief Accounting Officer as recommended to it by the Chief Executive Officer.

As with the Chief Executive Officer, Mr. Brunet's base salary was maintained at \$276,000 in both 2011 and 2012. In 2012, Mr. Brunet received an award of 10,000 restricted shares of common stock valued at \$18,500 and a cash bonus of \$41,400. In 2011, Mr. Brunet was awarded 50,000 restricted shares of common stock valued at \$85,000 and did not receive a cash bonus. In 2012 Mr. Brunet received a cash bonus of \$41,400 which was paid in 2012. Ms. Eddelson's base salary was increased to \$240,000 on March 1, 2012. Ms. Eddelson's total salary for 2012 was \$230,833 and in addition received a cash bonus of \$50,000 paid in 2012, and 10,000 restricted shares of common stock valued at \$18,500. Ms. Eddelson received a cash bonus in 2011 of \$35,000 which was paid in 2012, and 35,000 restricted shares of common stock valued at \$56,000. The Chief Executive Officer and the Committee have determined that these compensation packages are competitive with the labor market median for managers with their skills and talents and are reflective of the Company's current cash and financial position and the status of the Company's shares of common stock.

Objectives of Compensation Policy

Attracting and retaining talented and motivated management and employees is essential to creating long-term shareholder value. Offering a competitive, performance-based compensation program helps to achieve this objective by aligning the interests of the executive officers and other key employees with those of shareholders. We believe that the Company's 2012 compensation program met those objectives.

Advisory Vote On Executive Compensation

At our 2011 annual meeting 98.94% of the votes cast on the advisory vote on executive compensation proposal were in favor of the advisory vote of shareholders on executive compensation, and 82.69% of the votes cast were in favor of holding that advisory vote every three (3) years. The Compensation, Corporate governance and Nominating Committee reviewed these results and determined that our shareholders should vote on a say-on-pay proposal every three years. Accordingly, the next say-on-pay vote will be at our 2014 annual meeting.

Compensation Risk Assessment

Our Compensation, Corporate Governance and Nominating Committee aims to establish company-wide compensation policies and practices that reward contributions to long-term shareholder value and do not promote unnecessary or excessive risk-taking. In furtherance of this objective, the Committee conducted an assessment of our compensation arrangements, including those for our named executive officers. The assessment process included, among other things, a review of our (1) compensation philosophy, (2) compensation mix and (3) cash and equity-based incentive plans.

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In its review, among other factors, the Committee considered the following:

- Our revenue model and our cash incentive plan encourage our employees to focus on creating a stable, predictable stream of revenue over multiple years, rather than focusing on current year revenue at the expense of succeeding years.
- The distribution of compensation among our core compensation elements has effectively balanced short-term performance and long-term performance.
- Our cash and equity-based incentive awards in conjunction with management efforts focus on both near-term and long-term goals.
- Our cash and equity-based incentive awards contain a range of performance levels and payouts, to discourage executives from taking risky actions to meet a single target with an all or nothing result of compensation or no compensation.
- Our executives are encouraged to hold a meaningful number of our shares of common stock pursuant to our stock ownership policy.

Based upon this assessment, our Compensation, Corporate Governance and Nominating Committee believes that our company-wide compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on us.

Compensation Committee Report

The Compensation, Corporate Governance and Nominating Committee of the Company has reviewed and discussed the foregoing Compensation Discussion and Analysis for fiscal 2012 required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation, Corporate Governance and Nominating Committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION, CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

Salvatore F. Mulia, Chairman
David C. Beck
Sam Kirschner

SUMMARY COMPENSATION TABLE

The following tables set forth the aggregate compensation earned by the Company's Chief Executive Officer, Chief Information Officer, and Chief Accounting Officer, which we refer to as named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) ⁽⁵⁾	Option Awards (\$) ⁽⁵⁾	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All other compensation (in excess of \$10,000) (\$)	Total (\$)
Barry Sloane, CEO	2012	350,000	300,000 ⁽⁴⁾	138,750 ⁽⁷⁾	—	—	—	—	788,750
	2011	350,000	100,000 ⁽³⁾	680,000	—	—	—	—	1,130,000
	2010	350,000	250,000 ⁽¹⁾	—	—	—	—	—	600,000
Craig J. Brunet, EVP and Chief Information Officer	2012	276,000	41,400 ⁽⁴⁾	18,500 ⁽⁷⁾	—	—	—	—	335,900
	2011	276,000	—	85,000	—	—	—	—	361,000
	2010	276,000	41,400 ⁽²⁾	13,250	—	—	—	—	330,650
Jennifer Eddelson, EVP and Chief Accounting Officer ⁽⁷⁾	2012	230,833	50,000 ⁽⁴⁾	74,500 ⁽⁸⁾	—	—	—	—	355,333
	2011	92,500 ⁽⁸⁾	35,000 ⁽³⁾	25,500	—	—	—	—	243,833

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- (1) Cash bonus awarded for 2010 performance, \$125,000 of which was paid in 2010 and \$125,000 was paid in the first quarter of 2011.
- (2) Cash bonus awarded for 2009 performance and paid in 2010.
- (3) Cash bonus awarded for 2010 performance and paid in 2011.
- (4) Cash bonus awarded for 2011 performance and paid in 2012.
- (5) The value reported for Stock and Option Awards is the aggregate grant date fair value of options or restricted stock awards granted to the named executive officers in the years shown, determined in accordance with FASB ASC Topic 718, disregarding adjustments for forfeiture assumptions. The assumptions for making the valuation determinations are set forth in Note 23 - Stock Options and Restricted Stock Granted to Employees to our financial statements included herein for the fiscal year ended December 31, 2012.
- (6) Effective July 1, 2011.
- (7) Stock grants awarded for 2012 performance, granted in 2013.
- (8) \$18,500 was for stock grants awarded for 2012 performance, granted in 2013; \$56,000 was for stock grants awarded for 2011 performance, granted in 2012.

Equity Compensation Plans

The following table provides information as of December 31, 2012 with respect to our common shares that may be issued under our equity compensation plans.

Plan Category	Number of Securities to be issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights(2)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Stockholders			
(1)	1,943,050	\$ 1.44	3,405,768
Equity Compensation Plans Not Approved by Stockholders	—	—	—
Total	1,943,050	\$ 1.44	3,405,768

- (1) Consists of 4,250,000 common shares under the Company's 2000 Stock Incentive and Deferred Compensation Plan, 1,000,000 common shares under the Company's 2003 Stock Incentive Plan, and 1,650,000 common shares under the Company's 2010 Stock Incentive Plan.
- (2) Excludes 1,148,400 restricted stock rights which have a zero exercise price.

Grants of Plan Based Awards

The following reflects all grants to our named executive officers awarded in the fiscal year ended December 31, 2012, all of which vest on July 1, 2014.

Name	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)
	Grant date	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)				
Barry Sloane, CEO	—	—	—	—	—	—	—	—	—	—

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Name	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)	
	Grant date	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)					Maximum (#)
Craig J. Brunet, EVP, CIO	—	—	—	—	—	—	—	—	—	—	
Jennifer C. Eddelson, EVP, CAO	04/12/12	—	—	—	—	—	—	35,000	—	—	56,000

Outstanding Equity Awards at 2012 Year End

The following table reflects all outstanding equity awards held by our named executive officers as of December 31, 2012:

Name	Option Awards (1)					Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that have not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that have not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that have not Vested (\$)
Barry Sloane, CEO	—	—	—	—	—	—	—	400,000(2)	680,000
Craig J. Brunet, EVP, CIO	100,000(1)	—	—	1.57	12/21/15	—	—	50,000(2)	85,000
Jennifer C. Eddelson, EVP, CAO	10,000(1)	—	—	1.57	12/21/15	—	—	—	18,323
	20,000	—	—	1.50	05/18/18	—	—	50,000(2)	80,450

(1) These options are fully vested.

(2) These shares of restricted stock shall vest on the earliest of the following to occur: (a) July 1, 2014; (b) a Change in Control (as defined in the plan) of the Company; or (c) His/her death or total disability.

Options Exercised and Stock Vested

There were no stock options exercised nor restricted shares of common stock vested during 2012 for the named executive officers.

Employment Agreements

The Company has entered into separate employment agreements with the following three executive officers:

- Barry Sloane, as Chairman, Chief Executive Officer and President;
- Craig J. Brunet, as Executive Vice President and Chief Information Officer; and
- Jennifer Eddelson, as Executive Vice President and Chief Accounting Officer

Barry Sloane, as Chairman, President and Chief Executive Officer, is responsible for implementing the policies adopted by the Company's board of directors.

Mr. Sloane's employment agreement provides for:

- A twelve month term through March 31, 2014 at an annual base salary of \$400,000;
- at least one annual salary review by the board of directors;
- participation in any discretionary bonus plan established for senior executives;
- retirement and medical plans, customary fringe benefits, vacation and sick leave; and
- \$2 million of split-dollar life insurance coverage.

Mr. Brunet's employment agreement provides for:

- A twelve month term through March 31, 2014 at an annual base salary of \$276,000;
- at least one annual salary review by the board of directors;
- participation in any discretionary bonus plan established for senior executives; and
- retirement and medical plans, customary fringe benefits, vacation and sick leave.

Ms. Eddelson's employment agreement provides for:

- A twelve month term through May 31, 2014 at an annual base salary of \$240,000;
- at least one annual salary review by the board of directors;
- participation in any discretionary bonus plan established for senior executives; and
- retirement and medical plans, customary fringe benefits, vacation and sick leave.

Payments upon Change of Control

Mr. Sloane's employment agreement provides for a payment in the event of non-renewal of his employment in an amount equal to one and one half (1.5) times, or in the case of a change of control or termination other than for cause of the agreement an amount equal to two (2) times, the sum of (i) the executive's base salary in effect at the time of termination, plus (ii) the amount of any incentive compensation paid with respect to the immediately preceding fiscal year.

Mr. Brunet's and Ms. Eddelson's employment agreements provide for a payment in the case of termination other than for cause or in connection with a change in control of the agreement equal to one (1) times the sum of (i) the executive's base salary in effect at the time of termination, plus (ii) the amount of any incentive compensation paid with respect to the immediately preceding fiscal year. Mr. Brunet's employment agreement also provides for a payment in the case of non-renewal equal to one (1) times the sum of (i) the executive's base salary in effect at the time of termination, plus (ii) the amount of any incentive compensation paid with respect to the immediately preceding fiscal year.

Each employment agreement contains a non-competition provision that requires the employee to devote substantially his full business time and efforts to the performance of the employee's duties under the agreement. The employee is not prohibited, however, from:

- serving on the boards of directors of, and holding offices or positions in, companies or organizations which, in the opinion of the board of directors, will not present conflicts of interest with the Company; or

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- investing in any business dissimilar from the Company's or, solely as a passive or minority investor, in any business.

Under each of the employment agreements, the Company may terminate an employee's employment for "just cause" as defined in the agreement, and upon the termination, no severance benefits are available. If the employee voluntarily terminates his employment for "good reason" as defined in the agreement, or the employee's employment terminates during the term of the agreement due to death, disability, or retirement after age 62, the employee will be entitled to a continuation of his salary and benefits from the date of termination through the remaining term of the agreement. The employee is able to terminate voluntarily his agreement by providing 60 days written notice to the board of directors, in which case the employee is entitled to receive only his compensation, vested rights and benefits up to the date of termination.

Post Termination Payments

The table below reflects the amount of compensation that would be payable to the executive officers under existing arrangements if the hypothetical termination of employment events described above had occurred on December 31, 2012, given their compensation and service levels as of such date. All payments are payable by the Company in a lump sum unless otherwise noted.

These benefits are in addition to benefits available regardless of the occurrence of such an event, such as currently exercisable stock options, and benefits generally available to salaried employees, such as distributions under the Company's 401(k) plan, disability benefits, and accrued vacation pay. In addition, in connection with any termination of Mr. Sloane's employment, the Company may determine to enter into an agreement or to establish an arrangement providing additional benefits or amounts, or altering the terms of benefits described below, as the Compensation, Corporate Governance and Nominating Committee deems appropriate.

Name	Post Termination Payments		
	Change in Control	Non-Renewal	Termination without Cause
Barry Sloane, CEO	\$ 1,500,000	\$ 1,125,000	\$ 1,500,000
Craig Brunet, EVP, CIO	\$ 317,400	\$ 317,400	\$ 317,400
Jennifer Eddelson, EVP, CAO	\$ 381,000	—	\$ 325,000

The actual amounts that would be paid to our executive officers upon termination of employment can be determined only at the time of their separation from the Company.

Nonqualified Deferred Compensation

The Company did not have any nonqualified deferred compensation in the year ended December 31, 2012.

Pension Benefits

The Company had no obligation under pension benefit plans to the named executive officers as of December 31, 2012.

Tax and Accounting Implications

Deductibility of Executive Compensation

As part of its role, the Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that the Company may not deduct compensation of more than \$1,000,000 that is paid to certain individuals. The Company believes that compensation paid by the Company is generally fully deductible for federal income tax purposes. However, in certain situations, the

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Committee may, in the future, approve compensation that will not meet these requirements in order to ensure competitive levels of total compensation for its executive officers.

Accounting for Stock-Based Compensation

The Company accounts for stock-based payments under its incentive stock plans in accordance with the requirements of FASB Statement 123(R).

CERTAIN RELATIONSHIPS AND TRANSACTIONS

We have procedures in place for the review, approval and monitoring of transactions involving the Company and certain persons related to the Company. As a BDC, the Company is prohibited under the 1940 Act from participating in certain transactions with certain of its affiliates without meeting certain requirements, such as the prior approval of the independent directors and, in some cases, the SEC. The affiliates with which the Company may be prohibited from transacting include its officers, directors and employees and any person who owns 5% or more of our outstanding voting securities or controlling or under common control with the Company.

The Audit Committee or the board of directors reviews all potential related party transactions on an ongoing basis, and all such transactions must be approved by the Audit Committee or the board of directors. We have not adopted written procedures for review of, or standards for approval of, these transactions, but instead the Audit Committee or the board of directors intends to review such transactions on a case by case basis. In addition, the Compensation, Corporate Governance and Nominating Committee or the board of directors reviews and approves all compensation-related policies involving our directors and executive officers.

A major shareholder and former president of the Company, Jeffrey G. Rubin, directly and indirectly through entities and organizations in which he has a material interest, earns gross residual payments on merchant processing revenue he generates for the Company, a portion of which is then paid to his support staff for their efforts. During the years ended December 31, 2012, 2011 and 2010, the Company paid him and his related entities gross residuals of approximately \$3,155,000, \$1,649,000 and \$1,180,000, respectively. We anticipate that Mr. Rubin and his related entities will continue to earn gross residual profits on the merchant process revenue he generates for the Company in 2013. This transaction has been considered and consented to by the Compensation, Corporate Governance and Nominating Committee and the Board in connection with the annual proxy statement preparation and approval.

SALES OF COMMON STOCK BELOW NET ASSET VALUE

At a special meeting of stockholders held on [•], 2013, our stockholders approved a proposal to allow us to sell an [unlimited number of shares of our common stock at any level of discount from our net asset value per share until the earlier of the twelve-month period following such approval and our 2014 annual meeting of stockholders.] In order to sell shares pursuant to any authorization, a majority of our directors who have no financial interest in the sale and a majority of our independent directors must:

- find that the sale is in our best interests and in the best interests of our stockholders; and
- in consultation with any underwriter or underwriters or sales manager or sales managers of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares of common stock, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount.

In making a determination that an offering below net asset value per share is in our and our stockholders' best interests, our board of directors considers a variety of factors, including matters such as:

- The effect that an offering below net asset value per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;
- The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined net asset value per share;
- The relationship of recent market prices of common stock to net asset value per share and the potential impact of the offering on the market price per share of our common stock;
- Whether the estimated offering price would closely approximate the market value of our shares;
- The potential market impact of being able to raise capital during the current financial market difficulties;
- The nature of any new investors anticipated to acquire shares of common stock in the offering;
- The anticipated rate of return on and quality, type and availability of investments; and
- The leverage available to us.

Sales by us of our common stock at a discount from the net asset value per share pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering. The following three headings and accompanying tables will explain and provide hypothetical examples on the impact of an offering at a price less than the net asset value per share on three different set of investors:

- existing shareholders who do not purchase any shares of common stock in the offering;
- existing shareholders who purchase a relatively small amount of shares of common stock in the offering or a relatively large amount of shares of common stock in the offering; and
- new investors who become shareholders by purchasing shares of common stock in the offering.

The tables below provide hypothetical examples of the impact that an offering at a price less than net asset value per share may have on the net asset value per share of shareholders and investors who do and do not participate in such an offering. However, the tables below do not show, nor are they intended to show, any potential changes in market price that may occur from an offering at a price less than net asset value per share and it is not possible to predict any potential market price change that may occur from such an offering.

Impact on Existing Stockholders Who Do Not Participate in an Offering of Common Stock

Our existing stockholders who do not participate in an offering below net asset value per share or who do not buy additional shares of common stock in the secondary market at the same or lower price we obtain in the offering (after expenses and commissions) face the greatest potential risk of an immediate decrease (often called dilution) in the net asset value of the shares of common stock they hold and their net asset value per share. These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we will experience in our assets, potential earning power and voting interests due to the offering. These shareholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in net asset value per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of net asset value dilution that would be experienced by a nonparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount from net asset value per share. It is not possible to predict the level of market price decline that may occur.

The examples assume that the issuer has [•] common shares outstanding, \$[•] in total assets and \$[•] in total liabilities. The current net asset value and net asset value per share are thus \$[•] and \$[•]. The chart illustrates the dilutive effect on Stockholder A of (1) an offering of [•] shares of common stock (5% of the outstanding shares of common stock) at \$[•] per share after offering expenses and commission (a 5% discount from net asset value), (2) an offering of [•] shares of common stock (10% of the outstanding shares of common stock) at \$[•] per share after offering expenses and commissions (a 10% discount from net asset value) and (3) an offering of [•] shares of common stock (20% of the outstanding shares of common stock) at \$[•] per share after offering expenses and commissions (a 20% discount from net asset value).

	Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 20% Offering at 20% Discount	
	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Prior to Sale Below NAV						
Offering Price						
Price per Share to Public	\$		\$		\$	
Net Proceeds per Share to Issuer	\$		\$		\$	
Decrease to Net Asset Value						
Total Shares Outstanding						
Net Asset Value per Share	\$	\$	\$		\$	
Dilution to Nonparticipating Stockholder						
Shares Held by Stockholder A						
Percentage Held by Stockholder A						
Total Net Asset Value Held by Stockholder A	\$	\$	\$		\$	
Total Investment by Stockholder A (Assumed to be \$[•] per Share)	\$	\$	\$		\$	
Total Dilution to Stockholder A (Total Net Asset Value Less Total Investment)		\$	\$		\$	
Net Asset Value per Share Held by Stockholder A	\$		\$		\$	
Investment per Share Held by Stockholder A (Assumed to be \$[•] per Share on Shares Held Prior to Sale)	\$	\$	\$		\$	

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	Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 20% Offering at 20% Discount	
	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Prior to Sale Below NAV						
Dilution per Share Held by Stockholder A (Net Asset Value per Share Less Investment per Share)	\$		\$		\$	
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)						

Impact on Existing Stockholders Who Do Participate in an Offering of Common Stock

Our existing stockholders who participate in an offering below net asset value per share or who buy additional shares of common stock in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of net asset value dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares of common stock immediately prior to the offering. The level of net asset value dilution will decrease as the number of shares of common stock such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience net asset value dilution on their existing shares but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in average net asset value per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares of common stock such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience net asset value dilution as described above in such subsequent offerings. These shareholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential decreases in net asset value per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of dilution and accretion in the hypothetical 20% discount offering from the prior chart (Example 3) for a stockholder that acquires shares of common stock equal to (1) 50% of its proportionate share of the offering (i.e., [•] shares of common stock, which is 0.05% of an offering of [•] shares of common stock) rather than its 0.10% proportionate share and (2) 150% of such percentage (i.e. [•] shares of common stock, which is 0.15% of an offering of [•] shares of common stock rather than its 0.10% proportionate share). It is not possible to predict the level of market price decline that may occur.

	50% Participation		150% Participation	
	Following Sale	% Change	Following Sale	% Change
Prior to Sale Below NAV				
Offering Price				
Price per Share to Public	\$		\$	
Net Proceeds per Share to Issuer	\$		\$	
Decrease/Increase to Net Asset Value				
Total Shares Outstanding				
Net Asset Value per Share	\$	\$	\$	
Dilution/Accretion to Participating Stockholder				
Shares Held by Stockholder A				
Percentage Held by Stockholder A				

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Prior to Sale Below NAV	50% Participation		150% Participation	
	Following Sale	% Change	Following Sale	% Change
Total Net Asset Value Held by Stockholder A	\$	\$	\$	
Total Investment by Stockholder A (Assumed to be \$[*] per Share on Shares held Prior to Sale)	\$	\$	\$	
Total Dilution/Accretion to Stockholder A (Total Net Asset Value Less Total Investment)		\$	\$	
Net Asset Value per Share Held by Stockholder A		\$	\$	
Investment per Share Held by Stockholder A (Assumed to be \$[*] on Shares Held Prior to Sale)	\$	\$	\$	
Dilution/Accretion per Share Held by Stockholder A (Net Asset Value per Share Less Investment per Share)		\$	\$	
Percentage Dilution/Accretion to Stockholder A (Dilution/Accretion per Share Divided by Investment per Share)				

Impact on New Investors of Common Stock

Investors who are not currently stockholders and who participate in an offering of our common stock below net asset value but whose investment per share is greater than the resulting net asset value per share due to selling compensation and expenses paid by the issuer will experience an immediate decrease, albeit small, in the net asset value of their shares of common stock and their net asset value per share compared to the price they pay for their shares of common stock. Investors who are not currently stockholders and who participate in an offering below net asset value per share and whose investment per share is also less than the resulting net asset value per share due to selling compensation and expenses paid by the issuer being significantly less than the discount per share will experience an immediate increase in the net asset value of their shares of common stock and their net asset value per share compared to the price they pay for their shares of common stock. These investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in net asset value per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same hypothetical 5%, 10% and 20% discounted offerings as described in the first chart above. The illustration is for a new investor who purchases the same percentage (0.10%) of the shares of common stock in the offering as Stockholder A in the prior examples held immediately prior to the offering. It is not possible to predict the level of market price decline that may occur.

Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 20% Offering at 20% Discount	
	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Offering Price						
Price per Share to Public	\$		\$		\$	
Net Proceeds per Share to Issuer	\$		\$		\$	
Decrease/Increase to Net Asset Value						
Total Shares Outstanding						
Net Asset Value per Share	\$	\$	\$		\$	

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	Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 20% Offering at 20% Discount	
	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Prior to Sale Below NAV						
<i>Dilution/Accretion to New Investor A</i>						
Shares Held by New Investor A						
Percentage Held by New Investor A						
Total Net Asset Value Held by New Investor A	\$	\$	\$	\$	\$	\$
Total Investment by New Investor A (At Price to Public)		\$		\$		\$
Total Dilution/Accretion to New Investor A (Total Net Asset Value Less Total Investment)		\$		\$		\$
Net Asset Value per Share Held by New Investor A		\$		\$		\$
Investment per Share Held by New Investor A	\$	\$	\$	\$	\$	\$
Dilution/Accretion per Share Held by New Investor A (Net Asset Value per Share Less Investment per Share)		\$		\$		\$
Percentage Dilution/Accretion to New Investor A (Dilution/Accretion per Share Divided by Investment per Share)						

CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

The following table sets out certain ownership information with respect to our common stock for those persons who directly or indirectly own, control or hold with the power to vote five percent or more of our outstanding common stock, each of our directors and officers and all officers and directors as a group. As of [•], 2013, there are [•] shares of common stock outstanding, after the BDC Conversion and Reverse Stock Split, there will be [•] shares of common stock outstanding, and immediately after this offering, there will be [•] shares of common stock outstanding.

<u>Name of Beneficial Owner (1)</u>	<u>Shares Owned</u>	<u>Right to Acquire (2)</u>	<u>Total Beneficial Ownership Before BDC Conversion</u>	<u>Percent of Class Before BDC Conversion</u>	<u>Total Beneficial Ownership After BDC Conversion</u>	<u>Percent of Class After BDC Conversion</u>	<u>Percent of Class After This Offering (4)</u>
David C. Beck	188,154	39,685	227,839	*	[]	*	*
Craig J. Brunet	83,384	200,000	283,384	*	[]	*	*
Jennifer Eddelson	13,370	30,000	43,370	*	[]	*	*
Sam Kirschner	69,303	—	69,303	*	[]	*	*
Salvatore F. Mulia	60,695	27,780	88,475	*	[]	*	*
Barry Sloane	4,700,266	—	4,700,266	12.71%	[]	[]	[]
All current directors and named executive officers as a group (6 persons)			5,412,637	14.64%	[]	[]	[]
Jeffrey G. Rubin (3)	4,291,505	—	4,291,505	11.61%	[]	[]	[]

* Less than 1% of total shares of common stock outstanding.

- (1) Unless otherwise stated, the address of each person listed is c/o Newtek Business Services, Inc., 212 West 35th Street, 2nd floor, New York, New York 10001.
- (2) Includes number of shares (i) underlying stock options which are exercisable as of [•], 2013 or which become exercisable 60 days thereafter and (ii) number of shares subject to future vesting under restricted stock awards within 60 days of [•], 2013.
- (3) Resigned as President on March 7, 2008.
- (4) Assumes the issuance of [•] shares offered hereby.

The following table sets out the dollar range of our equity securities to be beneficially owned by each of our directors upon completion of this offering.

<u>Name</u>	<u>Dollar Range of Equity Securities in the Company (1)(2)(3)</u>	
David C. Beck	over \$	100,000
Sam Kirschner	over \$	100,000
Salvatore F. Mulia	over \$	100,000
Barry Sloane	over \$	100,000

- (1) Dollar ranges are as follows: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, or over \$100,000.
- (2) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Exchange Act.
- (3) The dollar range of equity securities beneficially owned is based on a price of \$[•] per share, which was the closing price of our shares on [•], 2013.

REGULATION AS A BUSINESS DEVELOPMENT COMPANY

General

We intend to elect to be treated as a business development company under the 1940 Act and intend to elect to be treated, and intend to qualify annually thereafter, as a RIC under the Code, beginning with our first taxable year after the BDC Conversion. A business development company is a unique kind of investment company that primarily focuses on investing in or lending to private companies and making managerial assistance available to them. A business development company provides stockholders with the ability to retain the liquidity of a publicly-traded stock, while sharing in the possible benefits of investing in emerging-growth or expansion-stage privately-owned companies. The 1940 Act contains prohibitions and restrictions relating to transactions between business development companies and their directors and officers and principal underwriters and certain other related persons and requires that a majority of the directors be persons other than “interested persons,” as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a business development company unless approved by a majority of our outstanding voting securities. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (i) 67% or more of such company’s shares present at a meeting if more than 50% of the outstanding shares of such company are present or represented by proxy, or (ii) more than 50% of the outstanding shares of such company.

Qualifying Assets

Under the 1940 Act, a business development company may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company’s total assets. The principal categories of qualifying assets relevant to our proposed business are the following:

- (1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:
 - (a) is organized under the laws of, and has its principal place of business in, the United States;
 - (b) is not an investment company (other than a small business investment company wholly owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
 - (c) does not have any class of securities listed on a national securities exchange; or if it has securities listed on a national securities exchange such company has a market capitalization of less than \$250 million; is controlled by the business development company and has an affiliate of a business development company on its board of directors; or meets such other criteria as may be established by the SEC.
- (2) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
- (3) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.
- (4) Securities received in exchange for or distributed on or with respect to securities described in (1) through (3) above, or pursuant to the exercise of warrants or rights relating to such securities.

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- (5) Cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

Control, as defined by the 1940 Act, is presumed to exist where a business development company beneficially owns more than 25% of the outstanding voting securities of the portfolio company.

We do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, we generally cannot acquire more than 3% of the voting stock of any investment company (as defined in the 1940 Act), invest more than 5% of the value of our total assets in the securities of one such investment company or invest more than 10% of the value of our total assets in the securities of such investment companies in the aggregate. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses.

Significant Managerial Assistance

A business development company must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described above. However, in order to count portfolio securities as qualifying assets for the purpose of the 70% test, the business development company must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where the business development company purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby the business development company, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company through monitoring of portfolio company operations, selective participation in board and management meetings, consulting with and advising a portfolio company's officers or other organizational or financial guidance.

Temporary Investments

Pending investment in other types of qualifying assets, as described above, our investments may consist of cash, cash equivalents, U.S. government securities or high quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the diversification tests imposed on us by the Code in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. We will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Warrants and Options

Under the 1940 Act, a business development company is subject to restrictions on the amount of warrants, options, restricted stock or rights to purchase shares of capital stock that it may have outstanding at any time. In particular, the amount of capital stock that would result from the conversion or exercise of all outstanding

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warrants, options or rights to purchase capital stock cannot exceed 25% of the business development company's total outstanding shares of capital stock. This amount is reduced to 20% of the business development company's total outstanding shares of capital stock if the amount of warrants, options or rights issued pursuant to an executive compensation plan would exceed 15% of the business development company's total outstanding shares of capital stock.

Senior Securities; Coverage Ratio

We will be permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes. For a discussion of the risks associated with the resulting leverage, see "Risk Factors — Risks Related to Our Business Structure — Because we borrow money, the potential for loss on amounts invested in us is magnified and may increase the risk of investing in us."

Code of Ethics

In connection with the BDC Conversion, we will adopt a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain transactions by our personnel. Our code of ethics generally will not permit investments by our employees in securities that may be purchased or held by us. You may read and copy our code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the code of ethics is attached as an exhibit to the registration statement of which this prospectus is a part, and is available on the EDGAR Database on the SEC's Internet site at www.sec.gov. You may also obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549. Our code of ethics is also available on our website at www.thesba.com.

Compliance Policies and Procedures

We have adopted and implemented written policies and procedures reasonably designed to detect and prevent violation of the federal securities laws and are required to review these compliance policies and procedures annually for their adequacy and the effectiveness of their implementation and designate a chief compliance officer to be responsible for administering the policies and procedures. Mr. Matthew Ash currently serves as our chief compliance officer.

Privacy Principles

We are committed to maintaining the privacy of our stockholders and safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. We do not disclose any non-public personal information about our stockholders or former stockholders to anyone, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent).

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We restrict access to non-public personal information about our stockholders to our employees with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

Proxy Voting Policies and Procedures

We vote proxies relating to our portfolio securities in the best interest of our stockholders. We review on a case-by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio securities held by us. Although we generally vote against proposals that may have a negative impact on our portfolio securities, we may vote for such a proposal if there exists compelling long-term reasons to do so.

Our proxy voting decisions are made by our senior lending team and our executive committee, which are responsible for monitoring each of our investments. To ensure that our vote is not the product of a conflict of interest, we require that: (i) anyone involved in the decision making process disclose to our chief compliance officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (ii) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

Exemptive Relief

In connection with this offering, we expect to file a request with the SEC for exemptive relief to allow us to take certain actions that would otherwise be prohibited by the 1940 Act, as applicable to business development companies. Specifically, we expect to request that the SEC permit us to (i) issue restricted stock awards to our officers, employees and directors and (ii) issue stock options to our non-employee directors.

We may also request exemptive relief to permit us to grant dividend equivalent right to our optionholders. However, there is no assurance that we will receive any such exemptive relief.

Other

We will be periodically examined by the SEC for compliance with the Exchange Act and the 1940 Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

We are required to adopt and implement written policies and procedures reasonably designed to prevent violation of the federal securities laws, review these policies and procedures annually for their adequacy and the effectiveness of their implementation. We have designated Matthew Ash to be our chief compliance officer to be responsible for administering these policies and procedures.

NASDAQ Capital Market Requirements

We have adopted certain policies and procedures intended to comply with the NASDAQ Capital Market's corporate governance rules. We will continue to monitor our compliance with all future listing standards that are approved by the SEC and will take actions necessary to ensure that we are in compliance therewith.

DETERMINATION OF NET ASSET VALUE

We will determine the net asset value of our investment portfolio each quarter by subtracting our total liabilities from the fair value of our gross assets.

We will conduct the valuation of our assets, pursuant to which our net asset value shall be determined, at all times consistent with GAAP and the 1940 Act. Our valuation procedures are set forth in more detail below.

Securities for which market quotations are readily available on an exchange shall be valued at such price as of the closing price on the day of valuation. We may also obtain quotes with respect to certain of our investments from pricing services or brokers or dealers in order to value assets. When doing so, we will determine whether the quote obtained is sufficient according to GAAP to determine the fair value of the security. If determined adequate, we will use the quote obtained.

Securities for which reliable market quotations are not readily available or for which the pricing source does not provide a valuation or methodology or provides a valuation or methodology that, in the judgment of our board of directors, does not represent fair value, which we expect will represent a substantial majority of the investments in our portfolio, shall be valued as follows: (i) each portfolio company or investment is initially valued by the investment professionals responsible for the portfolio investment; (ii) preliminary valuation conclusions are documented and discussed with our senior lending team and executive committee; (iii) independent third-party valuation firms engaged by, or on behalf of, the board of directors will conduct independent appraisals, review management's preliminary valuations and prepare separate preliminary valuation conclusions on a selected basis; (iv) the audit committee of the board of directors reviews the preliminary valuation of our senior lending team and executive committee and/or that of a third party valuation firm and responds to the valuation recommendation with comments, if any; and (v) the board of directors will discuss valuations and determine the fair value of each investment in our portfolio in good faith based on the input of the audit committee.

Determination of the fair value involves subjective judgments and estimates not susceptible to substantiation by auditing procedures. Accordingly, under current auditing standards, the notes to our financial statements will refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

The recommendation of fair value will generally be based on the following factors, as relevant:

- the nature and realizable value of any collateral;
- the portfolio company's ability to make payments;
- the portfolio company's earnings and discounted cash flow;
- the markets in which the issuer does business; and
- comparisons to publicly traded securities.

Securities for which market quotations are not readily available or for which a pricing source is not sufficient may include, but are not limited to, the following:

- private placements and restricted securities that do not have an active trading market;
- securities whose trading has been suspended or for which market quotes are no longer available;
- debt securities that have recently gone into default and for which there is no current market;
- securities whose prices are stale;
- securities affected by significant events; and

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- securities that our investment professional believe were priced incorrectly.

Determination of fair value involves subjective judgments and estimates. Accordingly, the notes to our financial statements will express the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

Determinations in Connection with Future Offerings

In connection with certain future offerings of shares of our common stock, our board of directors or an authorized committee thereof will be required to make the determination that we are not selling shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made. Our board of directors or an authorized committee thereof will consider the following factors, among others, in making such a determination:

- the net asset value of our common stock disclosed in the most recent periodic report that we filed with the SEC;
- our management's assessment of whether any material change in the net asset value of our common stock has occurred (including through the realization of gains on the sale of our portfolio securities) during the period beginning on the date of the most recently disclosed net asset value of our common stock and ending two days prior to the date of the sale of our common stock; and
- the magnitude of the difference between (i) a value that our board of directors or an authorized committee thereof has determined reflects the current net asset value of our common stock, which is generally based upon the net asset value of our common stock disclosed in the most recent periodic report that we filed with the SEC, as adjusted to reflect our management's assessment of any material change in the net asset value of our common stock since the date of the most recently disclosed net asset value of our common stock, and (ii) the offering price of the shares of our common stock in the proposed offering.

These processes and procedures are part of our compliance policies and procedures. Records will be made contemporaneously with all determinations described in this section and these records will be maintained with other records that we are required to maintain under the 1940 Act.

DIVIDEND REINVESTMENT PLAN

We will adopt a dividend reinvestment plan that provides for reinvestment of our dividends and other distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if our board of directors authorizes, and we declare, a cash distribution, our stockholders who have not “opted out” of our dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of our common stock, rather than receiving the cash distributions. In this way, a stockholder can maintain an undiluted investment in us and still allow us to pay out the required distributable income.

No action will be required on the part of a registered stockholder to have his cash distribution reinvested in shares of our common stock. A registered stockholder may elect to receive an entire distribution in cash by notifying [•], the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than [[•] days prior to] the record date for distributions to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive distributions in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than 10 days prior to the record date, the plan administrator will, instead of crediting shares to the participant’s account, issue a certificate registered in the participant’s name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election.

We expect to use primarily newly issued shares to implement the plan, whether our shares are trading at a premium or at a discount to net asset value. Under such circumstances, the number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of our common stock at the close of regular trading on the valuation date for such distribution. Market price per share on that date will be the closing price for such shares on the national securities exchange on which our shares are then listed or, if no sale is reported for such day, at the average of their reported bid and asked prices. We reserve the right to purchase shares in the open market in connection with our implementation of the plan. Shares purchased in open market transactions by the plan administrator will be allocated to a stockholder based on the average purchase price, excluding any brokerage charges or other charges, of all shares of common stock purchased in the open market.

There will be no brokerage charges or other charges to stockholders who participate in the plan. The plan administrator’s fees under the plan will be paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant’s account and remit the proceeds to the participant, the plan administrator is authorized to deduct a transaction fee of \$[•] plus a \$[•] per share brokerage commission from the proceeds.

Stockholders who receive distributions in the form of stock are subject to the same federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash. A stockholder’s basis for determining gain or loss upon the sale of stock received in a distribution from us will be equal to the total dollar amount of the distribution payable to the stockholder. Any stock received in a distribution will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder’s account.

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at [•], by filling out the transaction request form located at the bottom of their statement and sending it to the plan administrator at the address set forth below or by calling the plan administrator at [•].

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any distribution by us. All correspondence concerning the plan should be directed to the plan administrator by mail at [•] or by phone at [•].

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in our shares. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, a trader in securities that elects to use a market-to-market method of accounting for its securities holdings, pension plans and trusts, and financial institutions. This summary assumes that investors hold our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the IRS regarding this offering. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

A “U.S. stockholder” generally is a beneficial owner of shares of our common stock who is for U.S. federal income tax purposes:

- A citizen or individual resident of the United States;
- A corporation or other entity treated as a corporation, for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;
- A trust if a court within the United States is asked to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantive decisions of the trust (or a trust which has made a valid election to be treated as a U.S. trust); or
- An estate, the income of which is subject to U.S. federal income taxation regardless of its source.

A “Non-U.S. stockholder” generally is a beneficial owner of shares of our common stock who is not a U.S. stockholder. If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder that is a partner of a partnership holding shares of our common stock should consult his, her or its tax advisers with respect to the purchase, ownership and disposition of shares of our common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisers regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

Election to be Taxed as a RIC

As a BDC, we intend to elect to be treated, and qualify annually thereafter, as a RIC under Subchapter M of the Code, beginning with our 2013 taxable year. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any income that we distribute to our stockholders as dividends. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, to qualify for RIC tax treatment we must distribute to our stockholders, for each taxable year, at least 90% of our “investment company taxable income,” which is generally our ordinary income plus the excess of our realized net short-term capital gains over our realized net long-term capital losses (the “Annual Distribution Requirement”).

Taxation as a Regulated Investment Company

For any taxable year in which we:

- qualify as a RIC; and
- satisfy the Annual Distribution Requirement,

we generally will not be subject to U.S. federal income tax on the portion of our income we distribute (or are deemed to distribute) to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years and on which we paid no corporate-level income tax (the "Excise Tax Avoidance Requirement"). We generally will endeavor in each taxable year to make sufficient distributions to our stockholders to avoid any U.S. federal excise tax on our earnings.

In order to qualify as a RIC for U.S. federal income tax purposes, we must, among other things:

- continue to qualify as a BDC under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to loans of certain securities, gains from the sale of stock or other securities, net income from certain "qualified publicly traded partnerships," or other income derived with respect to our business of investing in such stock or securities (the "90% Income Test"); and
- diversify our holdings so that at the end of each quarter of the taxable year:
 - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and
 - no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain "qualified publicly traded partnerships" (the "Diversification Tests").

Qualified earnings may exclude such income as management fees received in connection with our subsidiaries or other potential outside managed funds and certain other fees.

In accordance with certain applicable Treasury regulations and private letter rulings issued by the IRS, a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC, subject to a limitation that the aggregate amount of cash to be distributed to all stockholders must be at least 20% of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder electing to receive cash must receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any stockholder, electing to receive cash, receive less than 20% of his or her entire distribution in cash. If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in stock will be equal to the amount of cash that could have been received instead of stock. We have no current intention of paying dividends in shares of our stock in accordance with these Treasury regulations or private letter rulings.

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We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as PIK interest, deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock, or certain income with respect to equity investments in foreign corporations. Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

Gain or loss realized by us from the sale or exchange of warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain “asset coverage” tests are met. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous. If we are prohibited from making distributions or are unable to obtain cash from other sources to make the distributions, we may fail to qualify as a RIC, which would result in us becoming subject to corporate-level federal income tax.

In addition, we will be partially dependent on our subsidiaries for cash distributions to enable us to meet the RIC distribution requirements. Some of our subsidiaries may be limited by the Small Business Investment Act of 1958, and SBA regulations, from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA’s restrictions for our subsidiaries to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver. If our subsidiaries are unable to obtain a waiver, compliance with the SBA regulations may cause us to fail to qualify as a RIC, which would result in us becoming subject to corporate-level federal income tax.

The remainder of this discussion assumes that we qualify as a RIC and have satisfied the Annual Distribution Requirement.

Any transactions in options, futures contracts, constructive sales, hedging, straddle, conversion or similar transactions, and forward contracts will be subject to special tax rules, the effect of which may be to accelerate income to us, defer losses, cause adjustments to the holding periods of our investments, convert long-term capital gains into short-term capital gains, convert short-term capital losses into long-term capital losses or have other tax consequences. These rules could affect the amount, timing and character of distributions to stockholders. We do not currently intend to engage in these types of transactions.

A RIC is limited in its ability to deduct expenses in excess of its “investment company taxable income” (which is, generally, ordinary income plus net realized short-term capital gains in excess of net realized long-term capital losses). If our expenses in a given year exceed gross taxable income (e.g., as the result of large amounts of equity-based compensation), we would experience a net operating loss for that year. However, a RIC is not permitted to carry forward net operating losses to subsequent years. In addition, expenses can be used only to offset investment company taxable income, not net capital gain. Due to these limits on the deductibility of expenses, we may for tax purposes have aggregate taxable income for several years that we are required to

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distribute and that is taxable to our stockholders even if such income is greater than the aggregate net income we actually earned during those years. Such required distributions may be made from our cash assets or by liquidation of investments, if necessary. We may realize gains or losses from such liquidations. In the event we realize net capital gains from such transactions, you may receive a larger capital gain distribution than you would have received in the absence of such transactions.

Investment income received from sources within foreign countries, or capital gains earned by investing in securities of foreign issuers, may be subject to foreign income taxes withheld at the source. In this regard, withholding tax rates in countries with which the United States does not have a tax treaty are often as high as 35% or more. The United States has entered into tax treaties with many foreign countries that may entitle us to a reduced rate of tax or exemption from tax on this related income and gains. The effective rate of foreign tax cannot be determined at this time since the amount of our assets to be invested within various countries is not now known. We do not anticipate being eligible for the special election that allows a RIC to treat foreign income taxes paid by such RIC as paid by its stockholders.

If we acquire stock in certain foreign corporations that receive at least 75% of their annual gross income from passive sources (such as interest, dividends, rents, royalties or capital gain) or hold at least 50% of their total assets in investments producing such passive income (“passive foreign investment companies”), we could be subject to federal income tax and additional interest charges on “excess distributions” received from such companies or gain from the sale of stock in such companies, even if all income or gain actually received by us is timely distributed to our stockholders. We would not be able to pass through to our stockholders any credit or deduction for such a tax. Certain elections may, if available, ameliorate these adverse tax consequences, but any such election requires us to recognize taxable income or gain without the concurrent receipt of cash. We intend to limit and/or manage our holdings in passive foreign investment companies to minimize our tax liability.

Foreign exchange gains and losses realized by us in connection with certain transactions involving non-dollar debt securities, certain foreign currency futures contracts, foreign currency option contracts, foreign currency forward contracts, foreign currencies, or payables or receivables denominated in a foreign currency are subject to Code provisions that generally treat such gains and losses as ordinary income and losses and may affect the amount, timing and character of distributions to our stockholders. Any such transactions that are not directly related to our investment in securities (possibly including speculative currency positions or currency derivatives not used for hedging purposes) could, under future Treasury regulations, produce income not among the types of “qualifying income” from which a RIC must derive at least 90% of its annual gross income.

Taxation of U.S. Stockholders

Distributions by us generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of our “investment company taxable income” (which is, generally, our net ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional shares of our common stock. To the extent such distributions paid by us to non-corporate stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions (“Qualifying Dividends”) may be eligible for a maximum tax rate of 20%, provided holding period and other requirements are met at both the stockholder and company levels. In this regard, it is anticipated that distributions paid by us will generally not be attributable to dividends and, therefore, generally will not qualify for the 20% maximum rate applicable to Qualifying Dividends. Distributions of our net capital gains (which are generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly reported by us as “capital gain dividends” in written statements furnished to our stockholders will be taxable to a U.S. stockholder as long-term capital gains that are currently taxable at a maximum rate of 20% in the case of individuals, trusts or estates, regardless of the U.S. stockholder’s holding period for his, her or its common stock and regardless of whether paid in cash or reinvested in additional

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common stock. Distributions in excess of our earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

We may retain some or all of our realized net long-term capital gains in excess of realized net short-term capital losses, but designate the retained net capital gain as a "deemed distribution." In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. Because we expect to pay tax on any retained capital gains at our regular corporate tax rate, and because that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual U.S. stockholders will be treated as having paid will exceed the tax they owe on the capital gain distribution and such excess generally may be refunded or claimed as a credit against the U.S. stockholder's other U.S. federal income tax obligations or may be refunded to the extent it exceeds a stockholder's liability for federal income tax. A stockholder that is not subject to federal income tax or otherwise required to file a federal income tax return would be required to file a federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's cost basis for his, her or its common stock. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a "deemed distribution."

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of the deduction for ordinary income and capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared.

If an investor purchases shares of our common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it may represent a return of his, her or its investment.

A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our common stock. The amount of gain or loss will be measured by the difference between such U.S. stockholder's adjusted tax basis in the common stock sold and the amount of the proceeds received in exchange. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the U.S. stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. In such a case, the basis of the newly purchased shares will be adjusted to reflect the disallowed loss.

In general, U.S. stockholders taxed at individual rates currently are subject to a maximum U.S. federal income tax rate of 20% on their net capital gain (i.e., the excess of realized net long-term capital gains over realized net short-term capital losses), including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by such U.S.

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stockholders. In addition, for taxable years beginning after December 31, 2012, individuals with income in excess of \$200,000 (\$250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their “net investment income,” which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses). Corporate U.S. stockholders currently are subject to U.S. federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate U.S. stockholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each year any net capital losses of a non-corporate U.S. stockholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate U.S. stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

We (or the applicable withholding agent) will send to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, a notice reporting, on a per share and per distribution basis, the amounts includible in such U.S. stockholder’s taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year’s distributions generally will be reported to the IRS (including the amount of dividends, if any, eligible for the 20% maximum rate). Dividends paid by us generally will not be eligible for the dividends-received deduction or the preferential tax rate applicable to Qualifying Dividends because our income generally will not consist of dividends. Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder’s particular situation.

In some taxable years, we may be subject to the alternative minimum tax (“AMT”). If we have tax items that are treated differently for AMT purposes than for regular tax purposes, we may apportion those items between us and our stockholders, and this may affect our stockholder’s AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued by the IRS, we may apportion these items in the same proportion that dividends paid to each stockholder bear to our taxable income (determined without regard to the dividends paid deduction), unless we determine that a different method for a particular item is warranted under the circumstances. You should consult your own tax advisor to determine how an investment in our stock could affect your AMT liability.

We may be required to withhold U.S. federal income tax (“backup withholding”) from all distributions to any U.S. stockholder (other than a stockholder that otherwise qualifies for an exemption) (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding or (2) with respect to whom the IRS notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual’s taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U. S. stockholder’s federal income tax liability, provided that proper information is provided to the IRS.

U.S. stockholders that hold their common stock through foreign accounts or intermediaries will be subject to U.S. withholding tax at a rate of 30% on dividends after December 31, 2013, and proceeds of sale of our common stock paid after December 31, 2016 if certain disclosure requirements related to U.S. accounts are not satisfied.

Dividend Reinvestment Plan We intend to adopt a dividend reinvestment plan through which all dividend distributions are paid to our stockholders in the form of additional shares of our common stock, unless a stockholder elects to receive cash in accordance with the terms of the plan. See “Dividend Reinvestment Plan”. Any distributions made to a U.S. stockholder that are reinvested under the plan will nevertheless remain taxable to the U.S. stockholder. The U.S. stockholder will have an adjusted tax basis in the additional shares of our common stock purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the U.S. stockholder’s account.

Taxation of Non-U.S. Stockholders

Whether an investment in the shares is appropriate for a Non-U.S. stockholder will depend upon that person's particular circumstances. An investment in the shares by a Non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should consult their tax advisers before investing in our common stock.

Distributions of our "investment company taxable income" to Non-U.S. stockholders (including interest income and realized net short-term capital gains in excess of realized long-term capital losses, which generally would be free of withholding if paid to Non-U.S. stockholders directly) will be subject to withholding of federal tax at a 30% rate (or lower rate provided by an applicable treaty) to the extent of our current and accumulated earnings and profits unless an applicable exception applies. If the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder, we will not be required to withhold federal tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements, although the distributions will be subject to U.S. federal income tax at the rates applicable to U.S. persons. (Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers).

However, for taxable years beginning before January 1, 2014, no withholding is required with respect to certain distributions if (i) the distributions are properly reported to our stockholders as "interest-related dividends" or "short-term capital gain dividends" in written statements to our stockholders, (ii) the distributions are derived from sources specified in the Code for such dividends and (iii) certain other requirements are satisfied. Currently, we do not anticipate that any significant amount of our distributions would be reported as eligible for this exemption from withholding. No assurance can be provided that this exemption will be extended for tax years beginning after December 31, 2013.

Actual or deemed distributions of our net capital gains to a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale of our common stock, will not be subject to federal withholding tax and generally will not be subject to federal income tax unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder.

The tax consequences to Non-U.S. stockholders entitled to claim the benefits of an applicable tax treaty or who are individuals present in the United States for 183 days or more during a taxable year may be different from those described herein. Non-U.S. stockholders are urged to consult their tax advisers with respect to the procedure for claiming the benefit of a lower treaty rate and the applicability of foreign taxes.

If we distribute our net capital gains in the form of deemed rather than actual distributions, a Non-U.S. stockholder will be entitled to a U.S. federal income tax credit or tax refund equal to the stockholder's allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a U.S. federal income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return. For a corporate Non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale of our common stock that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or at a lower rate if provided for by an applicable treaty). Accordingly, investment in the shares may not be appropriate for a Non-U.S. stockholder.

A Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal tax, may be subject to information reporting and backup withholding of U.S. federal income tax on dividends unless the Non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

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Legislation enacted in 2010 generally imposes a 30% withholding tax on payments of certain types of income to foreign financial institutions that fail to enter into an agreement with the U.S. Treasury to report certain required information with respect to accounts held by U.S. persons (or held by foreign entities that have U.S. persons as substantial owners). The types of income subject to the tax include U.S. source interest and dividends paid after December 31, 2013 and the gross proceeds from the sale of any property that could produce U.S.-source interest or dividends paid after December 31, 2016. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder's account. In addition, subject to certain exceptions, this legislation also imposes a 30% withholding on payments to foreign entities that are not financial institutions unless the foreign entity certifies that it does not have a greater than 10% U.S. owner or provides the withholding agent with identifying information on each greater than 10% U.S. owner. When these provisions become effective, depending on the status of a Non-U.S. Holder and the status of the intermediaries through which they hold their shares, Non-U.S. Holders could be subject to this 30% withholding tax with respect to distributions on their shares and proceeds from the sale of their shares. Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes.

Non-U.S. persons should consult their own tax advisers with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

Failure to Qualify as a Regulated Investment Company

If we fail to satisfy the 90% Income Test or the Diversification Tests for any taxable year, we may nevertheless continue to qualify as a RIC for such year if certain relief provisions are applicable (which may, among other things, require us to pay certain corporate-level federal taxes or to dispose of certain assets).

If we were unable to qualify for treatment as a RIC and the foregoing relief provisions are not applicable, we would be subject to tax on all of our taxable income at regular corporate rates, regardless of whether we make any distributions to our stockholders. Distributions would not be required, and any distributions would be taxable to our stockholders as ordinary dividend income to the extent of our current and accumulated earnings and profits and, subject to certain limitations, may be eligible for the 20% maximum rate for noncorporate taxpayers provided certain holding period and other requirements were met. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. Generally, a non-taxable return of capital will reduce an investor's basis in our stock for federal tax purposes, which will result in higher tax liability when the stock is sold. Stockholders should read any written disclosure accompanying a distribution carefully and should not assume that the source of any distribution is our ordinary income or gains. Certain such written disclosures will present a calculation of return of capital on a tax accounting basis. To requalify as a RIC in a subsequent taxable year, we would be required to satisfy the RIC qualification requirements for that year and dispose of any earnings and profits from any year in which we failed to qualify as a RIC. Subject to a limited exception applicable to RICs that qualified as such under Subchapter M of the Code for at least one year prior to disqualification and that requalify as a RIC no later than the second year following the nonqualifying year, we could be subject to tax on any unrealized net built-in gains in the assets held by us during the period in which we failed to qualify as a RIC that are recognized within the subsequent 10 years (5 years for taxable years beginning prior to December 31, 2013), unless we made a special election to pay corporate-level tax on such built-in gain at the time of our requalification as a RIC.

DESCRIPTION OF OUR CAPITAL STOCK

Prior to the completion of this offering, we intend to merge with and into Newtek Business Services Corp., a newly-formed Maryland corporation, for the purpose of redomesticating in Maryland. Our existing shareholders will be required to approve this transaction. The following description is based in part on relevant portions of the Maryland Law and on the charter and bylaws of Newtek Business Services Corp. This summary is not necessarily complete, and we refer you to Maryland Law and the charter and bylaws of Newtek Business Services Corp. for a more detailed description of the provisions summarized below.

Stock

Our authorized stock consists of [•] shares of stock, par value \$0.02 per share, all of which are initially designated as common stock. Our common stock is traded on the NASDAQ Capital Market under the ticker symbol "NEWT," which symbol we intend to apply to transfer to Newtek Business Services Corp. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

The following are our outstanding classes of securities as of [•], 2013:

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by Us or for Our Account	(4) Amount Outstanding Exclusive of Amounts Shown Under (3)
Common stock, par value \$0.02 per share	[•]	—	[•](1)

(1) Does not include [•] shares issuable pursuant to outstanding options.

Under our charter, our board of directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock without obtaining stockholder approval. Our charter also provides that the board of directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

Common Stock

All shares of our common stock have equal rights as to earnings, assets, voting, and distributions and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of assets legally available therefor. Shares of our common stock have no preemptive, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of our liquidation, dissolution or winding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

Preferred Stock

Our charter authorizes our board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. The cost of any such reclassification would be borne by

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our existing common stockholders. Prior to issuance of shares of each class or series, the board of directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the board of directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our gross assets after deducting the amount of such distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions on such preferred stock are in arrears by two full years or more. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions. However, we do not currently have any plans to issue preferred stock.

Options and Restricted Stock

From time to time, at the discretion of the Compensation, Corporate Governance and Nominating Committee, the Company intends to grant stock options to the named executive officers and other employees to create a clear and strong alignment between compensation and shareholder return and to enable the named executive officers and other employees to develop and maintain a stock ownership position in the company that will vest over time and act as an incentive for the employee to remain with the Company. Stock options may be granted pursuant to [PLAN]. See “Executive Compensation — Equity-Based Compensation” for a description of equity-based compensation granted under plans that were active prior to the BDC Conversion.

In connection with this offering, we expect to file a request with the SEC for exemptive relief to allow us to take certain actions that would otherwise be prohibited by the 1940 Act, as applicable to business development companies. Specifically, we expect to request that the SEC permit us to (i) issue restricted stock awards to our officers, employees and directors and (ii) issue stock options to our non-employee directors.

We may also request exemptive relief to permit us to grant dividend equivalent right to our optionholders. However, there is no assurance that we will receive any such exemptive relief.

Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors’ and officers’ liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

Our charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as our director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in such capacity and to pay or reimburse their reasonable

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expenses in advance of final disposition of a proceeding. Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as our director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the 1940 Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received unless, in either case, a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Our insurance policy does not currently provide coverage for claims, liabilities and expenses that may arise out of activities that our present or former directors or officers have performed for another entity at our request. There is no assurance that such entities will in fact carry such insurance. However, we note that we do not expect to request our present or former directors or officers to serve another entity as a director, officer, partner or trustee unless we can obtain insurance providing coverage for such persons for any claims, liabilities or expenses that may arise out of their activities while serving in such capacities.

Certain Provisions of the Maryland General Corporation Law and Our Charter and Bylaws

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquirer to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Classified Board of Directors

Our board of directors is divided into three classes of directors serving staggered three-year terms. Upon expiration of their current terms, directors of each class will be elected to serve for three-year terms and until

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their successors are duly elected and qualify and each year one class of directors will be elected by the stockholders. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors will help to ensure the continuity and stability of our management and policies.

Election of Directors

Our charter and bylaws provide that the affirmative vote of the holders of a plurality of the outstanding shares of stock entitled to vote in the election of directors cast at a meeting of stockholders duly called and at which a quorum is present will be required to elect a director. Pursuant to our charter our board of directors may amend the bylaws to alter the vote required to elect directors.

Number of Directors; Vacancies; Removal

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than one nor more than nine. Our charter provides that, at such time as we have at least three independent directors and our common stock is registered under the Securities Exchange Act of 1934, as amended, we elect to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the board of directors. Accordingly, at such time, except as may be provided by the board of directors in setting the terms of any class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

Action by Stockholders

Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or (unless the charter provides for stockholder action by less than unanimous written consent, which our charter does not) by unanimous written consent in lieu of a meeting. These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the board of directors and the proposal of business to be considered by stockholders may be made only (a) pursuant to our notice of the meeting, (b) by the board of directors or (c) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of our bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the board of directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by the board of directors or (3) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our

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board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Calling of Special Meetings of Stockholders

Our bylaws provide that special meetings of stockholders may be called by our board of directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments, any proposal for our conversion, whether by charter amendment, merger or otherwise, from a closed-end company to an open-end company and any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80% of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by a majority of our continuing directors (in addition to approval by our board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The “continuing directors” are defined in our charter as (1) our current directors, (2) those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of our current directors then on the board of directors or (3) any successor directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of continuing directors or the successor continuing directors then in office. In any event, in accordance with the requirements of the 1940 Act, any amendment or proposal that would have the effect of changing the nature of our business so as to cause us to cease to be, or to withdraw our election as, a BDC would be required to be approved by a majority of our outstanding voting securities, as defined under the 1940 Act.

Our charter and bylaws provide that the board of directors will have the exclusive power to make, alter, amend or repeal any provision of our bylaws.

No Appraisal Rights

Except with respect to appraisal rights arising in connection with the Control Share Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights unless a majority of the board of directors shall determine such rights apply.

Control Share Acquisitions

The Maryland General Corporation Law provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter (the “Control Share Act”). Shares owned by the acquirer, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquirer crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations, including compliance with the 1940 Act. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquirer or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

The Control Share Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation. Our bylaws contain a provision exempting from the Control Share Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future. However, the SEC staff has taken the position that, under the 1940 Act, an investment company may not avail itself of the Control Share Act. As a result, we will amend our bylaws to be subject to the Control Share Act only if the board of directors determines that it would be in our best interests and if the SEC staff does not object to our determination that our being subject to the Control Share Act does not conflict with the 1940 Act.

Business Combinations

Under Maryland law, “business combinations” between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder (the “Business Combination Act”). These business

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combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation's outstanding voting stock; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which the stockholder otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the board of directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. This resolution may be altered or repealed in whole or in part at any time; however, our board of directors will adopt resolutions so as to make us subject to the provisions of the Business Combination Act only if the board of directors determines that it would be in our best interests and if the SEC staff does not object to our determination that our being subject to the Business Combination Act does not conflict with the 1940 Act. If this resolution is repealed, or the board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Conflict with 1940 Act

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

UNDERWRITING

We are offering the shares of our common stock described in this prospectus through the underwriters named below. JMP Securities LLC, Stifel, Nicolaus & Company, Incorporated and William Blair & Company L.L.C. are acting as the representatives of the underwriters and book-running managers of this offering. Subject to the terms and conditions contained in an underwriting agreement among us and the underwriters named below, each of the underwriters have severally agreed to purchase the number of shares of common stock listed next to its name in the following table.

<u>Underwriters</u>	<u>Number of Shares</u>
JMP Securities LLC	
Stifel, Nicolaus & Company, Incorporated	
William Blair & Company, L.L.C.	
Total	

The underwriters and the representatives are collectively referred to as the “underwriters” and the “representatives,” respectively. The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of our common stock offered by this prospectus are subject to the approval of legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters’ over-allotment option described below.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

Overallotment Option

The underwriters have been granted an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of [•] additional shares of our common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of our common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to limited conditions, to purchase approximately the same percentage of the additional shares of our common stock as the number listed next to the underwriter’s name in the preceding table bears to the total number of shares of our common stock listed next to the names of all underwriters in the preceding table.

Underwriting Discounts and Commissions

The underwriters initially propose to offer part of the shares of common stock directly to the public at the public offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of \$ a share under the public offering price. Any underwriter may allow, and such dealers may reallow, a concession not in excess of \$ a share to other underwriters or to certain dealers. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives.

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The following table provides information regarding the per share and total underwriting discounts and commissions that we are to pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to [•] additional shares from us.

	<u>Price per Share</u>	<u>Total Without Over- Allotment</u>	<u>Total With Over- Allotment</u>
	\$	\$	\$
Underwriting discounts and commissions payable by us			

We will pay all expenses incident to the offering and sale of shares of our common stock by us in this offering. We estimate that the total expenses of the offering, excluding the underwriting discounts and commissions will be approximately \$[•].

NASDAQ Capital Market

Our common stock is listed on the NASDAQ Capital Market under the symbol "NEWT," which symbol we intend to apply to transfer to Newtek Business Services Corp.

Lock-Up Agreements

Each of us, our directors, executive officers, our other stockholders who are affiliated with the Company, has agreed that, without the prior written consent of JMP Securities LLC, Stifel, Nicolaus & Company, Incorporated and William Blair & Company L.L.C., on behalf of the underwriters, each of us will not, during the period ending [•] days after the date of this prospectus:

- offer, sell, contract to sell (including any short sale), pledge, hypothecate, establish an open "put equivalent position" within the meaning of Rule 16a-1(h) under the Exchange Act, grant any option, right or warrant for the sale of, purchase any option or contract to sell, sell any option or contract to purchase, or otherwise encumber, dispose of or transfer, or grant any rights with respect to, directly or indirectly, any shares of common stock or securities convertible into or exchangeable or exercisable for any shares of common stock, enter into a transaction which would have the same effect; or
- enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the common stock, whether any such aforementioned transaction is to be settled by delivery of the common stock or such other securities, in cash or otherwise; or
- publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement; or
- request, make any demand for or exercise any right with respect to, the registration of any common stock or any security convertible into or exercisable or exchangeable for common stock (and such individuals have waived any and all notice requirements and rights with respect to the registration of any such security pursuant to any agreement, understanding or otherwise to which such individual is a party).

The restrictions described in the preceding paragraph do not apply to:

- any common stock acquired in the open market on or after the date of this prospectus; or
- the transfer of common stock to a family member or trust for the benefit of the investor or a family member, but provided the transferee agrees in writing prior to such transfer to be bound by the restrictions described above.

Our existing stockholders who are not affiliated with the Company have not agreed to the foregoing.

Price Stabilization, Short Positions and Penalty Bids

In order to facilitate the offering of our common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of our common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position in our common stock for their own account. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our common stock in the open market after pricing that could adversely affect investors who purchase in the offering. In addition, in order to cover any over-allotments or to stabilize the price of our common stock, the underwriters may bid for, and purchase, shares of our common stock in the open market. Finally, the underwriting syndicate may also reclaim selling concessions allowed to an underwriter or a dealer for distributing our common stock in the offering, if the syndicate repurchases previously distributed shares of our common stock to cover syndicate short positions or to stabilize the price of the common stock. Any of these activities may stabilize or maintain the market price of our common stock above independent market levels. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

Additional Underwriting Compensation

There are no agreements between us and the underwriters or any of their affiliates other than as described herein.

Other Relationships

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates may perform various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The principal business address of JMP Securities LLC is Attn: Prospectus Department, 600 Montgomery Street, 10th Floor, San Francisco, California 94111; Stifel, Nicolaus & Company, Incorporated is 501 N. Broadway St., St. Louis, Missouri 63102; and William Blair & Company, L.L.C. is 222 West Adams Street, Chicago, Illinois 60606.

BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we will generally acquire and dispose of our investments in privately negotiated transactions, we will infrequently use brokers in the normal course of our business. Subject to policies established by our board of directors, we will generally not execute transactions through any particular broker or dealer, but seek to obtain the best net results for us, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While we generally will seek reasonably competitive trade execution costs, we will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we may select a broker based partly upon brokerage or research services provided us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided, and our management and employees are authorized to pay such commission under these circumstances.

CUSTODIAN, TRANSFER AND DISTRIBUTION PAYING AGENT AND REGISTRAR

Our securities are held under a custody agreement by [•]. The address of the custodian is [•]. [•] will act as our transfer agent, distribution paying agent and registrar. The principal business address of our transfer agent is [•].

LEGAL MATTERS

Certain legal matters in connection with the securities offered by this prospectus will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, DC. Certain legal matters in connection with the offering will be passed upon for the underwriters by Baker & Hostetler LLP, New York, New York.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have selected McGladrey LLP as our independent registered public accounting firm located at 1185 Avenue of the Americas, New York, NY 10036. The financial statements of Newtek Business Services, Inc. as of and for each of the three years in the period ended December 31, 2012 included in this prospectus have been so included in reliance on the report of CohnReznick LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our shares of common stock offered by this prospectus. The registration statement contains additional information about us and our shares of common stock being offered by this prospectus.

We file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549-0102. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090.

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We maintain a website at www.thesba.com and intend to make all of our annual, quarterly and current reports, proxy statements and other publicly filed information available, free of charge, on or through our website. Information contained on our website is not incorporated into this prospectus, and you should not consider information on our website to be part of this prospectus. You may also obtain such information by contacting us in writing at 212 West 35th Street, 2nd Floor, New York, New York 10001. The SEC maintains a website that contains reports, proxy and information statements and other information we file with the SEC at www.sec.gov. Copies of these reports, proxy and information statements and other information may also be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-0102.

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NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
(In Thousands, except for Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating revenues				
Electronic payment processing	\$22,176	\$21,686	\$ 67,299	\$63,674
Web hosting and design	4,394	4,525	13,312	13,787
Premium income	4,104	3,154	13,301	7,958
Interest income	1,244	894	3,440	2,432
Servicing fee income – NSBF portfolio	730	560	2,007	1,537
Servicing fee income – external portfolios	604	1,517	2,346	3,593
Income from tax credits	31	122	86	441
Insurance commissions	433	286	1,347	915
Other income	1,058	714	2,791	2,188
Total operating revenues	<u>\$34,774</u>	<u>\$33,458</u>	<u>\$105,929</u>	<u>\$96,525</u>
Net change in fair value of:				
SBA loans	(426)	(554)	(1,574)	(1,217)
Warrant liability	—	—	—	(111)
Credits in lieu of cash and notes payable in credits in lieu of cash	—	(20)	26	21
Total net change in fair value	<u>(426)</u>	<u>(574)</u>	<u>(1,548)</u>	<u>(1,307)</u>
Operating expenses:				
Electronic payment processing costs	18,951	18,356	56,863	53,542
Salaries and benefits	5,690	5,597	18,069	16,710
Interest	1,478	1,233	4,162	3,206
Depreciation and amortization	831	763	2,454	2,275
Provision for loan losses	57	90	384	354
Other general and administrative costs	5,388	4,186	15,413	12,893
Total operating expenses	<u>32,395</u>	<u>30,225</u>	<u>97,345</u>	<u>88,980</u>
Income before income taxes	1,953	2,659	7,036	6,238
Provision for income taxes	137	1,359	2,214	2,698
Net income	1,816	1,300	4,822	3,540
Net loss attributable to non-controlling interests	4	7	292	30
Net income attributable to Newtek Business Services, Inc.	<u>\$ 1,820</u>	<u>\$ 1,307</u>	<u>\$ 5,114</u>	<u>\$ 3,570</u>
Weighted average common shares outstanding – basic	<u>35,322</u>	<u>35,200</u>	<u>35,275</u>	<u>35,632</u>
Weighted average common shares outstanding – diluted	<u>38,024</u>	<u>37,520</u>	<u>37,845</u>	<u>36,646</u>
Earnings per share – basic	<u>\$ 0.05</u>	<u>\$ 0.04</u>	<u>\$ 0.14</u>	<u>\$ 0.10</u>
Earnings per share – diluted	<u>\$ 0.05</u>	<u>\$ 0.03</u>	<u>\$ 0.14</u>	<u>\$ 0.10</u>

See accompanying notes to these unaudited condensed consolidated financial statements.

NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2013 AND DECEMBER 31, 2012
(In Thousands, except for Per Share Data)

	September 30, 2013	December 31, 2012
	Unaudited	(Note 1)
<u>ASSETS</u>		
Cash and cash equivalents (includes \$788 and \$1,865, respectively, related to VIE)	\$ 7,761	\$ 14,229
Restricted cash	10,399	8,456
Broker receivable	19,593	16,698
SBA loans held for investment, net (includes \$11,631 and \$12,910, respectively, related to securitization trust VIE; net of reserve for loan losses of \$1,710 and \$2,589, respectively)	12,287	14,647
SBA loans held for investment, at fair value (includes \$49,389 and \$22,931, respectively, related to securitization trust VIE)	67,112	43,055
Accounts receivable (net of allowance of \$1,154 and \$561, respectively)	12,495	10,871
SBA loans held for sale, at fair value	2,490	896
Prepaid expenses and other assets, net (includes \$1,735 and \$1,123, respectively, related to securitization trust VIE)	13,554	11,014
Servicing asset (net of accumulated amortization and allowances of \$7,576 and \$6,750, respectively)	6,080	4,682
Fixed assets (net of accumulated depreciation and amortization of \$10,515 and \$10,922, respectively)	3,588	3,523
Intangible assets (net of accumulated amortization of \$3,465 and \$5,591, respectively)	1,310	1,558
Credits in lieu of cash	4,307	8,703
Deferred tax asset, net	3,903	2,318
Goodwill	12,092	12,092
Total assets	<u>\$ 176,971</u>	<u>\$ 152,742</u>
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 13,289	\$ 11,206
Notes payable	44,076	39,823
Note payable – securitization trust VIE	38,744	22,039
Capital lease obligation	699	632
Deferred revenue	1,407	1,437
Notes payable in credits in lieu of cash	4,307	8,703
Total liabilities	<u>102,522</u>	<u>83,840</u>
Commitments and contingencies		
Equity:		
Newtek Business Services, Inc. shareholders' equity:		
Preferred shares (par value \$0.02 per share; authorized 1,000 shares, no shares issued and outstanding)	—	—
Common shares (par value \$0.02 per share; authorized 54,000 shares, 36,913 issued; 35,327 and 35,178 outstanding, respectively, not including 83 shares held in escrow)	738	738
Additional paid-in capital	61,212	60,609
Retained earnings (includes \$1,466 related to consolidation of VIE on January 1, 2012)	12,120	7,008
Treasury shares, at cost (1,586 and 1,735 shares, respectively)	(1,330)	(1,508)
Total Newtek Business Services, Inc. shareholders' equity	72,740	66,847
Non-controlling interests	1,709	2,055
Total equity	<u>74,449</u>	<u>68,902</u>
Total liabilities and equity	<u>\$ 176,971</u>	<u>\$ 152,742</u>

See accompanying notes to these unaudited condensed consolidated financial statements.

NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
(In Thousands)

	2013	2012
Cash flows from operating activities:		
Condensed consolidated net income	\$ 4,822	\$ 3,540
Adjustments to reconcile condensed consolidated net income to net cash used in operating activities:		
Income from tax credits	(86)	(441)
Accretion of interest expense	113	462
Fair value adjustments on SBA loans	1,574	1,217
Fair value adjustment on warrant liability	—	111
Fair value adjustment of credits in lieu of cash and notes payable in credits in lieu of cash	(26)	(21)
Deferred income taxes	(1,585)	(2,462)
Depreciation and amortization	2,454	2,275
Accretion of discount	299	198
Provision for loan losses	384	354
Other, net	1,457	1,015
Changes in operating assets and liabilities:		
Originations of SBA loans held for sale	(91,598)	(55,147)
Proceeds from sale of SBA loans held for sale	90,167	56,397
Broker receivable	(2,895)	(5,622)
Accounts receivable	(2,155)	(3,631)
Prepaid expenses, accrued interest receivable and other assets	(2,999)	3,455
Accounts payable, accrued expenses and deferred revenue	2,378	(469)
Other, net	(3,561)	(3,128)
Net cash used in operating activities	<u>(1,257)</u>	<u>(1,897)</u>
Cash flows from investing activities:		
Investments in qualified businesses	—	(1,651)
Return of investments in qualified businesses	1,532	101
Purchase of fixed assets and customer merchant accounts	(1,445)	(1,313)
SBA loans originated for investment, net	(28,405)	(17,105)
Payments received on SBA loans	4,196	3,261
Change in restricted cash	—	999
Other, net	(109)	—
Net cash used in investing activities	<u>(24,231)</u>	<u>(15,708)</u>

See accompanying notes to these unaudited condensed consolidated financial statements.

NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012 (CONTINUED)
(In Thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from financing activities:		
Net (repayments) proceeds on bank lines of credit	\$ 4,295	\$12,829
Increase in cash due to consolidation of subsidiary	—	2,763
Proceeds from term loan	—	10,000
Repayments on bank term note payable	(313)	(313)
Issuance of senior notes, net of issuance costs	20,909	—
Repayments of senior notes	(4,371)	(3,389)
Additions to deferred financing costs	(1,108)	(1,313)
Change in restricted cash related to securitization	(609)	5,053
Purchase of treasury shares	—	(926)
Proceeds from exercise of stock options	150	—
Other	67	4
Net cash provided by financing activities	<u>19,020</u>	<u>24,708</u>
Net (decrease) increase in cash and cash equivalents	(6,468)	7,103
Cash and cash equivalents – beginning of period	14,229	11,201
Cash and cash equivalents – end of period	<u>\$ 7,761</u>	<u>\$18,304</u>
Supplemental disclosure of cash flow activities:		
Reduction of credits in lieu of cash and notes payable in credits in lieu of cash balances	<u>\$ 4,487</u>	<u>\$ 7,903</u>
Additions to additional paid-in capital for warrants expired previously attributable to non-controlling interests	<u>\$ —</u>	<u>\$ 330</u>
Additions to non-controlling interests as a result of consolidation of majority owned subsidiary	<u>\$ —</u>	<u>\$ 2,291</u>
Initial allocation of value assigned to warrants issued in financing transaction	<u>\$ —</u>	<u>\$ 1,959</u>

See accompanying notes to these unaudited condensed consolidated financial statements.

NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION:

Newtek Business Services, Inc. (“Newtek” or the “Company”) is a holding company for several wholly- and majority-owned subsidiaries, including twelve certified capital companies which are referred to as Capcos, and several portfolio companies in which the Capcos own non-controlling or minority interests. The Company provides a “one-stop-shop” for business services to the small- and medium-sized business market and uses state of the art web-based proprietary technology to be a low cost acquirer and provider of products and services. The Company partners with companies, credit unions, and associations to offer its services.

The Company’s principal business segments are:

Electronic Payment Processing: Marketing third party credit card processing and check approval services to the small- and medium-sized business market under the name of Newtek Merchant Solutions.

Small Business Finance: The segment is comprised of Newtek Small Business Finance, Inc. (“NSBF”), a nationally licensed, U.S. Small Business Administration (“SBA”) lender that originates, sells and services loans to qualifying small businesses, which are partially guaranteed by the SBA and CDS Business Services, Inc. d/b/a Newtek Business Credit (“NBC”) which provides receivable financing and management services.

Managed Technology Solutions: CrystalTech Web Hosting, Inc., d/b/a Newtek Technology Services (“NTS”), offers shared and dedicated web hosting, data storage and backup services, cloud computing plans, web design and related services to the small- and medium-sized business market.

All Other: Businesses formed from investments made through Capco programs and others which cannot be aggregated with other operating segments, including insurance and payroll processing.

Corporate Activities: Corporate implements business strategy, directs marketing, provides technology oversight and guidance, coordinates and integrates activities of the segments, contracts with alliance partners, acquires customer opportunities, and owns our proprietary NewTracker® referral system. This segment includes revenue and expenses not allocated to other segments, including interest income, Capco management fee income and corporate operations expenses.

Capco: Twelve certified capital companies which invest in small- and medium-sized businesses. They generate non-cash income from tax credits and non-cash interest expense and insurance expenses in addition to cash management fees.

The condensed consolidated financial statements of Newtek, its subsidiaries and consolidated entities included herein have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America and include all wholly- and majority-owned subsidiaries, and several portfolio companies in which the Capcos own non-controlling minority interest in, or those variable interest entities of which Newtek is considered to be the primary beneficiary. All inter-company balances and transactions have been eliminated in consolidation. Non-controlling interests are reported below net income (loss) under the heading “Net (income) loss attributable to non-controlling interests” in the condensed consolidated statements of income (unaudited) and shown as a component of equity in the condensed consolidated balance sheets.

The accompanying notes to unaudited condensed consolidated financial statements should be read in conjunction with Newtek’s 2012 Annual Report on Form 10-K. These financial statements have been prepared in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, omit or condense certain footnotes and other information normally included in financial statements prepared in accordance with

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accounting principles generally accepted in the United States. In the opinion of management, all adjustments, consisting of normal recurring items, considered necessary for a fair presentation have been included. The results of operations for an interim period may not give a true indication of the results for the entire year. The December 31, 2012 condensed consolidated balance sheet has been derived from the audited financial statements of that date but does not include all disclosures required by accounting principles generally accepted in the United States of America.

All financial information included in the tables in the following footnotes is stated in thousands, except per share data.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES:

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expense during the reporting period. The level of uncertainty in estimates and assumptions increases with the length of time until the underlying transactions are complete. The most significant estimates are with respect to valuation of investments in qualified businesses, asset impairment valuation, allowance for loan losses, valuation of servicing assets, charge-back reserves, tax valuation allowances and the fair value measurements used to value certain financial assets and financial liabilities. Actual results could differ from those estimates.

Revenue Recognition

The Company operates in a number of different segments. Revenues are recognized as services are rendered and are summarized as follows:

Electronic payment processing revenue: Electronic payment processing and fee income is derived from the electronic processing of credit and debit card transactions that are authorized and captured through third-party networks. Typically, merchants are charged for these processing services on a percentage of the dollar amount of each transaction plus a flat fee per transaction. Certain merchant customers are charged miscellaneous fees, including fees for handling charge-backs or returns, monthly minimum fees, statement fees and fees for other miscellaneous services. Revenues derived from the electronic processing of MasterCard® and Visa® sourced credit and debit card transactions are reported gross of amounts paid to sponsor banks.

Web hosting revenue: Managed technology solutions revenue is primarily derived from monthly recurring service fees for the use of its web hosting, web design and software support services. Customer set-up fees are billed upon service initiation and are recognized as revenue over the estimated customer relationship period of 2.5 years. Payment for web hosting and related services, excluding cloud plans, is generally received one month to one year in advance. Deferred revenues represent customer payments for web hosting, web design and related services in advance of the reporting period date. Revenue for cloud related services is based on actual consumption used by a cloud customer.

Sales and Servicing of SBA Loans: NSBF originates loans to customers under the SBA program that generally provides for SBA guarantees of 50% to 90% of each loan, subject to a maximum guarantee amount. This guaranteed portion is generally sold to a third party via an SBA regulated secondary market transaction utilizing SBA Form 1086 for a price equal to the guaranteed loan amount plus a premium that includes both an upfront cash payment and the fair value of future net servicing income. Prior to October 1, 2010, NSBF recognized the revenue item "Premium on loan sales" net of capitalized loan expenses and the discount on the retained unguaranteed portion; subsequent to the adoption of fair value of SBA 7(a) loans on October 1, 2010, NSBF

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recognizes premium on loan sales as equal to the cash premium plus the fair value of the servicing income. Revenue is recognized on the trade date of the guaranteed portion, except as described below.

Upon recognition of each loan sale, the Company retains servicing responsibilities and receives servicing fees of a minimum of 1% of the guaranteed loan portion sold. The Company is required to estimate its adequate servicing compensation in the calculation of its servicing asset. The purchasers of the loans sold have no recourse to the Company for failure of customers to pay amounts contractually due.

Subsequent measurements of each class of servicing assets and liabilities may use either the amortization method or the fair value measurement method. NSBF has chosen to apply the amortization method to its servicing asset, amortizing the asset in proportion to, and over the period of, the estimated future net servicing income on the underlying sold guaranteed portion of the loans and assessing the servicing asset for impairment based on fair value if and when a triggering event occurs. In the event future prepayments are significant or impairments are incurred and future expected cash flows are inadequate to cover the unamortized servicing assets, additional amortization or impairment charges would be recognized. In evaluating and measuring impairment of servicing assets, NSBF stratifies its servicing assets based on year of loan and loan term which are the key risk characteristics of the underlying loan pools. The Company uses an independent valuation specialist to estimate the fair value of the servicing asset by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, servicing costs and discount rates that NSBF believes market participants would use for similar assets. If NSBF determines that the impairment for a stratum is temporary, a valuation allowance is recognized through a charge to current earnings for the amount the amortized balance exceeds the current fair value. If the fair value of the stratum were to later increase, the valuation allowance may be reduced as a recovery. However, if NSBF determines that impairment for a stratum is other than temporary, the value of the servicing asset and any related valuation allowance is written-down.

SBA Loan Interest and Fees: Interest income on loans is recognized as earned. A loan is placed on non-accrual status if it exceeds 90 days past due with respect to principal or interest and, in the opinion of management, interest or principal on the loan is not collectible, or at such earlier time as management determines that the collectability of such principal or interest is unlikely. Such loans are designated as impaired non-accrual loans. All other loans are defined as performing loans. When a loan is designated as impaired non-accrual, the accrual of interest is discontinued, and any accrued but uncollected interest income is reversed and charged against current operations. While a loan is classified as impaired non-accrual and the future collectability of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding.

The Company passes certain expenditures it incurs to the borrower, such as force placed insurance, insufficient funds fees, or fees it assesses, such as late fees, with respect to managing the loan. These expenditures are recorded when incurred. Due to the uncertainty with respect to collection of these passed through expenditures or assessed fees, any funds received to reimburse the Company are recorded on a cash basis as other income.

Income from tax credits: Following an application process, a state will notify a company that it has been certified as a Capco. The state or jurisdiction then allocates an aggregate dollar amount of tax credits to the Capco. However, such amount is neither recognized as income nor otherwise recorded in the financial statements since it has yet to be earned by the Capco. The Capco is entitled to earn tax credits upon satisfying defined investment percentage thresholds within specified time requirements. Newtek has Capcos operating in five states and the District of Columbia. Each statute requires that the Capco invest a threshold percentage of “certified capital” (the funds provided by the insurance company investors) in businesses defined as qualified within the time frames specified. As the Capco meets these requirements, it avoids grounds under the statute for its disqualification for continued participation in the Capco program. Such a disqualification, or “decertification” as a Capco results in a permanent recapture of all or a portion of the allocated tax credits. The proportion of the possible recapture is reduced over time as the Capco remains in general compliance with the program rules and meets the progressively increasing investment benchmarks. As the Capco progresses in its investments in Qualified

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Businesses and, accordingly, places an increasing proportion of the tax credits beyond recapture, it earns an amount equal to the non-recapturable tax credits and records such amount as income, with a corresponding asset called “credits in lieu of cash” in the balance sheet.

The amount earned and recorded as income is determined by multiplying the total amount of tax credits allocated to the Capco by the percentage of tax credits immune from recapture (the earned income percentage) at that point. To the extent that the investment requirements are met ahead of schedule, and the percentage of non-recapturable tax credits is accelerated, the present value of the tax credit earned is recognized currently and the asset, credits in lieu of cash, is accreted up to the amount of tax credits deliverable to the certified investors. The obligation to deliver tax credits to the certified investors is recorded as notes payable in credits in lieu of cash. On the date the tax credits are utilizable by the certified investors, the Capco decreases credits in lieu of cash with a corresponding decrease to notes payable in credits in lieu of cash.

Insurance commissions: Revenues are comprised of commissions earned on premiums paid for insurance policies and are recognized at the time the commission is earned. At that date, the earnings process has been completed and the Company can estimate the impact of policy cancellations for refunds and establish reserves. The reserve for policy cancellations is based on historical cancellation experience adjusted by known circumstances.

Other income: Other income represents revenues derived from operating units that cannot be aggregated with other business segments. In addition, other income represents one time recoveries or gains on investments. Revenue is recorded when there is strong evidence of an agreement, the related fees are fixed, the service or product has been delivered, and the collection of the related receivable is assured.

- *Receivable fees:* Receivable fees are derived from the funding (purchase) of receivables from finance clients. NBC recognizes the revenue on the date the receivables are purchased at a percentage of face value as agreed to by the client. The Company also has arrangements with certain of its clients whereby it purchases the client’s receivables and charges a fee at a specified rate based on the amount of funds advanced against such receivables. The funds provided are collateralized and the income is recognized as earned.
- *Late fees:* Late fees are derived from receivables NBC has purchased that have gone over a certain period (usually over 30 days) without payment. The client or the client’s customer is charged a late fee according to the agreement with the client and NBC records the fees as income in the month in which such receivable becomes past due.
- *Billing fees:* Billing fees are derived from billing-only (non-finance) clients. These fees are recorded when earned, which occurs when the service is rendered.
- *Other fees:* These fees include re-underwriting fees, due diligence fees, termination fees, under minimum fees, and other fees including finance charges, supplies sold to clients, NSF fees, wire fees and administration fees. These fees are charged upon funding, takeovers or liquidation of finance clients. The Company also receives commission revenue from various sources.

Electronic Payment Processing Costs

Electronic payment processing costs consist principally of costs directly related to the processing of merchant sales volume, including interchange fees, VISA® and MasterCard® dues and assessments, bank processing fees and costs paid to third-party processing networks. Such costs are recognized at the time the merchant transactions are processed or when the services are performed. Two of the most significant components of electronic processing expenses include interchange and assessment costs, which are set by the credit card associations. Interchange costs are passed on to the entity issuing the credit card used in the transaction and assessment costs are retained by the credit card associations. Interchange and assessment fees are billed primarily as a percent of dollar volume processed or, to a lesser extent, as a per transaction fee. In addition to costs directly related to the processing of merchant sales volume, electronic payment processing costs also include residual expenses, which represent fees paid to third-party sales referral sources. Residual expenses are paid under various formulae as

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contracted. These are generally linked to revenues derived from merchants successfully referred to the Company and that begin using the Company for merchant processing services.

Restricted Cash

Restricted cash includes cash collateral relating to a letter of credit; monies due on SBA loan-related remittances and insurance premiums received by the Company and due to third parties; cash held by the Capcos restricted for use in managing and operating the Capco, making qualified investments and for the payment of income taxes; cash reserves associated with the securitization, cash set aside to purchase unguaranteed portions originated subsequent to the securitization transaction, cash held in blocked accounts used to pay down bank note payables, cash held for our payroll clients waiting to be remitted to their employees or taxing authority and a cash account maintained as a reserve against electronic payment processing chargeback losses. Following is a summary of restricted cash by segment:

(In thousands):	September 30, 2013	December 31, 2012
Electronic payment processing	\$ 618	\$ 387
Small business finance	6,217	4,955
All other	1,358	279
Corporate activities	1,067	987
Capcos	1,139	1,848
Totals	<u>\$ 10,399</u>	<u>\$ 8,456</u>

Broker Receivable

Broker receivable represents amounts due from third parties for loans which have been traded at period end but have not yet settled.

Purchased Receivables

For clients that are assessed fees based on a discount as well as for clients that are on a prime plus fee schedule, purchased receivables are recorded at the point in time when cash is released to the client. A majority of the receivables purchased with respect to prime plus arrangements are recourse and are sold back to the client if aged over 90 days, depending on contractual agreements. Purchased receivables are included in accounts receivable on the consolidated balance sheets.

Investments in Qualified Businesses

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 or the economics of the transaction if the investee is determined to be a variable interest entity.

Consolidation Method. Investments in which the Company directly or indirectly owns more than 50% of the outstanding voting securities, those the Company has effective control over, or those deemed to be a variable interest entity in which the Company is the primary beneficiary 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 condensed consolidated financial statements. All significant inter-company accounts and transactions are eliminated, including returns of principal, dividends, interest received and investment redemptions. The results of operations and cash flows of a consolidated operating entity are included through the latest interim period in which the Company owned a greater than 50% direct or indirect voting interest, exercised control over the entity for the entire interim period or was otherwise designated as the primary

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beneficiary. Upon dilution of control below 50%, or upon occurrence of a triggering event requiring reconsideration as to the primary beneficiary of a variable interest entity, the accounting method is adjusted to the equity or cost method of accounting, as appropriate, for subsequent periods.

Equity Method. Investments 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 investee's Board of Directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the investee, 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 condensed consolidated financial statements; however, the Company's share of the earnings or losses of the investee is reflected in the Company's condensed consolidated financial statements.

Cost Method. Investments 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 net earnings or losses of such investments is not included in the Company's condensed consolidated financial statements. However, cost method impairment charges are recognized, as necessary, in the Company's condensed consolidated financial statements. If circumstances suggest that the value of the investee has subsequently recovered, such recovery is not recorded until ultimately liquidated or realized.

The Company's debt and equity investments have substantially been made with funds available to Newtek through the Capco programs. These programs generally require that each Capco meet a minimum investment benchmark within five years of initial funding. In addition, any funds received by a Capco as a result of a debt repayment or equity return may, under the terms of the Capco programs, be reinvested and counted towards the Capcos' minimum investment benchmarks.

Securitization Activities

NSBF engaged in a securitization of the unguaranteed portions of its SBA 7(a) loans in 2010, 2011 and 2013. Because the transfer of these assets did not meet the criteria of a sale for accounting purposes, it was treated as a secured borrowing. NSBF continues to recognize the assets of the secured borrowing in Loans held for investment and the associated financing in Notes payable on the consolidated balance sheets.

Share – Based Compensation

All share-based payments to employees are recognized in the financial statements based on their fair values using an option-pricing model at the date of grant. The Company recognizes compensation on a straight-line basis over the requisite service period for the entire award. The Company has elected to adopt the alternative transition method for calculating the tax effects of share-based compensation. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies.

Fair Value

The Company adopted the methods of fair value to value its financial assets and liabilities. The Company carries its credits in lieu of cash, prepaid insurance and notes payable in credits in lieu of cash at fair value. In addition, the Company elected on October 1, 2010 to fair value its SBA loans held for investment and SBA loans held for sale. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and

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comparability in fair value measurements, the Company utilized a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

- Level 1** Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts and residential mortgage loans held-for-sale.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly structured or long-term derivative contracts.

Income Taxes

Deferred tax assets and liabilities are computed based upon the differences between the financial statement and income tax basis of assets and liabilities using the enacted tax rates in effect for the year in which those temporary differences are expected to be realized or settled. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized.

The Company's effective tax rate for the three and nine month periods was approximately 7% and 33%, respectively. The Company recorded a discreet income tax benefit of approximately \$369,000 during the period ended September 30, 2013 which impacted the rate favorably by approximately 4% in both periods. The discreet income tax benefit was attributable to a tax true-up following the filing of the Company's 2012 state tax returns. In addition, the Company had a lower current tax provision for the quarter due to payments made for expected 2013 taxes due that have exceeded the tax computed on the current year to date income.

The Company's U.S. Federal and state income tax returns prior to fiscal year 2009 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Accounting for Uncertainty in Income Taxes

The ultimate deductibility of positions taken or expected to be taken on tax returns is often uncertain. In order to recognize the benefits associated with a tax position taken (i.e., generally a deduction on a corporation's tax return), the entity must conclude that the ultimate allowability of the deduction is more likely than not. If the ultimate allowability of the tax position exceeds 50% (i.e., it is more likely than not), the benefit associated with the position is recognized at the largest dollar amount that has more than a 50% likelihood of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and recognized will generally result

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in (1) an increase in income taxes currently payable or a reduction in an income tax refund receivable or (2) an increase in a deferred tax liability or a decrease in a deferred tax asset, or both (1) and (2).

Fair Value of Financial Instruments

As required by the Financial Instruments Topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), the estimated fair values of financial instruments must be disclosed. Excluding fixed assets, intangible assets, goodwill, and prepaid expenses and other assets (noted below), substantially all of the Company’s assets and liabilities are considered financial instruments as defined under this standard. Fair value estimates are subjective in nature and are dependent on a number of significant assumptions associated with each instrument or group of similar instruments, including estimates of discount rates, risks associated with specific financial instruments, estimates of future cash flows and relevant available market information.

The carrying values of the following balance sheet items approximate their fair values primarily due to their liquidity and short-term or adjustable-yield nature:

- Cash and cash equivalents
- Restricted cash
- Broker receivable
- Accounts receivable
- Notes payable
- Accrued interest receivable (included in Prepaid expenses and other assets)
- Accrued interest payable (included in Accounts payable, accrued expenses and other liabilities)
- Accounts payable and accrued expenses

The carrying value of investments in Qualified Businesses (included in Prepaid expenses and other assets), Credits in lieu of cash and Notes payable in credits in lieu of cash as well as SBA loans held for investment and SBA loans held for sale approximate fair value based on management’s estimates.

New Accounting Standards

In July 2013, the FASB issued ASU No. 2013-11: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (“ASU 2013-11”). The amendments in ASU 2013-11 are intended to end inconsistent practices regarding the presentation of unrecognized tax benefits on the balance sheet. An entity will be required to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss (“NOL”) or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. An entity is required to apply the amendments prospectively for annual reporting periods beginning after December 15, 2013, and for interim periods within those annual periods. Early adoption and retrospective application are permitted. The Company does not anticipate the adoption of this guidance will have a material impact on its Unaudited Condensed Consolidated Financial Statements or disclosures.

Reclassifications

The prior period amount reported for the accretion of discount has been reclassified on our statement of cash flows to conform to current quarter presentation.

NOTE 3—FAIR VALUE MEASUREMENTS:

Fair Value Option Elections

Effective January 1, 2008, the Company adopted fair value accounting concurrent with the election of the fair value option. The accounting standard relating to the fair value measurements clarifies the definition of fair value and describes methods available to appropriately measure fair value in accordance with GAAP. The accounting standard applies whenever other accounting standards require or permit fair value measurements. The accounting standard relating to the fair value option for financial assets and financial liabilities allows entities to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities that are not otherwise required to be measured at fair value, with changes in fair value recognized in earnings as they occur. It also establishes presentation and disclosure requirements designed to improve comparability between entities that elect different measurement attributes for similar assets and liabilities.

On January 1, 2008, the Company elected the fair value option for valuing its Capcos' credits in lieu of cash, notes payable in credits in lieu of cash and prepaid insurance.

On October 1, 2010, the Company elected the fair value option for valuing its SBA 7(a) loans funded on or after that date which are included in SBA loans held for investment and SBA loans held for sale.

The Company elected the fair value option in order to reflect in its financial statements the assumptions that market participants use in evaluating these financial instruments.

Fair Value Option Election – Credits in Lieu of Cash, Prepaid Insurance and Notes Payable in Credits in Lieu of Cash

Under the cost basis of accounting, the discount rates used to calculate the present value of the credits in lieu of cash and notes payable in credits in lieu of cash did not reflect the credit enhancements that the Company's Capcos obtained from Chartis, Inc. ("Chartis") (the renamed property and casualty holdings of American International Group, Inc., "AIG"), namely its AA+ rating at such time, for their debt issued to certified investors. Instead the cost paid for the credit enhancements was recorded as prepaid insurance and amortized on a straight-line basis over the term of the credit enhancements.

With the adoption of the fair value measurement of financial assets and financial liabilities and the election of the fair value option, credits in lieu of cash and notes payable in credits in lieu of cash are valued based on the yields at which financial instruments would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. The accounting standards require the fair value of the assets or liabilities to be determined based on the assumptions that market participants use in pricing the financial instrument. In developing those assumptions, the Company identified characteristics that distinguish market participants generally, and considered factors specific to (a) the asset type, (b) the principal (or most advantageous) market for the asset group, and (c) market participants with whom the reporting entity would transact in that market.

Based on the aforementioned characteristics and in view of the Chartis credit enhancements, the Company believes that market participants purchasing or selling its Capcos' debt, and therefore its credits in lieu of cash and notes payable in credits in lieu of cash, view nonperformance risk to be equal to the risk of Chartis nonperformance risk and as such both the fair value of credits in lieu of cash and notes payable in credits in lieu of cash should be priced to yield a rate equal to comparable U.S. Dollar denominated debt instruments issued by Chartis' parent, AIG. Because the value of notes payable in credits in lieu of cash directly reflects the credit enhancement obtained from Chartis, the unamortized cost relating to the credit enhancement will cease to be separately carried as an asset on Company's condensed consolidated balance sheets and is incorporated in notes payable in credits in lieu of cash.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis:

(In thousands):	Fair Value Measurements at September 30, 2013 Using:				Total Unrealized Gains and (Losses)
	Total	Level 1	Level 2	Level 3	
Assets					
Credits in lieu of cash	\$ 4,307	\$ —	\$4,307	\$ —	\$ —
SBA loans held for investment	67,112	—	—	67,112	(1,737)
SBA loans held for sale	2,490	—	2,490	—	163
Total assets	<u>\$73,909</u>	<u>\$ —</u>	<u>\$6,797</u>	<u>\$67,112</u>	<u>\$ (1,574)</u>
Liabilities					
Notes payable in credits in lieu of cash	<u>\$ 4,307</u>	<u>\$ —</u>	<u>\$4,307</u>	<u>\$ —</u>	<u>\$ 26</u>

Assets and Liabilities Measured at Fair Value on a Recurring Basis:

(In thousands):	Fair Value Measurements at December 31, 2012 Using:				Total Unrealized Gains and (Losses)
	Total	Level 1	Level 2	Level 3	
Assets					
Credits in lieu of cash	\$ 8,703	\$ —	\$8,703	\$ —	\$ —
SBA loans held for investment	43,055	—	—	43,055	(851)
SBA loans held for sale	896	—	896	—	(162)
Total assets	<u>\$52,654</u>	<u>\$ —</u>	<u>\$9,599</u>	<u>\$43,055</u>	<u>\$ (1,013)</u>
Liabilities					
Notes payable in credits in lieu of cash	\$ 8,703	\$ —	\$8,703	\$ —	\$ 3
Warrants	—	—	—	—	(111)
Total liabilities	<u>\$ 8,703</u>	<u>\$ —</u>	<u>\$8,703</u>	<u>\$ —</u>	<u>\$ (108)</u>

Credits in lieu of cash and Notes payable in credits in lieu of cash

The Company elected to account for both credits in lieu of cash and notes payable in credits in lieu of cash at fair value in order to reflect in its condensed consolidated financial statements the assumptions that market participant's use in evaluating these financial instruments.

Fair value measurements:

The Company's Capcos' debt, enhanced by Chartis insurance, effectively bears the nonperformance risk of Chartis. The closest trading comparators are the debt of Chartis' parent, AIG. Therefore the Company calculates the fair value of both the credits in lieu of cash and notes payable in credits in lieu of cash using the yields of various AIG notes with similar maturities to each of the Company's respective Capcos' debt (the "Chartis Note Basket"). The Company elected to discontinue utilizing AIG's 7.70% Series A-5 Junior Subordinated Debentures because those long maturity notes began to trade with characteristics of a preferred stock after AIG received financing from the United States Government. The Company considers the Chartis Note Basket a Level 2 input under fair value accounting, since it is a quoted yield for a similar liability that is traded in an active exchange market. The Company selected the Chartis Note Basket as the most representative of the nonperformance risk

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associated with the Capco notes because they are Chartis issued notes, are actively traded and because maturities match credits in lieu of cash and notes payable in credits in lieu of cash.

After calculating the fair value of both the credits in lieu of cash and notes payable in credits in lieu of cash, the Company compares their values. This calculation is done on a quarterly basis. Calculation differences primarily due to tax credit receipt versus delivery timing may cause the value of the credits in lieu of cash to differ from that of the notes payable in credits in lieu of cash. Because the credits in lieu of cash asset has the single purpose of paying the notes payable in credits in lieu of cash and has no other value to the Company, Newtek determined that the credits in lieu of cash should equal the notes payable in credits in lieu of cash.

On December 31, 2012, the yield on the Chartis Note Basket was 1.72%. As of September 30, 2013, the date the Company revalued the asset and liability, the yields on the Chartis notes averaged 1.73% reflecting changes in interest rates in the marketplace. This increase in yield increased both the fair value of the credits in lieu of cash and the fair value of the notes payable in credits in lieu of cash. The Company increased the value of the credits in lieu of cash to equal the value of the notes payable in credits in lieu of cash because the credits in lieu of cash can only be used to satisfy the liability and must equal the value of the notes payable in credits in lieu of cash at all times. There was no material net change in fair value reported in the Company's condensed consolidated statements of income for the three months ended September 30, 2013, and for the nine months ended September 30, 2013, the Company reported a gain of \$26,000.

On December 31, 2011, the yield on the Chartis Note Basket was 5.53%. As of September 30, 2012, the date the Company revalued the asset and liability, the yields on the Chartis notes averaged 2.16% reflecting changes in interest rates in the marketplace. This decrease in yield decreased both the fair value of the credits in lieu of cash and the fair value of the notes payable in credits in lieu of cash. The Company decreased the value of the credits in lieu of cash to equal the value of the notes payable in credits in lieu of cash because the credits in lieu of cash can only be used to satisfy the liability and must equal the value of the notes payable in credits in lieu of cash at all times. The net change in fair value reported in the Company's condensed consolidated statements of income for the three months and nine months ended September 30, 2012 was a loss of \$20,000 and a gain of \$21,000, respectively.

Changes in the future yield of the Chartis Note Basket will result in changes to the fair values of the credits in lieu of cash and notes payable in credits in lieu of cash when calculated for future periods; these changes will be reported through the Company's condensed consolidated statements of income.

SBA 7(a) Loans

On October 1, 2010, the Company elected to utilize the fair value option for SBA 7(a) loans funded on or after that date. Management believed that doing so would promote its effort to both simplify and make more transparent its financial statements by better portraying the true economic value of this asset on its balance sheet and statement of income. NSBF originates, funds, and services government guaranteed loans under section 7(a) of the Small Business Act. The SBA does not fully guarantee the SBA 7(a) Loans: An SBA 7(a) Loan is bifurcated into a guaranteed portion and an unguaranteed portion, each accruing interest on the principal balance of such portion at a per annum rate in effect from time to time. NSBF originates variable interest loans, usually set at a fixed index to the Prime rate that resets quarterly. Primarily, NSBF has made SBA 7(a) loans carrying guarantees of 75% and 85% with some originations at 90% for SBA qualified export type businesses; from 2009 through early 2011 under a special program, most of the loans NSBF originated carried a guarantee of 90%. NSBF, both historically and as a matter of its business plan, sells the guaranteed portions via SBA Form 1086 into the secondary market when the guaranteed portion becomes available for sale upon the closing and full funding of the SBA 7(a) loan and retains the unguaranteed portions. Management recognized that the economic value in the guaranteed portion did not inure to NSBF at the time of their sale but rather when the guaranty attached at origination; amortization accounting by its nature does not recognize this increase in value at the true time when it occurred. Under the fair value option, the value of the guarantee is recorded when it economically

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occurs at the point of the creation of the loan, and is not delayed until when the sale occurs. Contemporaneously, the value of the unguaranteed portion will also be determined to reflect the full, fair value of the loan.

Although the fair value election is for the entire SBA 7(a) loan, the Company primarily sells the guaranteed portions at the completion of funding. The need to record the fair value for the guaranteed portion of the loan will primarily occur when a guaranteed portion is not traded at period end (“SBA loans held for sale”). The unguaranteed portion retained is recorded under “SBA loans held for investment.”

SBA Loans Held for Investment

For loans that completed funding before October 1, 2010, SBA loans held for investment are reported at their outstanding unpaid principal balances adjusted for charge-offs, net deferred loan origination costs and the allowance for loan losses. For loans that completed funding on or after October 1, 2010, management elected to fair value SBA loans held for investment within the fair value hierarchy that prioritizes observable and unobservable inputs utilizing Level 3 unobservable inputs which reflect the Company’s own expectations about the assumptions that market participants would use in pricing the asset (including assumptions about risk). The Company considers the pricing reflected in its securitization activities to be the best indicator of the fair value discount used to measure loans held for investment. As discussed in the Company’s 2012 Annual Report on Form 10-K, the Company was able to securitize its unguaranteed portions of its SBA 7(a) loans and issued notes to investors with S&P ratings of “AA” and “A.”

The fair value measurement, currently recorded as a 7.5% upfront discount of the unguaranteed principal balance of SBA loans held for investment, is based upon internal quantitative data on our portfolio with respect to historical default rates and future expected losses as well as the investor price paid for the senior interest in our unguaranteed loans with respect to the 2013 securitized transaction, and adjusted for the estimated servicing and interest income to be retained by the trust over an estimated repayment term of three years. This was further adjusted to reflect the estimated default rate on the senior notes based on the default rate on our loan portfolio, assuming a worst case scenario of no recoveries. Should the performance of the underlying loans to the senior notes change, this could impact the assumptions used in the estimated repayment term as well as the estimated default rate and thus result in a higher or lower discount rate taken in the future; management reviews these assumptions regularly. If a loan measured at fair value is subsequently impaired, then the fair value of the loan is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, or the fair value of the collateral if the loan is collateral dependent. The value of impaired loans is factored into the 7.5% fair value discount on our overall portfolio. The significant unobservable inputs used in the fair value measurement of the impaired loans involve management’s judgment in the use of market data and third party estimates regarding collateral values. Such estimates are further discounted by 20% – 80% to reflect the cost of liquidating the various assets under collateral. Any subsequent increases or decreases in any of the inputs would result in a corresponding decrease or increase in the reserve for loan loss or fair value of SBA loans, depending on whether the loan was originated prior or subsequent to October 1, 2010. Because the loans bear interest at a variable rate, NSBF does not have to factor in interest rate risk.

Below is a summary of the activity in SBA loans held for investment, at fair value for the nine months ended September 30, 2013 and the year ended December 31, 2012, respectively, (in thousands):

	Nine Months Ended September 30, 2013	Year Ended December 31, 2012
Balance, beginning of period	\$ 43,055	\$ 21,857
SBA loans held for investment, originated	28,353	24,076
Payments received	(2,559)	(2,027)
Fair value loss	(1,737)	(851)
Balance, end of period	<u>\$ 67,112</u>	<u>\$ 43,055</u>

[Table of Contents](#)**SBA Loans Held For Sale**

For guaranteed portions funded, but not yet traded at each measurement date, management elected to fair value SBA loans held for sale within the fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value utilizing Level 2 assets. These inputs include debt securities with quoted prices that are traded less frequently than exchange-traded instruments or have values determined using a pricing model with inputs that are observable in the market. The secondary market for the guaranteed portions is extremely robust with broker dealers acting as primary dealers. NSBF sells regularly into the market and can quickly price its loans for sale. The Company values the guaranteed portion based on market prices equal to the guaranteed loan amount plus a premium that includes both an upfront cash payment (utilizing quoted prices) and the value of a stream of payments representing servicing income received in excess of NSBF's servicing cost (valued using a pricing model with inputs that are observable in the market).

Other Fair Value Measurements

Assets Measured at Fair Value on a Non-recurring Basis are as follows (in thousands):

	Fair Value Measurements at September 30, 2013 Using:				Total Losses
	Total	Level 1	Level 2	Level 3	
Assets					
Impaired loans	\$ 6,257	\$ —	\$ —	\$ 6,257	\$ (1,692)
Other real-estate owned	946	—	946	—	(45)
Total assets	<u>\$ 7,203</u>	<u>\$ —</u>	<u>\$ 946</u>	<u>\$ 6,257</u>	<u>\$ (1,737)</u>

	Fair Value Measurements at December 31, 2012 Using:				Total Losses
	Total	Level 1	Level 2	Level 3	
Assets					
Impaired loans	\$ 6,965	\$ —	\$ —	\$ 6,965	\$ (822)
Other real-estate owned	534	—	534	—	(168)
Total assets	<u>\$ 7,499</u>	<u>\$ —</u>	<u>\$ 534</u>	<u>\$ 6,965</u>	<u>\$ (990)</u>

Impaired loans

Impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral less estimated liquidation costs if the loan is collateral dependent. Impaired loans for which the carrying amount is based on fair value of the underlying collateral are included in assets and balances include fair value measurements on a non-recurring basis, both at initial recognition of impairment and on an on-going basis until recovery or charge-off of the loan amount. The significant unobservable inputs used in the fair value measurement of the impaired loans involve management's judgment in the use of market data and third party estimates regarding collateral values. Such estimates are further discounted by 20% – 80% to reflect the cost of liquidating the various assets under collateral. Valuations in the level of impaired loans and corresponding impairment affect the level of the reserve for loan losses. Any subsequent increases or decreases in any of the inputs would result in a corresponding decrease or increase in the reserve for loan loss or fair value of SBA loans, depending on whether the loan was originated prior or subsequent to October 1, 2010.

Other real-estate owned (included in Prepaid expenses and other assets)

The estimated fair value of other real-estate owned is calculated using observable market information, including bids from prospective purchasers and pricing from similar market transactions where available. The value is generally discounted between 20-25% based on market valuations as well as expenses associated with securing

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the Company's interests. Where bid information is not available for a specific property, the valuation is principally based upon recent transaction prices for similar properties that have been sold. These comparable properties share comparable demographic characteristics. Other real estate owned is generally classified within Level 2 of the valuation hierarchy.

NOTE 4—SBA LOANS:

SBA loans are geographically concentrated in New York (12.18%). Below is a summary of the activity in the SBA loans held for investment, net of SBA loan loss reserves for the nine months ended September 30, 2013 (in thousands):

Balance at December 31, 2012	\$57,702
SBA loans funded for investment	28,353
Fair value adjustment	(1,737)
Payments received	(4,195)
Provision for SBA loan losses	(384)
Discount on loan originations, net	191
Other real estate owned	(531)
Balance at September 30, 2013	<u>\$79,399</u>

Below is a summary of the activity in the reserve for loan losses for the nine months ended September 30, 2013 (in thousands):

Balance at December 31, 2012	\$ 2,589
SBA loan loss provision	384
Recoveries	39
Loan charge-offs	(1,302)
Balance at September 30, 2013	<u>\$ 1,710</u>

Below is a summary of the activity in the SBA loans held for sale for the nine months ended September 30, 2013 (in thousands):

Balance at December 31, 2012	\$ 896
Originations of SBA loans held for sale	91,598
Fair value adjustment	163
SBA loans sold	(90,167)
Balance at September 30, 2013	<u>\$ 2,490</u>

All loans are priced at the Prime interest rate plus approximately 2.75% to 3.75%. The only loans with a fixed interest rate are defaulted loans of which the guaranteed portion sold is repurchased from the secondary market by the SBA, while the unguaranteed portion of the loans still remains with the Company. As of September 30, 2013 and December 31, 2012, SBA loans receivable held for investment with adjustable interest rates amounted to \$80,614,000 and \$58,382,000, respectively.

For the nine months ended September 30, 2013 and 2012, the Company funded approximately \$119,951,000 and \$72,433,000 in loans and sold approximately \$90,167,000 and \$56,937,000 of the guaranteed portion of the loans, respectively. Receivables from loans traded but not settled of \$19,593,000 and \$16,698,000 as of

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September 30, 2013 and December 31, 2012, respectively, are presented as broker receivable in the accompanying condensed consolidated balance sheets.

The outstanding balances of loans past due over ninety days and still accruing interest as of September 30, 2013 and December 31, 2012 amounted to \$128,000 and \$1,128,000, respectively.

At September 30, 2013 and December 31, 2012, total impaired non-accrual loans amounted to \$6,257,000 and \$6,965,000, respectively. For the nine months ended September 30, 2013 and for the year ended December 31, 2012, the average balance of impaired non-accrual loans was \$6,664,000 and \$6,935,000, respectively, and approximately \$1,976,000 and \$2,204,000 of the allowance for loan losses and fair value adjustment were allocated against such impaired non-accrual loans, respectively.

The following is a summary of SBA loans held for investment as of:

(in thousands):

	September 30, 2013		December 31, 2012	
	Fair Value	Cost Basis	Fair Value	Cost Basis
Due in one year or less	\$ —	\$ 54	\$ —	\$ 40
Due between one and five years	—	4,777	—	4,534
Due after five years	72,378	10,054	46,585	13,741
Total	72,378	14,885	46,585	18,315
Less: Allowance for loan losses	—	(1,710)	—	(2,589)
Less: Deferred origination fees, net	—	(888)	—	(1,079)
Less: Fair value adjustment	(5,266)	—	(3,530)	—
Balance (net)	<u>\$ 67,112</u>	<u>\$ 12,287</u>	<u>\$ 43,055</u>	<u>\$ 14,647</u>

The payment status of gross SBA loans held for investment is as follows:

Days Past Due	(in thousands)	
	September 30, 2013	December 31, 2012
Current	\$ 80,458	\$ 52,556
30 – 89	420	4,251
> 90	128	1,128
Non-performing	6,257	6,965
Balance (net)	<u>\$ 87,263</u>	<u>\$ 64,900</u>

The Company evaluates the credit quality of its loan portfolio by employing a risk rating system that is similar to the Uniform Classification System which is the asset classification system adopted by the Federal Financial Institution Examinations Council. The Company's risk rating system is granular with multiple risk ratings in both the Acceptable and Substandard categories. Assignment of the ratings are predicated upon numerous factors, including credit risk scores, collateral type, loan to value ratios, industry, financial health of the business, payment history, other internal metrics/analysis, and qualitative assessments.

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Risk ratings are refreshed as appropriate based upon considerations such as market conditions, loan characteristics, and portfolio trends. The Company's gross SBA loans held for investment recorded at cost by credit quality indicator are as follows:

Risk Rating	(in thousands)	
	September 30, 2013	December 31, 2012
Acceptable	\$ 7,808	\$ 9,153
Other assets special mention	2,579	2,926
Substandard	4,093	5,894
Doubtful	396	333
Loss	9	9
Balance	<u>\$ 14,885</u>	<u>\$ 18,315</u>

NOTE 5—SERVICING ASSET:

Servicing rights are recognized as assets when SBA loans are accounted for as sold and the rights to service those loans are retained. The Company measures all separately recognized servicing assets initially at fair value, if practicable. The Company reviews capitalized servicing rights for impairment which is performed based on risk strata, which are determined on a disaggregated basis given the predominant risk characteristics of the underlying loans. The predominant risk characteristics are loan term and year of loan origination.

The changes in the value of the Company's servicing rights for the nine months ended September 30, 2013 were as follows:

(in thousands):	
Balance at December 31, 2012	\$4,682
Servicing rights capitalized	2,226
Servicing assets amortized	(828)
Balance at September 30, 2013	<u>\$6,080</u>

The carrying value of the capitalized servicing asset was \$6,080,000 and \$4,682,000 at September 30, 2013 and December 31, 2012, respectively, while the estimated fair value of capitalized servicing rights was \$7,467,000 and \$6,067,000 at September 30, 2013 and December 31, 2012, respectively. The estimated fair value of servicing assets at September 30, 2013 and December 31, 2012 was determined using a discount rate of 11%, weighted average prepayment speeds ranging from 1% to 14%, depending upon certain characteristics of the loan portfolio, weighted average life of 5.00 years, and an average default rate of 5%.

The unpaid principal balances of loans serviced for others are not included in the accompanying condensed consolidated balance sheets. The unpaid principal balances of loans serviced for others within the NSBF originated portfolio were \$337,748,000 and \$271,548,000 as of September 30, 2013 and December 31, 2012, respectively. The unpaid principal balances of loans serviced for others which were not originated by NSBF and are outside of the Newtek portfolio were \$174,621,000 and \$176,988,000 as of September 30, 2013 and December 31, 2012, respectively.

NOTE 6—NOTES PAYABLE AND CAPITAL LEASES:

At September 30, 2013 and December 31, 2012, the Company had notes payable and capital leases comprised of the following (in thousands):

	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Notes payable:		
Capital One lines of credit (NSBF)		
Guaranteed line	\$ 17,851	\$ 12,000
Unguaranteed line	9,149	11,854
Summit Partners Credit Advisors, L.P. (NBS)	8,559	8,288
Sterling National bank line of credit (NBC)	7,822	6,674
Capital One term loan (NTS)	695	1,007
Total notes payable	44,076	39,823
Note payable – securitization trust DS)	38,744	22,039
Total notes payable	<u>\$ 82,820</u>	<u>\$ 61,862</u>
Capital lease obligation	<u>\$ 699</u>	<u>\$ 632</u>

In the nine months ended September 30, 2013, the Company leased certain software with a term of 4 years. The useful life of the software was estimated to be between 7 – 10 years and includes a bargain purchase element at lease expiration. As a result, the transaction has been recorded as a capital lease and has a capitalized cost of approximately \$63,000.

In July 2013 the SBA lender, received an extension on the maturity of its warehouse lines of credit, totaling \$27 million, with Capital One, N.A. from September 30, 2013 to May 31, 2015, at which time the outstanding balance will be converted into a three-year term loan. The extension also enhanced the terms of the credit facilities by removing the \$15 million funding sublimit for the non-guaranteed portions of the SBA 7(a) loans NSBF originates, and increasing the advance rate to 55% from 50% for the non-guaranteed portions of the SBA 7(a) loans.

In March 2013, the Company completed a third securitization resulting in \$20,900,000 of notes being issued in a private placement transaction. The SBA lender transferred the unguaranteed portions of SBA loans in the amount of \$23,569,000 and an additional \$5,900,000 for new loans to be funded subsequent to the transaction to a special purpose entity, Newtek Small Business Loan Trust 2013-1. The notes received an “A” rating by S&P, and the final maturity date of the notes is June 25, 2038. The proceeds of the transaction have been and will be used to repay debt and originate new loans.

NOTE 7—STOCK OPTIONS AND RESTRICTED SHARES:

The Company had three share-based compensation plans as of September 30, 2013 and 2012. For the nine months ended September 30, 2013 and 2012, compensation cost charged to income for those plans was \$566,000 and \$406,000, respectively, of which \$448,000 and \$320,000 are included in salaries and benefits, and \$118,000 and \$86,000 are included in other general and administrative costs for the nine months ended September 30, 2013 and 2012, respectively.

During the third quarter of 2013, the Company granted certain employees an aggregate of 70,000 restricted shares of common stock valued at \$176,000 with 10,000 vesting on March 1, 2016 and 60,000 vesting on July 31, 2016. The fair value of these grants was determined using the fair value of the common shares at the grant date. The restricted shares are forfeitable upon early voluntary or involuntary termination of the employee’s

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employment. Upon vesting, the grantee will receive one common share for each restricted share vested. Under the terms of the plan, these share awards do not include voting rights until the shares vest. The Company recorded \$10,000 in share-based compensation in the third quarter of 2013 in connection with the vesting period associated with these grants.

During the second quarter of 2013, the Company granted certain employees and executives an aggregate of 80,000 restricted shares of common stock valued at \$174,000 with a vesting date of March 1, 2016. The fair value of these grants was determined using the fair value of the common shares at the grant date. The restricted shares are forfeitable upon early voluntary or involuntary termination of the employee's employment. Upon vesting, the grantee will receive one common share for each restricted share vested. Under the terms of the plan, these share awards do not include voting rights until the shares vest. In connection with the vesting period associated with these grants, the Company recorded \$16,000 and \$23,000 in share-based compensation for the three and nine months ended September 30, 2013, respectively.

During the first quarter of 2013, the Company granted certain employees, executives and directors an aggregate of 300,000 restricted shares of common stock valued at \$556,000. The employee and executive grants have a vesting date of March 1, 2016 while the directors' vest July 1, 2015. The fair value of these grants was determined using the fair value of the common shares at the grant date. The restricted shares are forfeitable upon early voluntary or involuntary termination of the employee's employment. Upon vesting, the grantee will receive one common share for each restricted share vested. Under the terms of the plan, these share awards do not include voting rights until the shares vest. The Company recorded \$49,000 and \$126,000 in share-based compensation during the three and nine months ended September 30, 2013, respectively, in connection with the vesting period associated with these grants.

In the second quarter of 2012, Newtek granted certain employees and executives an aggregate of 124,000 restricted shares of common stock valued at \$184,000. The grants vest on July 1, 2014. The fair value of these grants was determined using the fair value of the common shares at the grant date. The restricted shares are forfeitable upon early voluntary or involuntary termination of the employee's employment. Upon vesting, the grantee will receive one common share for each restricted share vested. Under the terms of the plan, these share awards do not include voting rights until the shares vest. The Company charged \$10,000 and \$13,000 to share-based compensation expense during the three months ended September 30, 2012 and 2013, respectively and \$25,000 and \$38,000 to share-based compensation expense during the nine months ended September 30, 2012 and 2013, respectively in connection with the vesting period associated with these grants.

In March 2011, Newtek granted certain employees, executives and board of directors an aggregate of 1,142,000 restricted shares valued at \$1,941,000. The grants vest on July 1, 2014. The fair value of these grants was determined using the fair value of the common shares at the grant date. The restricted shares are forfeitable upon early voluntary or involuntary termination of the employee. Upon vesting, the grantee will receive one common share for each restricted share vested. Under the terms of the plan, these share awards do not include voting rights until the shares vest. The Company recorded \$134,000 and \$126,000 in share-based compensation in the three months ended September 30, 2012 and 2013, respectively and \$378,000 and \$369,000, in share-based compensation in the nine months ended September 30, 2012 and 2013, respectively, in connection with the vesting period associated with these grants.

NOTE 8—INCOME PER SHARE:

Basic income per share is computed based on the weighted average number of common shares outstanding during the period. The effect of common share equivalents is included in the calculation of diluted loss per share only when the effect of their inclusion would be dilutive.

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The calculations of income per share were:

(In thousands except per share data):	Three months ended September 30:		Nine months ended September 30:	
	2013	2012	2013	2012
Numerator for basic and diluted EPS – income available to common shareholders	\$ 1,820	\$ 1,307	\$ 5,114	\$ 3,570
Denominator for basic EPS – weighted average shares	35,322	35,200	35,275	35,632
Effect of dilutive securities	2,702	2,320	2,570	1,014
Denominator for diluted EPS – weighted average shares	38,024	37,520	37,845	36,646
Earnings per share: Basic	\$ 0.05	\$ 0.04	\$ 0.14	\$ 0.10
Earnings per share: Diluted	\$ 0.05	\$ 0.03	\$ 0.14	\$ 0.10
The amount of anti-dilutive shares/units excluded from above is as follows:				
Stock options and restricted shares	36	—	12	750
Warrants	—	50	—	50
Contingently issuable shares	83	83	83	83

NOTE 9—COMMITMENTS AND CONTINGENCIES:

In the ordinary course of business and from time to time, we are named as a defendant in various legal proceedings. The Company evaluates such matters on a case by case basis and its policy is to contest vigorously any claims it believes are without compelling merit.

We recognize a liability for a contingency in accrued expenses and other liabilities when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If the reasonable estimate of a probable loss is a range, we accrue the most likely amount of such loss, and if such amount is not determinable, then we accrue the minimum in the range as the loss accrual. The determination of the outcome and loss estimates requires significant judgment on the part of management.

The Company is currently involved in various contract claims and litigation matters. In addition, and as fully described in “Business—Legal Proceedings,” during the quarter ended June 30, 2013 the Federal Trade Commission amended an existing complaint in the matter Federal Trade Commission v. WV Universal Management, LLC et al. to include Universal Processing Services of Wisconsin, LLC (“UPS”), the Company’s merchant processing subsidiary, as an additional defendant on one count. The Company does not believe that the facts or the FTC’s legal theory support the FTC’s allegations against UPS as set forth in the complaint, and the Company intends to vigorously challenge the FTC’s claims. As such, we have not established a loss contingency for this matter.

Management has determined that, in the aggregate, the pending legal actions should not have a material adverse effect on our consolidated results of operations, cash flows or financial condition. In addition, we believe that any amount that could be reasonably estimated of potential loss or range of potential loss is not material.

In May 2013, the automated clearing house (“ACH”) provider used by the Company’s payroll processing subsidiary, PMT Payroll, LLC (“PMT”), ceased processing payments which resulted in the inability or refusal of the ACH provider’s processing bank to send the corresponding credits to PMT’s customers’ employees. The total amount debited from PMT’s customer accounts and unsuccessfully credited to its’ customers’ employees was approximately \$1,318,000. Upon learning of this failure, PMT and the Company immediately paid all funds owing directly to any of its affected customers’ employees. Of this amount, the Company has successfully recovered approximately \$814,000 to date from the provider’s bank. The Company is currently working with legal counsel to recover the remaining funds and has been vigorously working with its customers’ banks to

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process returns. We may also initiate litigation to pursue the claim. At this time, the Company believes it is reasonably possible a loss may occur if the Company is unsuccessful in causing the affected banks to process the remaining returns. While such a loss is possible, the Company does not believe that it is probable or that the amount can be estimated at this time.

NOTE 10—SEGMENT REPORTING:

Operating segments are organized internally primarily by the type of services provided. The Company has aggregated similar operating segments into six reportable segments: Electronic payment processing, Small business finance, Managed technology solutions, All other, Corporate and Capcos.

The Electronic payment processing segment is a processor of credit card transactions, as well as a marketer of credit card and check approval services to the small- and medium-sized business market. Expenses include direct costs (included in a separate line captioned electronic payment processing costs), salaries and benefits, and other general and administrative costs all of which are included in the respective caption on the condensed consolidated statements of income.

The Small business finance segment consists of Small Business Lending, Inc., a lender that primarily originates, sells and services government guaranteed SBA 7(a) loans to qualifying small businesses through NSBF, its licensed SBA lender; the Texas Whitestone Group which manages the Company's Texas Capco; and NBC which provides accounts receivable financing, billing and accounts receivable maintenance services to businesses. NSBF generates revenues from sales of loans, servicing income for those loans retained or contracted to service by NSBF and interest income earned on the loans themselves. The lender generates expenses for interest, salaries and benefits, depreciation and amortization, and provision for loan losses, all of which are included in the respective caption on the condensed consolidated statements of income. NSBF also has expenses such as loan recovery expenses, loan processing costs, professional fees, and other expenses that are all included in the other general and administrative costs caption on the condensed consolidated statements of income.

The Managed technology solutions segment consists of NTS, acquired in July 2004. NTS's revenues are derived primarily from web hosting services and consist of web hosting and set up fees. NTS generates expenses such as salaries and benefits, and depreciation and amortization, which are included in the respective caption on the accompanying condensed consolidated statements of income, as well as professional fees, licenses and fees, rent, and general office expenses, all of which are included in other general and administrative costs in the respective caption on the condensed consolidated statements of income.

The All other segment includes revenues and expenses primarily from qualified businesses that received investments made through the Company's Capcos which cannot be aggregated with other operating segments. The two largest entities in the segment are Newtek Insurance Agency, LLC, an insurance sales operation, and Business Connect, LLC, a provider of sales and processing services. Also included in this segment are: Newtek Payroll Services, a provider of payroll management, payment and tax reporting services, Exponential of New York, LLC, an entity determined to be a subsidiary on January 1, 2012, and Advanced Cyber Security Systems, LLC, ("ACS"), a start-up company formed to offer web-based security solutions to the marketplace.

Corporate activities represent revenue and expenses not allocated to our segments. Revenue includes interest income and management fees earned from Capcos (and included in expenses in the Capco segment). Expenses primarily include corporate operations related to broad-based sales and marketing, legal, finance, information technology, corporate development and additional costs associated with administering the Capcos.

The Capco segment, which consists of the twelve Capcos, generates non-cash income from tax credits, interest income and gains from investments in qualified businesses which are included in other income. Expenses primarily include non-cash interest and insurance expense, management fees paid to Newtek (and included in the Corporate activities revenues), legal, and auditing fees and losses from investments in qualified businesses.

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Management has considered the following characteristics when making its determination of its operating and reportable segments:

- the nature of the product and services;
- the type or class of customer for their products and services;
- the methods used to distribute their products or provide their services; and
- the nature of the regulatory environment (for example, banking, insurance, or public utilities).

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The following table presents the Company's segment information for the periods ended September 30, 2013 and 2012 and total assets as of September 30, 2013 and December 31, 2012 (in thousands):

	<u>For the three months ended September 30, 2013</u>	<u>For the three months ended September 30, 2012</u>	<u>For the nine months ended September 30, 2013</u>	<u>For the nine months ended September 30, 2012</u>
Third Party Revenue				
Electronic payment processing	\$ 22,177	\$ 21,687	\$ 67,303	\$ 63,678
Small business finance	7,575	6,737	23,399	17,538
Managed technology solutions	4,455	4,526	13,449	13,789
All other	689	517	1,992	1,400
Corporate activities	250	200	650	654
Capcos	42	125	131	581
Total reportable segments	<u>35,188</u>	<u>33,792</u>	<u>106,924</u>	<u>97,640</u>
Eliminations	(414)	(334)	(995)	(1,115)
Consolidated Total	<u>\$ 34,774</u>	<u>\$ 33,458</u>	<u>\$ 105,929</u>	<u>\$ 96,525</u>
Inter-Segment Revenue				
Electronic payment processing	\$ 735	\$ 470	\$ 2,030	\$ 1,259
Small business finance	61	50	195	74
Managed technology solutions	123	167	387	566
All other	283	234	789	857
Corporate activities	1,054	818	2,700	2,084
Capcos	192	202	614	616
Total reportable segments	<u>2,448</u>	<u>1,941</u>	<u>6,715</u>	<u>5,456</u>
Eliminations	(2,448)	(1,941)	(6,715)	(5,456)
Consolidated Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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	For the three months ended September 30, 2013	For the three months ended September 30, 2012	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
Income (loss) before income taxes				
Electronic payment processing	\$ 1,879	\$ 1,742	\$ 6,179	\$ 5,256
Small business finance	1,728	1,984	5,932	4,928
Managed technology solutions	881	1,172	2,818	3,388
All other	(311)	(179)	(1,213)	(738)
Corporate activities	(1,847)	(1,674)	(5,722)	(5,403)
Capcos	(377)	(386)	(958)	(1,193)
Totals	<u>\$ 1,953</u>	<u>\$ 2,659</u>	<u>\$ 7,036</u>	<u>\$ 6,238</u>
Depreciation and amortization				
Electronic payment processing	\$ 84	\$ 171	\$ 289	\$ 581
Small business finance	329	239	896	664
Managed technology solutions	327	318	989	919
All other	50	6	152	22
Corporate activities	40	28	124	83
Capcos	1	1	4	6
Totals	<u>\$ 831</u>	<u>\$ 763</u>	<u>\$ 2,454</u>	<u>\$ 2,275</u>

Identifiable assets	As of September 30, 2013	As of December 31, 2012
Electronic payment processing	\$ 8,059	\$ 12,465
Small business finance	135,008	104,155
Managed technology solutions	11,950	12,022
All other	3,666	1,762
Corporate activities	9,066	5,726
Capco	9,222	16,612
Consolidated Total	<u>\$ 176,971</u>	<u>\$ 152,742</u>

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Newtek Business Services, Inc.

We have audited the accompanying consolidated balance sheets of Newtek Business Services, Inc. and Subsidiaries as of December 31, 2012 and 2011 (Restated), and the related consolidated statements of income, changes in equity and cash flows for the years ended December 31, 2012, 2011 (Restated) and 2010. Newtek Business Services, Inc. and Subsidiaries' management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Newtek Business Services, Inc. and Subsidiaries as of December 31, 2012 and 2011 (Restated), and their results of operations and cash flows for the years ended December 31, 2012, 2011 (Restated) and 2010 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 26 to the consolidated financial statements, the Company has restated its December 31, 2011 consolidated financial statements.

/s/ CohnReznick LLP

Jericho, New York
April 1, 2013

EXPLANATORY NOTE

The Company restated its audited consolidated financial statements and other financial information for the year ended December 31, 2011, and its unaudited condensed consolidated financial statements for the three months ended March 31, 2012, three and six months ended June 30, 2012 and for the three and nine months ended September 30, 2012. This restatement was caused by losses related to understated merchant chargeback reserves in each of the affected periods. The Company identified the matter through an internal review of its chargeback reserves during the 2012 year-end closing process. The incident involved violations of Company policies and procedures by a member of senior management in Universal Processing Services of Wisconsin, LLC, (“UPS”), d/b/a Newtek Merchant Solutions of WI, in the Electronic payment processing segment which resulted in the understatement of chargeback loss reserves for a group of merchants introduced to the Company by a single independent sales agent. The Company and its Audit Committee retained a consulting firm with extensive expertise in the credit card payments industry to conduct a detailed and in-depth investigation in the areas in which the former employee was involved. Also included was an analysis of the steps appropriate to ensure future compliance with the Company’s accounting policies and practices relating to merchant chargeback reserves and to determine if the foregoing matter required modification of its conclusions regarding the effectiveness of the Company’s internal control over financial reporting. Both the internal and independent investigations were completed prior to issuance of these financial statements. Based on those investigations it was concluded that the incident was an isolated event specifically related to the one independent sales agent and its group of merchants. There were no other irregularities noted by either the internal or independent reviews that could have affected the Company’s consolidated financial results. In addition, the Audit Committee engaged special counsel to review the work of both the internal investigation team and the independent consultant, and advise the Company on the matter and the adequacy of the Company’s response in particular. Special counsel issued a report fully coincident with the foregoing conclusions.

On February 1, 2013, the Company announced the provision for a charge-back loss in its Electronic payment processing segment of \$1.5 million for the year ended December 31, 2012. Subsequent to this announcement, management concluded that the correction of the understatements required that the Company restate its financial statements for the periods ended December 31, 2011, March 31, 2012, June 30, 2012 and September 30, 2012, and that this provision for chargeback loss be spread over the affected periods beginning with the fourth quarter of 2011 and throughout 2012. See the further discussion of this matter in Note 26 to the accompanying consolidated financial statements.

The impact over the periods is as follows:

<u>(Amounts In Thousands)</u>	<u>For the Quarter and Year Ended 12/31/11</u>	<u>For the Quarter Ended</u>		
		<u>3/31/12</u>	<u>6/30/12</u>	<u>9/30/12</u>
Electronic Payment Processing Expense	\$ 244	\$ 472	\$ (16)	\$ 275
Income (loss) before income taxes	\$ (244)	\$ (472)	\$ 16	\$ (275)
Net income (loss) available to common stockholders	\$ (146)	\$ (284)	\$ 10	\$ (165)
Income (loss) per share – Basic	\$ (0.01)	\$(0.01)	\$ —	\$ —
Income (loss) per share – Diluted	\$ (0.01)	\$(0.01)	\$ —	\$(0.01)
Deferred tax asset	\$ 98	\$ —	\$ —	\$ —
Accounts payable, accrued expenses and other current liabilities	\$ 244	\$ 528	\$ 518	\$ 683

The Company’s management determined that the Company had material weaknesses in its internal control over financial reporting at the end of each period presented above.

NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 (RESTATED) AND 2010
(In Thousands, except for Per Share Data)

	2012	2011 (Restated)	2010
Operating revenues:			
Electronic payment processing	\$ 85,483	\$ 82,473	\$ 80,920
Web hosting and design	18,208	19,181	19,164
Premium income	12,367	12,468	2,428
Interest income	3,422	2,629	1,903
Servicing fee income – NSBF portfolio	2,298	1,635	1,784
Servicing fee income – external portfolios	4,564	1,466	784
Income from tax credits	522	1,390	2,380
Insurance commissions	1,205	1,071	886
Other income	3,061	3,026	2,470
Total operating revenues	<u>131,130</u>	<u>125,339</u>	<u>112,719</u>
Net change in fair value of:			
SBA loans	(1,013)	(5,493)	3,494
Warrants	(111)	—	—
Credits in lieu of cash and notes payable in credits in lieu of cash	3	(131)	38
Total net change in fair value	<u>(1,121)</u>	<u>(5,624)</u>	<u>3,532</u>
Operating expenses:			
Electronic payment processing costs	72,183	69,389	68,187
Salaries and benefits	22,314	21,042	19,391
Interest	4,495	3,416	4,479
Depreciation and amortization	3,036	3,955	4,709
Provision for loan losses	810	763	1,909
Lease restructuring charges	—	990	—
Other general and administrative costs	17,732	18,132	16,699
Total operating expenses	<u>120,570</u>	<u>117,687</u>	<u>115,374</u>
Income before income taxes	9,439	2,028	877
Provision (benefit) for income taxes	3,882	(1,195)	(418)
Net income	5,557	3,223	1,295
Net loss attributable to non-controlling interests	86	112	144
Net income attributable to Newtek Business Services, Inc.	<u>\$ 5,643</u>	<u>\$ 3,335</u>	<u>\$ 1,439</u>
Weighted average common shares outstanding:			
Basic	35,523	35,706	35,655
Diluted	36,747	36,073	35,801
Basic income per share	<u>\$ 0.16</u>	<u>\$ 0.09</u>	<u>\$ 0.04</u>
Diluted income per share	<u>\$ 0.15</u>	<u>\$ 0.09</u>	<u>\$ 0.04</u>

See accompanying notes to these consolidated financial statements.

NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011 (RESTATED)
(In Thousands, except for Per Share Data)

	2012	2011 (Restated)
ASSETS		
Cash and cash equivalents (includes \$1,865 and \$—, respectively, related to VIE)	\$ 14,229	\$ 11,201
Restricted cash	8,456	14,228
Broker receivable	16,698	4,911
SBA loans held for investment, net (includes \$12,910 and \$15,217, respectively related to securitization trust VIE; net of reserve for loan losses of \$2,589 and \$2,900, respectively)	14,647	18,555
SBA loans held for investment, at fair value (includes \$22,931 and \$19,617, respectively, related to securitization trust VIE)	43,055	21,857
Accounts receivable (net of allowance of \$561 and \$308, respectively)	10,871	8,180
SBA loans held for sale, at fair value	896	2,198
Prepaid expenses and other assets, net (includes \$1,123 and \$1,211, respectively, related to securitization trust VIE)	11,014	11,762
Servicing assets (net of accumulated amortization and allowances of \$6,750 and \$5,964, respectively)	4,682	3,420
Fixed assets (net of accumulated depreciation and amortization of \$10,922 and \$16,463, respectively)	3,523	2,853
Intangible assets (net of accumulated amortization of \$13,855 and \$13,226, respectively)	1,558	1,420
Credits in lieu of cash	8,703	16,948
Goodwill	12,092	12,092
Deferred tax asset, net	2,318	170
Total assets	<u>\$152,742</u>	<u>\$129,795</u>
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 11,206	\$ 12,127
Notes payable	39,823	13,565
Note payable – Securitization trust VIE	22,039	26,368
Capital lease obligation	632	—
Deferred revenue	1,437	1,634
Notes payable in credits in lieu of cash	8,703	16,948
Total liabilities	<u>83,840</u>	<u>70,642</u>
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, 36,913 and 36,701 issued; 35,178 and 35,702 outstanding, respectively, not including 83 shares held in escrow)	738	734
Additional paid-in capital	60,609	57,960
Retained earnings (accumulated deficit), (includes \$1,466 and \$—, respectively, related to consolidation of VIE on January 1, 2012)	7,008	(101)
Treasury stock, at cost (1,735 and 999 shares, respectively)	(1,508)	(620)
Total Newtek Business Services, Inc. stockholders' equity	66,847	57,973
Non-controlling interests	2,055	1,180
Total equity	<u>68,902</u>	<u>59,153</u>
Total liabilities and equity	<u>\$152,742</u>	<u>\$129,795</u>

See accompanying notes to these consolidated financial statements.

NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 (RESTATED) AND 2010
(In Thousands)

	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Number of Shares of Treasury Stock	Treasury Stock	Non- controlling Interest	Total
Balance at December 31, 2009	36,674	\$ 733	\$ 57,302	\$(4,974)	1,026	\$ (649)	\$ 1,615	\$54,027
Stock-based compensation	—	—	77	—	—	—	—	77
Grant of restricted stock award	—	—	4	—	—	—	—	4
Option exercise	27	1	25	—	9	(14)	—	12
Expiration of subsidiary non-controlling interest warrants	—	—	242	—	—	—	(262)	(20)
Cumulative-effect adjustment, deconsolidation of OnLAN, LLC	—	—	—	99	—	—	—	99
Non-controlling interest contribution	—	—	—	—	—	—	100	100
Net income	—	—	—	1,439	—	—	(144)	1,295
Balance at December 31, 2010	36,701	734	57,650	(3,436)	1,035	(663)	1,309	55,594
Issuance of treasury shares	—	—	27	—	(49)	59	—	86
Purchase of treasury shares	—	—	—	—	13	(16)	—	(16)
Grant of restricted stock award	—	—	479	—	—	—	—	479
Buyout of non-controlling interest	—	—	(196)	—	—	—	(17)	(213)
Net income (as restated)	—	—	—	3,335	—	—	(112)	3,223
Balance at December 31, 2011 (as restated)	36,701	734	57,960	(101)	999	(620)	1,180	59,153
Cumulative-effect adjustment, consolidation of Expo	—	—	—	1,466	—	—	2,290	3,756
Deconsolidation of non-controlling interest for Expo's interest in subsidiary	—	—	(231)	—	—	—	(768)	(999)
Expiration of subsidiary non-controlling interest warrants	—	—	337	—	—	—	(337)	—
Exercise of options	212	4	—	—	—	—	—	4
Issuance of treasury shares	—	—	25	—	(67)	79	—	104
Purchase of treasury shares	—	—	—	—	803	(967)	—	(967)
Grant of restricted stock award	—	—	499	—	—	—	—	499
Issuance of warrant to Summit	—	—	2,070	—	—	—	—	2,070
Purchase of non-controlling interest	—	—	(51)	—	—	—	(224)	(275)
Net income	—	—	—	5,643	—	—	(86)	5,557
Balance at December 31, 2012	<u>36,913</u>	<u>\$ 738</u>	<u>\$ 60,609</u>	<u>\$ 7,008</u>	<u>1,735</u>	<u>\$(1,508)</u>	<u>\$ 2,055</u>	<u>\$68,902</u>

See accompanying notes to these consolidated financial statements.

NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 (RESTATED) AND 2010
(In Thousands)

	<u>2012</u>	<u>2011</u> <u>(Restated)</u>	<u>2010</u>
Cash flows from operating activities:			
Net income	\$ 5,557	\$ 3,223	\$ 1,295
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Income from tax credits	(522)	(1,390)	(2,380)
Accretion of interest expense	525	1,259	2,418
Fair value adjustments on SBA loans	1,013	5,493	(3,494)
Fair value adjustment of credits in lieu of cash and notes payable in credits in lieu of cash	(3)	131	(38)
Fair value adjustment on warrants	111	—	—
Deferred income taxes	(2,245)	(2,873)	(633)
Depreciation and amortization	3,036	3,955	4,709
Accretion of discount	247	—	—
Provision for loan losses	810	763	1,909
Lease restructuring charges	(291)	990	—
Other, net	946	394	1,032
Changes in operating assets and liabilities:			
Originations of SBA loans held for sale	(83,349)	(74,546)	(782)
Originations of SBA loans transferred, subject to premium recourse	—	(274)	(30,752)
Originations of SBA loans, achieving sale status	—	—	(25,983)
Proceeds from originations of SBA loans, achieving sale status	—	—	25,983
Proceeds from sale of SBA loans held for sale	84,743	73,871	—
Proceeds from sale of SBA loans, achieving sale status	—	27,855	—
Liability on SBA loans transferred, subject to premium recourse	—	(30,783)	34,094
Broker receivable	(11,788)	7,148	(5,591)
Accounts receivable	(2,766)	(513)	(4,982)
Prepaid expenses, accrued interest receivable and other assets	3,245	(3,093)	(45)
Accounts payable, accrued expenses, other liabilities and deferred revenue	(597)	2,782	1,849
Other, net	(3,026)	(2,987)	(817)
Net cash (used in) provided by operating activities	<u>(4,354)</u>	<u>11,405</u>	<u>(2,208)</u>
Cash flows from investing activities:			
Investments in qualified businesses	(1,651)	—	—
Returns of investments in qualified businesses	233	242	238
Purchase of fixed assets and customer accounts	(3,055)	(1,498)	(2,075)
SBA loans originated for investment, net	(24,190)	(22,269)	(8,244)
Payments received on SBA loans	4,999	4,672	3,212
Change in restricted cash	1,441	1,239	533
Purchase of non-controlling interest	(275)	(196)	—
Net cash used in investing activities	<u>(22,498)</u>	<u>(17,810)</u>	<u>(6,336)</u>

See accompanying notes to these consolidated financial statements.

NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 (RESTATED) AND 2010
(In Thousands)

	<u>2012</u>	<u>2011 (Restated)</u>	<u>2010</u>
Cash flows from financing activities:			
Net borrowings (repayments) on bank lines of credit	\$18,387	\$ 1,033	\$ (3,107)
Increase in cash due to consolidation of VIE	2,763	—	—
Proceeds from term loan	10,000	—	12,500
Payments on bank term note payable	(417)	(417)	(12,743)
Payments on senior notes	(4,561)	(2,821)	(299)
Issuance of senior notes, net of issuance costs	—	13,513	14,510
Change in restricted cash due to debt refinancing	—	(750)	—
Change in restricted cash related to securitization	5,053	(2,954)	(4,161)
Additions to deferred financing costs	(1,246)	—	—
Purchase of treasury shares	(967)	(16)	—
Other, net	868	(364)	(355)
Net cash provided by financing activities	<u>29,880</u>	<u>7,224</u>	<u>6,345</u>
Net increase (decrease) in cash and cash equivalents	3,028	819	(2,199)
Cash and cash equivalents – beginning of year	<u>11,201</u>	<u>10,382</u>	<u>12,581</u>
Cash and cash equivalents – end of year	<u>\$14,229</u>	<u>\$ 11,201</u>	<u>\$ 10,382</u>
Supplemental disclosure of cash flow activities:			
Cash paid for interest	<u>\$ 2,844</u>	<u>\$ 1,346</u>	<u>\$ 1,289</u>
Cash paid for taxes	<u>\$ 5,402</u>	<u>\$ 1,280</u>	<u>\$ 388</u>
Non-cash investing and 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	<u>\$ 9,362</u>	<u>\$ 19,482</u>	<u>\$ 21,181</u>
Refinance of line of credit to term loan	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,083</u>
Additional paid in capital, upon acquisition of subsidiaries non-controlling interests	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 236</u>
Addition to assets and liabilities on January 1, 2012 as a result of consolidation of interests in Exponential of New York, LLC			
Assets	\$ 2,763	\$ —	\$ —
Liabilities	7	—	—
Equity	<u>\$ 2,756</u>	<u>\$ —</u>	<u>\$ —</u>
Addition to additional paid-in capital for warrants expired previously attributable to non-controlling interests	<u>\$ 338</u>	<u>\$ —</u>	<u>\$ —</u>
Initial allocation of value issued to warrants issued in financing transaction	<u>\$ 1,959</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes to these consolidated financial statements.

NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION:

Newtek Business Services, Inc. (“Newtek”) is a holding company for several wholly- and majority-owned subsidiaries, including twelve certified capital companies which are referred to as Capcos, and several portfolio companies in which the Capcos own non-controlling or minority interests. The Company provides a “one-stop-shop” for business services to the small- and medium-sized business market and uses state of the art web-based proprietary technology to be a low cost acquirer and provider of products and services. The Company partners with companies, credit unions, and associations to offer its services.

The Company’s principal business segments are:

Electronic Payment Processing: Marketing third party credit card processing and check approval services to the small- and medium-sized business market under the name of Newtek Merchant Solutions.

Managed Technology Solutions: CrystalTech Web Hosting, Inc., d/b/a Newtek Managed Technology Solutions (“NTS”), offers shared and dedicated web hosting, data storage and backup services, cloud computing plans and related services to the small- and medium-sized business market.

Small Business Finance: The segment is comprised of Newtek Small Business Finance, Inc. (“NSBF”), a nationally licensed, U.S. Small Business Administration (“SBA”) lender that originates, sells and services loans to qualifying small businesses, which are partially guaranteed by the SBA and CDS Business Services, Inc. d/b/a Newtek Business Credit (“NBC”) which provides receivable financing and management services.

All Other: Businesses formed from investments made through Capco programs and others which cannot be aggregated with other operating segments, including insurance and payroll processing.

Corporate Activities: Corporate implements business strategy, directs marketing, provides technology oversight and guidance, coordinates and integrates activities of the segments, contracts with alliance partners, acquires customer opportunities, and owns our proprietary NewTracker® referral system. This segment includes revenue and expenses not allocated to other segments, including interest income, Capco management fee income and corporate operations expenses.

Capco: Twelve certified capital companies which invest in small- and medium-sized businesses. They generate non-cash income from tax credits and non-cash interest expense and insurance expenses in addition to cash management fees.

The Company determined that it was the primary beneficiary of an affiliated Capco company, Exponential of New York, LLC (“Expo”), resulting from an ownership change pursuant to operation of the LLC agreement and its ability to direct the activities of Expo that most significantly impact the entity’s economic performance. The Company now includes Expo as a consolidated variable interest entity effective January 2012, and holds a 39% interest in Expo; the remaining 61% is held by non-affiliates and is accounted for as non-controlling interest. As a result of the consolidation, a cumulative effect adjustment to equity was required to recognize the previously recognized interest in the newly consolidated subsidiary. In addition, the Company’s opening cash and accounts

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payable increased by \$2,763,000 and \$7,000, respectively, reflecting the opening balance of Expo's assets and liabilities. The opening equity was adjusted as follows:

(In thousands)	Number of Common Shares	Common Shares (at par)	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Number of Treasury Shares	Treasury Shares	Non- controlling Interest	Total
Balance at December 31, 2011, as restated	36,701	\$ 734	\$ 57,960	\$ (101)	999	\$ (620)	\$ 1,180	\$59,153
Cumulative effect adjustment to opening equity as a result of Expo consolidation	—	—	—	1,466	—	—	2,290	3,756
Adjusted balance at January 1, 2012, as restated	<u>36,701</u>	<u>\$ 734</u>	<u>\$ 57,960</u>	<u>\$ 1,365</u>	<u>999</u>	<u>\$ (620)</u>	<u>\$ 3,470</u>	<u>\$62,909</u>

The consolidated financial statements of Newtek Business Services, Inc., its Subsidiaries and consolidated entities (the "Company" or "Newtek") have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America and include all wholly- and majority-owned subsidiaries, and several portfolio companies in which the Capcos own non-controlling interest, or those variable interest entities of which Newtek is considered to be the primary beneficiary. All inter-company balances and transactions have been eliminated in consolidation. Non-controlling interests (previously shown as minority interests) are reported below net income (loss) under the heading "Net loss attributable to non-controlling interests" in the consolidated statements of income and shown as a component of equity in the consolidated balance sheets. See New Accounting Standards for further discussion.

Non-controlling interests

Non-controlling interests in results of operations of consolidated variable interest entities and majority-owned subsidiaries represents the non-controlling members' share of the earnings or loss of the consolidated variable interest entities and majority-owned subsidiaries. The non-controlling interest in the consolidated balance sheet reflects the original investment by these non-controlling members, along with their proportional share of earnings or losses.

All financial information included in the tables in the following footnotes is stated in thousands, except per share data.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES:

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expense during the reporting period. The level of uncertainty in estimates and assumptions increases with the length of time until the underlying transactions are complete. The most significant estimates are with respect to valuation of investments in qualified businesses, asset impairment valuation, allowance for loan losses, valuation of servicing assets, charge-back reserves, tax valuation allowances and the fair value measurements used to value certain financial assets and financial liabilities. Actual results could differ from those estimates.

During 2012, the Company revised its estimate for the amortization period of the servicing asset. Please see Note 5 to the Consolidated Financial Statements for a full discussion.

Revenue Recognition

The Company operates in a number of different segments. Revenues are recognized as services are rendered and are summarized as follows:

Electronic payment processing revenue: Electronic payment processing and fee income is derived from the electronic processing of credit and debit card transactions that are authorized and captured through third-party networks. Typically, merchants are charged for these processing services on a percentage of the dollar amount of each transaction plus a flat fee per transaction. Certain merchant customers are charged miscellaneous fees, including fees for handling charge-backs or returns, monthly minimum fees, statement fees and fees for other miscellaneous services. Revenues derived from the electronic processing of MasterCard® and Visa® sourced credit and debit card transactions are reported gross of amounts paid to sponsor banks.

Web hosting revenue: Managed technology solutions revenue is primarily derived from monthly recurring service fees for the use of its web hosting, web design and software support services. Customer set-up fees are billed upon service initiation and are recognized as revenue over the estimated customer relationship period of 2.5 years. Payment for web hosting and related services, excluding cloud plans, is generally received one month to one year in advance. Deferred revenues represent customer payments for web hosting and related services in advance of the reporting period date. Revenue for cloud related services is based on actual consumption used by a cloud customer.

Income from tax credits: Following an application process, a state will notify a company that it has been certified as a Capco. The state or jurisdiction then allocates an aggregate dollar amount of tax credits to the Capco. However, such amount is neither recognized as income nor otherwise recorded in the financial statements since it has yet to be earned by the Capco. The Capco is entitled to earn tax credits upon satisfying defined investment percentage thresholds within specified time requirements. Newtek has Capcos operating in five states and the District of Columbia. Each statute requires that the Capco invest a threshold percentage of “certified capital” (the funds provided by the insurance company investors) in businesses defined as qualified within the time frames specified. As the Capco meets these requirements, it avoids grounds under the statute for its disqualification for continued participation in the Capco program. Such a disqualification, or “decertification” as a Capco results in a permanent recapture of all or a portion of the allocated tax credits. The proportion of the possible recapture is reduced over time as the Capco remains in general compliance with the program rules and meets the progressively increasing investment benchmarks. As the Capco progresses in its investments in Qualified Businesses and, accordingly, places an increasing proportion of the tax credits beyond recapture, it earns an amount equal to the non-recapturable tax credits and records such amount as income, with a corresponding asset called “credits in lieu of cash” in the balance sheet.

The amount earned and recorded as income is determined by multiplying the total amount of tax credits allocated to the Capco by the percentage of tax credits immune from recapture (the earned income percentage) at that point. To the extent that the investment requirements are met ahead of schedule, and the percentage of non-recapturable tax credits is accelerated, the present value of the tax credit earned is recognized currently and the asset, credits in lieu of cash, is accreted up to the amount of tax credits deliverable to the certified investors. The obligation to deliver tax credits to the certified investors is recorded as notes payable in credits in lieu of cash. On the date the tax credits are utilizable by the certified investors, the Capco decreases credits in lieu of cash with a corresponding decrease to notes payable in credits in lieu of cash.

Sales and Servicing of SBA Loans: NSBF originates loans to customers under the SBA program that generally provides for SBA guarantees of 50% to 90% of each loan, subject to a maximum guarantee amount. This guaranteed portion is generally sold to a third party via an SBA regulated secondary market transaction utilizing SBA Form 1086 for a price equal to the guaranteed loan amount plus a premium that includes both an upfront cash payment and the fair value of future net servicing income. Prior to October 1, 2010, NSBF recognized the revenue item “Premium on loan sales” net of capitalized loan expenses and the discount on the retained

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unguaranteed portion; subsequent to the adoption of fair value of SBA 7(a) loans on October 1, 2010, NSBF recognizes premium on loan sales as equal to the cash premium plus the fair value of the servicing income. Revenue is recognized on the trade date of the guaranteed portion, except as described below.

Upon recognition of each loan sale, the Company retains servicing responsibilities and receives servicing fees of a minimum of 1% of the guaranteed loan portion sold. The Company is required to estimate its adequate servicing compensation in the calculation of its servicing asset. The purchasers of the loans sold have no recourse to the Company for failure of customers to pay amounts contractually due.

Subsequent measurements of each class of servicing assets and liabilities may use either the amortization method or the fair value measurement method. NSBF has chosen to apply the amortization method to its servicing asset, amortizing the asset in proportion to, and over the period of, the estimated future net servicing income on the underlying sold guaranteed portion of the loans and assessing the servicing asset for impairment based on fair value at each reporting date. In the event future prepayments are significant or impairments are incurred and future expected cash flows are inadequate to cover the unamortized servicing assets, additional amortization or impairment charges would be recognized. In evaluating and measuring impairment of servicing assets, NSBF stratifies its servicing assets based on year of loan and loan term which are the key risk characteristics of the underlying loan pools. The Company uses an independent valuation specialist to estimate the fair value of the servicing asset by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, servicing costs and discount rates that NSBF believes market participants would use for similar assets. If NSBF determines that the impairment for a stratum is temporary, a valuation allowance is recognized through a charge to current earnings for the amount the amortized balance exceeds the current fair value. If the fair value of the stratum were to later increase, the valuation allowance may be reduced as a recovery. However, if NSBF determines that impairment for a stratum is other than temporary, the value of the servicing asset and any related valuation allowance is written-down.

SBA Loan Interest and Fees: Interest income on loans is recognized as earned. A loan is placed on non-accrual status if it exceeds 90 days past due with respect to principal or interest and, in the opinion of management, interest or principal on the loan is not collectible, or at such earlier time as management determines that the collectability of such principal or interest is unlikely. Such loans are designated as impaired non-accrual loans. All other loans are defined as performing loans. When a loan is designated as impaired non-accrual, the accrual of interest is discontinued, and any accrued but uncollected interest income is reversed and charged against current operations. While a loan is classified as impaired non-accrual and the future collectability of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding.

The Company passes certain expenditures it incurs to the borrower, such as force placed insurance, insufficient funds fees, or fees it assesses, such as late fees, with respect to managing the loan. These expenditures are recorded when incurred. Due to the uncertainty with respect to collection of these passed through expenditures or assessed fees, any funds received to reimburse the Company are recorded on a cash basis as other income.

Insurance commissions: Revenues are comprised of commissions earned on premiums paid for insurance policies and are recognized at the time the commission is earned. At that date, the earnings process has been completed and the Company can estimate the impact of policy cancellations for refunds and establish reserves. The reserve for policy cancellations is based on historical cancellation experience adjusted by known circumstances.

Other income: Other income represents revenues derived from operating units that cannot be aggregated with other business segments. In addition, other income represents one time recoveries or gains on investments. Revenue is recorded when there is strong evidence of an agreement, the related fees are fixed, the service or product has been delivered, and the collection of the related receivable is assured.

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- **Receivable fees:** Receivable fees are derived from the funding (purchase) of receivables from finance clients. NBC recognizes the revenue on the date the receivables are purchased at a percentage of face value as agreed to by the client. The Company also has arrangements with certain of its clients whereby it purchases the client's receivables and charges a fee at a specified rate based on the amount of funds advanced against such receivables. The funds provided are collateralized and the income is recognized as earned.
- **Late fees:** Late fees are derived from receivables NBC has purchased that have gone over a certain period (usually over 30 days) without payment. The client or the client's customer is charged a late fee according to the agreement with the client and NBC records the fees as income in the month in which such receivable becomes past due.
- **Billing fees:** Billing fees are derived from billing-only (non-finance) clients. These fees are recorded when earned, which occurs when the service is rendered.
- **Other fees:** These fees include annual fees, due diligence fees, termination fees, under minimum fees, and other fees including finance charges, supplies sold to clients, NSF fees, wire fees and administration fees. These fees are charged upon funding, takeovers or liquidation of finance clients. The Company also receives commission revenue from various sources.

Electronic Payment Processing Costs

Electronic payment processing costs consist principally of costs directly related to the processing of merchant sales volume, including interchange fees, VISA® and MasterCard® dues and assessments, bank processing fees and costs paid to third-party processing networks. Such costs are recognized at the time the merchant transactions are processed or when the services are performed. Two of the most significant components of electronic processing expenses include interchange and assessment costs, which are set by the credit card associations. Interchange costs are passed on to the entity issuing the credit card used in the transaction and assessment costs are retained by the credit card associations. Interchange and assessment fees are billed primarily as a percent of dollar volume processed and, to a lesser extent, as a per transaction fee. In addition to costs directly related to the processing of merchant sales volume, electronic payment processing costs also include residual expenses. Residual expenses represent fees paid to third-party sales referral sources. Residual expenses are paid under various formulae as contracted. These are generally linked to revenues derived from merchants successfully referred to the Company and that begin using the Company for merchant processing services. Such residual expenses are recognized in the Company's consolidated statements of income.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Invested cash is held almost exclusively at financial institutions with ratings from S&P of A- or better. The Company invests cash not held in interest free checking accounts or bank money market accounts mainly in U.S. Treasury only money market instruments or funds and other investment-grade securities. As of December 31, 2012, cash deposits in excess of FDIC deposit insurance and SIPC insurance totaled approximately \$3,781,000 and funds held in U.S. Treasury only money market funds or equivalents in excess of SIPC insurance totaled approximately \$1,849,000.

Restricted Cash

Restricted cash includes cash collateral relating to a letter of credit; monies due on SBA loan-related remittances and insurance premiums received by the Company and due to third parties; cash held by the Capcos restricted for use in managing and operating the Capco, making qualified investments and for the payment of income taxes; cash reserves associated with the securitization, cash held in blocked accounts used to pay down bank note payables, cash held for our payroll clients waiting to be remitted to their employees or taxing authority and a cash

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account maintained as a reserve against electronic payment processing chargeback losses. Following is a summary of restricted cash by segment:

<u>(In thousands):</u>	<u>2012</u>	<u>2011</u>
Electronic payment processing	\$ 387	\$ 284
Small business finance	4,306	9,269
All other	67	164
Corporate activities	986	1,063
Capcos	2,710	3,448
Totals	<u>\$8,456</u>	<u>\$14,228</u>

Broker Receivable

Broker receivable represents amounts due from third parties for loans which have been traded at period end but have not yet settled.

Purchased Receivables

For clients that are assessed fees based on a discount as well as for clients that are on a prime plus fee schedule, purchased receivables are recorded at the point in time when cash is released to the client. A majority of the receivables purchased with respect to prime plus arrangements are recourse and are sold back to the client if aged over 90 days, depending on contractual agreements. Purchased receivables are included in accounts receivable on the consolidated balance sheets.

Allowance for Doubtful Accounts – Purchased Receivables

The allowance for doubtful accounts, related to purchased receivables, is established by management through provisions for bad debts charged against income. Amounts deemed to be uncollectible are charged against the allowance for doubtful accounts and subsequent recoveries, if any, are credited to income.

The amount of the allowance for doubtful accounts is inherently subjective, as it requires making material estimates which may vary from actual results. Management's ongoing estimates of the allowance for doubtful accounts are particularly affected by the performance of the client in their ability to provide the Company with future receivables coupled with the collections of their current receivables.

The allowance consists of specific and general components. The specific component relates to clients' aggregate net balance that is classified as doubtful. The general component covers non-classified balances and is based on historical loss experience.

A clients' aggregate net balance is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the receivable payments or the Company has greatly reduced the amount of receivables to be purchased.

The Company's charge-off policy is based on a client-by-client review for which the estimated uncollectible portion is charged off against the corresponding client's net balance and the allowance for doubtful accounts.

Investments in Qualified Businesses

The various interests that the Company's Capcos acquire 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 or the economics of the transaction if the investee is determined to be a variable interest entity.

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Consolidation Method. Investments in which the Company directly or indirectly owns more than 50% of the outstanding voting securities, those the Company has effective control over, or those deemed to be a variable interest entity in which the Company is the primary beneficiary 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 consolidated financial statements. All significant inter-company accounts and transactions are eliminated, including returns of principal, dividends, interest received and investment redemptions. The results of operations and cash flows of a consolidated operating entity are included through the latest interim period in which the Company owned a greater than 50% direct or indirect voting interest, exercised control over the entity for the entire interim period or was otherwise designated as the primary beneficiary. Upon dilution of control below 50%, or upon occurrence of a triggering event requiring reconsideration as to the primary beneficiary of a variable interest entity, 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 investee's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the investee, 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 financial statements; however, the Company's share of the earnings or losses of the investee is reflected in the Company's consolidated financial statements.

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 net earnings or losses of such companies is not included in the Company's consolidated financial statements. However, cost method impairment charges are recognized, as necessary, in the Company's consolidated financial statements. If circumstances suggest that the value of the investee has subsequently recovered, such recovery is not recorded until ultimately liquidated or realized.

The Company's debt and equity investments have substantially been made with funds available to Newtek through the Capco programs. These programs generally require that each Capco meet a minimum investment benchmark within five years of initial funding. In addition, any funds received by a Capco as a result of a debt repayment or equity return may, under the terms of the Capco programs, be reinvested and counted towards the Capcos' minimum investment benchmarks.

SBA Loans Held for Investment

For loans that completed funding before October 1, 2010, SBA loans held for investment are reported at their outstanding unpaid principal balances adjusted for charge-offs, net deferred loan origination costs and the allowance for loan losses. For loans that completed funding on or after October 1, 2010, management elected to fair value SBA loans held for investment within the fair value hierarchy that prioritizes observable and unobservable inputs utilizing Level 3 unobservable inputs which reflect the Company's own expectations about the assumptions that market participants would use in pricing the asset (including assumptions about risk). The Company considers the pricing reflected in its securitization activities to be the best indicator of the fair value discount used to measure loans held for investment.

The fair value measurement, currently recorded as a 7.5% upfront discount of the unguaranteed principal balance of SBA loans held for investment, is based upon internal quantitative data on the Company's portfolio with respect to historical default rates and future expected losses as well as the investor price paid for the senior interest in our unguaranteed loans with respect to the 2013 securitized transactions, and adjusted for the estimated servicing and interest income to be retained by the trust over an estimated repayment term of three

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years. This was further adjusted to reflect the estimated default rate on the senior notes based on the default rate on the Company's loan portfolio, assuming a worst case scenario of no recoveries. Should the performance of the underlying loans to the senior notes change, this could impact the assumptions used in the estimated repayment term as well as the estimated default rate and thus result in a higher or lower discount rate taken in the future; management reviews these assumptions regularly. If a loan measured at fair value is subsequently impaired, then the fair value of the loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. The significant unobservable inputs used in the fair value measurement of the impaired loans involve management's judgment in the use of market data and third party estimates regarding collateral values. Such estimates are further discounted by 20% - 80% to reflect the cost of liquidating the various assets under collateral. Any subsequent increases or decreases in any of the inputs would result in a corresponding decrease or increase in the reserve for loan loss or fair value of SBA loans, depending on whether the loan was originated prior or subsequent to October 1, 2010. Because the loans bear interest at a variable rate, NSBF does not have to factor in interest rate risk.

Allowance for SBA Loan Losses

For loans funded before October 1, 2010, the allowance for loan losses for performing loans is established by management through provisions for loan losses charged against income. The amount of the allowance for loan losses is inherently subjective, as it requires making material estimates which may vary from actual results. Management's ongoing estimates of the allowance for loan losses are particularly affected by the changing composition of the loan portfolio over the last few years as well as other portfolio characteristics, such as industry concentrations and loan collateral. The adequacy of the allowance for loan losses is reviewed by management on a monthly basis at a minimum, and as adjustments become necessary, are reflected in operations during the periods in which they become known. Considerations in this evaluation include past and anticipated loss experience, risks inherent in the current portfolio and evaluation of real estate collateral as well as current economic conditions. In the opinion of management, the allowance, when taken as a whole, is adequate to absorb estimated loan losses inherent in the Company's entire loan portfolio. The allowance consists of specific and general components. The specific component relates to loans that are classified as either loss, doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

Loans funded on or after October 1, 2010 are recorded at fair value. Changes in the value of such loans, whether performing or impaired, are reported as a net change in the fair value of SBA loans held for investment in the consolidated statement of operations.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Other factors considered by management in determining impairment include payment status and collateral value. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. Impaired loans for which the carrying amount is based on fair value of the underlying collateral are included in assets and reported at estimated fair value on a non-recurring basis, both at initial recognition of impairment and on an on-going basis until recovery or charge-off of the loan amount. The determination of impairment involves management's judgment in the use of market data and third party estimates regarding collateral values. For loans

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funded before October 1, 2010, the impairment of a loan resulted in management establishing an allowance for loan losses through provisions for loan losses charged against income; for subsequent loans at fair value, impairment results in a net change in the fair value of SBA loans held for investment. Amounts deemed to be uncollectible are charged against the allowance for loan losses or reduces the fair value and subsequent recoveries, if any, are credited to the allowance or increases the fair value.

The Company's charge-off policy is based on a loan-by-loan review for which the estimated uncollectible portion of nonperforming loans is charged off against the corresponding loan receivable and the allowance for possible loan losses or against the reduction in fair value.

SBA Loans Held For Sale

For guaranteed portions funded, but not yet traded at each measurement date, management elected to fair value SBA loans held for sale within the fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value utilizing Level 2 assets. These inputs include debt securities with quoted prices that are traded less frequently than exchange-traded instruments or have values determined using a pricing model with inputs that are observable in the market. The secondary market for the guaranteed portions is extremely robust with broker dealers acting as primary dealers. NSBF sells regularly into the market and can quickly price its loans for sale. The Company values the guaranteed portion based on market prices equal to the guaranteed loan amount plus a premium that includes both an upfront cash payment (utilizing quoted prices) and the value of a stream of payments representing servicing income received in excess of NSBF's servicing cost (valued using a pricing model with inputs that are observable in the market).

Loans receivable held for sale are sold with the servicing rights retained by the Company. For loans funded prior to October 1, 2010, gains on sales of loans are recognized based on the difference between the selling price and the carrying value of the related loans sold. Unamortized net deferred loan origination costs are recognized as a component of gain on sale of loans. For loans funded on or after October 1, 2010, premium on loan sales is equal to the cash premium plus the fair value of the servicing income while extinguishing the fair value gain previously recorded.

Fixed Assets

Fixed assets, which are comprised of furniture and fixtures and computer office equipment, land, building and improvements, are stated at cost less accumulated depreciation and amortization. Depreciation of fixed assets is provided on a straight-line basis using estimated useful lives of the related assets. Amortization of leasehold improvements is provided on a straight-line basis using the lesser of the useful life of the asset or lease term. Useful lives of assets are: computer software, website development, and servers and storage (three years), computer and office equipment and furniture and fixtures (generally three to five years).

Software and Website Development Costs

The Company capitalizes its website development costs, online application system, referral system and other proprietary systems and computer software. Costs incurred during the preliminary project stage are expensed as incurred, while application stage projects are capitalized. The latter costs are typically employee and/or consulting services directly associated with the development of the internal use computer software. Software and website costs are included in fixed assets in the accompanying consolidated balance sheets. Amortization commences once the software is ready for its intended use and is amortized using the straight-line method over the estimated useful life, typically three years.

Deferred Financing Costs

Deferred financing costs are being amortized under the straight-line method over the terms of the related indebtedness, which approximates the effective interest method and is included in interest expense in the accompanying consolidated statements of income.

Impairment of Long-Lived Assets

Long-lived assets, including fixed assets and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In reviewing for impairment, the carrying value of such assets is compared to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. If such cash flows are not sufficient to support the asset's recorded value, an impairment charge is recognized to reduce the carrying value of the long-lived asset to its estimated fair value. The determination of future cash flows as well as the estimated fair value of long-lived assets involves significant estimates on the part of management. In order to estimate the fair value of a long-lived asset, the Company may engage a third party to assist with the valuation. If there is a material change in economic conditions or other circumstances influencing the estimate of future cash flows or fair value, the Company could be required to recognize impairment charges in the future.

Securitization Activities

NSBF engaged in a securitization of the unguaranteed portions of its SBA 7(a) loans in 2010 and 2011. Because the transfer of these assets did not meet the criteria of a sale for accounting purposes, it was treated as a secured borrowing. NSBF continues to recognize the assets of the secured borrowing in Loans held for investment and the associated financing in Notes payable on the consolidated balance sheets.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets deemed to have an indefinite life are not amortized and are subject to impairment tests, at least annually. Other intangible assets with finite lives are amortized over their useful lives ranging from 18 to 66 months, and evaluated as discussed in Note 10.

The Company considers the following to be some examples of indicators that may trigger an impairment review outside its annual impairment review:

(i) significant under-performance or loss of key contracts acquired in an acquisition relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of the acquired assets or in the Company's overall strategy with respect to the manner or use of the acquired assets or changes in the Company's overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in the Company's stock price for a sustained period of time; and (vi) regulatory changes. In assessing the recoverability of the Company's goodwill and intangibles, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. These include estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the Company, the useful life over which cash flows will occur, and determination of the Company's cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and conclusions on goodwill impairment.

Reserve for Losses on Merchant Accounts

Disputes between a cardholder and a merchant periodically arise as a result of, among other things, cardholder dissatisfaction with merchandise quality or merchant services. Such disputes may not be resolved in the merchant's favor. In these cases, the transaction is "charged back" to the merchant, which means the purchase price is refunded to the customer through the merchant's acquiring bank and charged to the merchant. If the merchant has inadequate funds, the Company or, under limited circumstances, the Company and the acquiring bank, must bear the credit risk for the full amount of the transaction. The Company evaluates its risk for such transactions and estimates its potential loss for charge-backs based primarily on historical experience and other relevant factors.

The Company records reserves for charge-backs and contingent liabilities when such amounts are deemed to be probable and estimable. The required reserves may change in the future due to new developments, including, but

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not limited to, changes in litigation or increased charge-back exposure as the result of merchant insolvency, liquidation, or other reasons. The required reserves are reviewed periodically to determine if adjustments are required.

Share – Based Compensation

All share-based payments to employees are recognized in the financial statements based on their fair values using an option-pricing model at the date of grant. The Company recognizes compensation on a straight-line basis over the requisite service period for the entire award. The Company has elected to adopt the alternative transition method for calculating the tax effects of share-based compensation. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies.

Fair Value

The Company adopted the methods of fair value to value its financial assets and liabilities. The Company carries its credits in lieu of cash, prepaid insurance and notes payable in credits in lieu of cash at fair value. The Company also carries impaired loans and other real estate owned at fair value. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, the Company utilized a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

- Level 1** Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts and residential mortgage loans held-for-sale.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly structured or long-term derivative contracts.

Income Taxes

Deferred tax assets and liabilities are computed based upon the differences between the financial statement and income tax basis of assets and liabilities using the enacted tax rates in effect for the year in which those temporary differences are expected to be realized or settled. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized.

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The Company's U.S. Federal and state income tax returns prior to fiscal year 2008 are closed, and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Accounting for Uncertainty in Income Taxes

The ultimate deductibility of positions taken or expected to be taken on tax returns is often uncertain. In order to recognize the benefits associated with a tax position taken (i.e., generally a deduction on a corporation's tax return), the entity must conclude that the ultimate allowability of the deduction is more likely than not. If the ultimate allowability of the tax position exceeds 50% (i.e., it is more likely than not), the benefit associated with the position is recognized at the largest dollar amount that has more than a 50% likelihood of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and recognized will generally result in (1) an increase in income taxes currently payable or a reduction in an income tax refund receivable or (2) an increase in a deferred tax liability or a decrease in a deferred tax asset, or both (1) and (2).

Fair Value of Financial Instruments

As required by the Financial Instruments Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), the estimated fair values of financial instruments must be disclosed. Excluding fixed assets, intangible assets, goodwill, and prepaid expenses and other assets (excluding as noted below), substantially all of the Company's assets and liabilities are considered financial instruments as defined under this standard. Fair value estimates are subjective in nature and are dependent on a number of significant assumptions associated with each instrument or group of similar instruments, including estimates of discount rates, risks associated with specific financial instruments, estimates of future cash flows and relevant available market information.

The carrying values of the following balance sheet items approximate their fair values primarily due to their liquidity and short-term or adjustable-yield nature:

- Cash and cash equivalents
- Restricted cash
- Broker receivable
- Accounts receivable
- Notes payable
- Accrued interest receivable (included in prepaid expenses and other assets)
- Accrued interest payable (included in accounts payable and accrued expenses)
- Accounts payable and accrued expenses

The carrying value of investments in Qualified Businesses (included in prepaid expenses and other assets), Credits in lieu of cash and Notes payable in credits in lieu of cash as well as SBA loans held for investment, SBA loans held for sale, SBA loans transferred, subject to premium recourse and Liability on SBA loans transferred, subject to premium recourse (for loans funded after September 30, 2010) approximate fair value based on management's estimates.

New Accounting Standards

In July 2012, the FASB issued Accounting Standards Update ("ASU") No. 2012-02, "Intangibles — Goodwill and Other (ASC Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment," which permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30 (ASU 2011-08). This new standard was effective for fiscal years beginning after September 15, 2012; the Company is evaluating the impact of adopting of this standard, but it is not anticipated to have a material impact on the Company's consolidated financial condition or results of operations.

Reclassifications

Certain prior period amounts, including cash, restricted cash, purchased receivables and client hold back with respect to the operations of NBC, have been reclassified to conform to current quarter presentation. Purchased receivables, reduced by \$2,313,000, are included in accounts receivable and client hold back, reduced by \$2,313,000, is included in accounts payable and accrued expenses on the condensed, consolidated balance sheet. Restricted cash was increased by \$162,000 while cash was decreased by the same amount.

NOTE 3—FAIR VALUE MEASUREMENTS:**Fair Value Option Elections**

Effective January 1, 2008, the Company adopted fair value accounting concurrent with the election of the fair value option. The accounting standard relating to the fair value measurements clarifies the definition of fair value and describes methods available to appropriately measure fair value in accordance with GAAP. The accounting standard applies whenever other accounting standards require or permit fair value measurements. The accounting standard relating to the fair value option for financial assets and financial liabilities allows entities to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities that are not otherwise required to be measured at fair value, with changes in fair value recognized in earnings as they occur. It also establishes presentation and disclosure requirements designed to improve comparability between entities that elect different measurement attributes for similar assets and liabilities.

On January 1, 2008, the Company elected the fair value option for valuing its Capcos' credits in lieu of cash, notes payable in credits in lieu of cash and prepaid insurance.

On October 1, 2010, the Company elected the fair value option for valuing its SBA 7(a) loans funded on or after that date which are included in SBA loans held for investment and SBA loans held for sale.

The Company elected the fair value option in order to reflect in its financial statements the assumptions that market participants use in evaluating these financial instruments.

Assets and Liabilities Measured at Fair Value on a Recurring Basis (In thousands):

(In thousands):	Fair Value Measurements at December 31, 2012 Using:				Total Gains and (Losses)
	Total	Level 1	Level 2	Level 3	
Assets					
Credits in lieu of cash	\$ 8,703	\$ —	\$8,703	\$ —	\$ —
SBA loans held for investment	43,055	—	—	43,055	(851)
SBA loans held for sale	896	—	896	—	(162)
Total assets	<u>\$52,654</u>	<u>\$ —</u>	<u>\$9,599</u>	<u>\$43,055</u>	<u>\$ (1,013)</u>
Liabilities					
Notes payable in credits in lieu of cash	\$ 8,703	\$ —	\$8,703	\$ —	\$ 3
Warrants	—	—	—	—	(111)
Total liabilities	<u>\$ 8,703</u>	<u>\$ —</u>	<u>\$8,703</u>	<u>\$ —</u>	<u>\$ (108)</u>

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Assets and Liabilities Measured at Fair Value on a Recurring Basis as (in thousands):

(In thousands):	Fair Value Measurements at December 31, 2011 Using:				Total Gains and (Losses)
	Total	Level 1	Level 2	Level 3	
Assets					
Credits in lieu of cash	\$16,948	\$ —	\$16,948	\$ —	\$ —
SBA loans held for investment	21,857	—	—	21,857	(2,392)
SBA loans held for sale	2,198	—	2,198	—	265
SBA loans transferred, subject to premium recourse	—	—	—	—	(3,366)
Total assets	<u>\$41,003</u>	<u>\$ —</u>	<u>\$19,146</u>	<u>\$21,857</u>	<u>\$ (5,493)</u>
Liabilities					
Notes payable in credits in lieu of cash	<u>\$16,948</u>	<u>\$ —</u>	<u>\$16,948</u>	<u>\$ —</u>	<u>\$ (131)</u>

Credits in Lieu of Cash, Prepaid Insurance and Notes Payable in Credits in Lieu of Cash

The Company elected to account for both credits in lieu of cash and notes payable in credits in lieu of cash at fair value in order to reflect in its consolidated financial statements the assumptions that market participant's use in evaluating these financial instruments.

Under the cost basis of accounting, the discount rates used to calculate the present value of the credits in lieu of cash and notes payable in credits in lieu of cash did not reflect the credit enhancements that the Company's Capcos obtained from Chartis, Inc. ("Chartis") (the renamed property and casualty holdings of American International Group, Inc., "AIG"), namely its AA+ rating at such time, for their debt issued to certified investors. Instead the cost paid for the credit enhancements was recorded as prepaid insurance and amortized on a straight-line basis over the term of the credit enhancements.

With the adoption of the fair value measurement of financial assets and financial liabilities and the election of the fair value option, credits in lieu of cash and notes payable in credits in lieu of cash are valued based on the yields at which financial instruments would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. The accounting standards require the fair value of the assets or liabilities to be determined based on the assumptions that market participants use in pricing the financial instrument. In developing those assumptions, the Company identified characteristics that distinguish market participants generally, and considered factors specific to (a) the asset type, (b) the principal (or most advantageous) market for the asset group, and (c) market participants with whom the reporting entity would transact in that market.

Based on the aforementioned characteristics and in view of the Chartis credit enhancements, the Company believes that market participants purchasing or selling its Capcos' debt and, therefore, its credits in lieu of cash and notes payable in credits in lieu of cash, view nonperformance risk to be equal to the risk of Chartis nonperformance risk and as such both the fair value of credits in lieu of cash and notes payable in credits in lieu of cash should be priced to yield a rate equal to comparable U.S. Dollar denominated debt instruments issued by Chartis' parent, AIG. Because the value of notes payable in credits in lieu of cash directly reflects the credit enhancement obtained from Chartis, the unamortized cost relating to the credit enhancement will cease to be separately carried as an asset on the Company's consolidated balance sheets and is incorporated in notes payable in credits in lieu of cash.

Fair value measurements:

The Company's Capcos' debt, enhanced by Chartis insurance, effectively bears the nonperformance risk of Chartis. The closest trading comparators are the debt of Chartis' parent, AIG. Therefore the Company calculates

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the fair value of both the credits in lieu of cash and notes payable in credits in lieu of cash using the yields of various AIG notes with similar maturities to each of the Company's respective Capcos' debt (the "Chartis Note Basket"). The Company elected to discontinue utilizing AIG's 7.70% Series A-5 Junior Subordinated Debentures because those long maturity notes began to trade with characteristics of a preferred stock after AIG received financing from the United States Government. The Company considers the Chartis Note Basket a Level 2 input under fair value accounting, since it is a quoted yield for a similar liability that is traded in an active exchange market. The Company selected the Chartis Note Basket as the most representative of the nonperformance risk associated with the Capco notes because they are Chartis issued notes, are actively traded and because maturities match credits in lieu of cash and notes payable in credits in lieu of cash.

After calculating the fair value of both the credits in lieu of cash and notes payable in credits in lieu of cash, the Company compares their values. This calculation is done on a quarterly basis. Calculation differences primarily due to tax credit receipt versus delivery timing may cause the value of the credits in lieu of cash to differ from that of the notes payable in credits in lieu of cash. Because the credits in lieu of cash asset has the single purpose of paying the notes payable in credits in lieu of cash and has no other value to the Company, Newtek determined that the credits in lieu of cash should equal the notes payable in credits in lieu of cash.

On December 31, 2011, the yield on the Chartis Note Basket was 5.53%. As of December 31, 2012, the date the Company revalued the asset and liability, the yields on the Chartis notes averaged 1.72% reflecting changes in interest rates in the marketplace. This decrease in yield increased both the fair value of the credits in lieu of cash and the fair value of the notes payable in credits in lieu of cash. The Company decreased the value of the credits in lieu of cash to equal the value of the notes payable in credits in lieu of cash because the credits in lieu of cash can only be used to satisfy the liability and must equal the value of the notes payable in credits in lieu of cash at all times. The net change in fair value reported in the Company's consolidated statements of income for the year ended December 31, 2012 was a gain of \$3,000.

On December 31, 2010, the yield on the Chartis Note Basket was 4.38%. As of December 31, 2011, the date the Company revalued the asset and liability, the yields on the Chartis notes averaged 5.53% reflecting changes in interest rates in the marketplace. This increase in yield decreased both the fair value of the credits in lieu of cash and the fair value of the notes payable in credits in lieu of cash. The Company decreased the value of the credits in lieu of cash to equal the value of the notes payable in credits in lieu of cash because the credits in lieu of cash can only be used to satisfy the liability and must equal the value of the notes payable in credits in lieu of cash at all times. The net change in fair value reported in the Company's consolidated statements of income for the year ended December 31, 2011 was a loss of \$131,000.

Changes in the future yield of the Chartis issued debt selected for valuation purposes will result in changes to the fair values of the credits in lieu of cash and notes payable in credits in lieu of cash when calculated for future periods; these changes will be reported through the Company's consolidated statements of income.

SBA 7(a) Loans

On October 1, 2010, the Company elected to utilize the fair value option for SBA 7(a) loans funded on or after that date. Management believed that doing so would promote its effort to both simplify and make more transparent its financial statements by better portraying the true economic value of this asset on its balance sheet and statement of income. NSBF originates, funds, and services government guaranteed loans under section 7(a) of the Small Business Act. The SBA does not fully guarantee the SBA 7(a) Loans: An SBA 7(a) Loan is bifurcated into a guaranteed portion and an unguaranteed portion, each accruing interest on the principal balance of such portion at a per annum rate in effect from time to time. NSBF originates variable interest loans, usually set at a fixed index to the Prime rate that resets quarterly. Primarily, NSBF has made SBA 7(a) loans carrying guarantees of 75% and 85%; from 2009 through early 2011 under a special program, most of the loans NSBF originated carried a guarantee of 90%. NSBF, both historically and as a matter of its business plan, sells the guaranteed portions via SBA Form 1086 into the secondary market when the guaranteed portion becomes available for sale upon the closing and fully funding of the SBA 7(a) loan and retains the unguaranteed portions.

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Management recognized that the economic value in the guaranteed portion did not inure to NSBF at the time of their sale but rather when the guaranty attached at origination; amortization accounting by its nature does not recognize this increase in value at the true time when it occurred. Under fair value, the value of the guarantee is recorded when it economically occurs at the point of the creation and funding of the loan, and is not delayed until the sale occurs. Contemporaneously, the value of the unguaranteed portion will also be determined to reflect the full, fair value of the loan.

Although the fair value election is for the entire SBA 7(a) loan, the Company primarily sells the guaranteed portions at the completion of funding. The need to record the fair value for the guaranteed portion of the loan will primarily occur when a guaranteed portion is not traded at period end (“SBA loans held for sale”). The unguaranteed portion retained is recorded under “SBA loans held for investment.”

SBA Loans Held for Investment

For loans that completed funding before October 1, 2010, SBA loans held for investment are reported at their outstanding unpaid principal balances adjusted for charge-offs, net deferred loan origination costs and the allowance for loan losses. For loans that completed funding on or after October 1, 2010, management elected to fair value SBA loans held for investment within the fair value hierarchy that prioritizes observable and unobservable inputs utilizing Level 3 unobservable inputs which reflect the Company’s own expectations about the assumptions that market participants would use in pricing the asset (including assumptions about risk). The Company considers the pricing reflected in its securitization activities to be the best indicator of the fair value discount used to measure loans held for investment. As discussed in the Company’s 2011 Annual Report on Form 10-K, the Company was able to securitize its unguaranteed portions of its SBA 7(a) loans and issued notes to an investor with a S&P rating of “AA.”

The fair value measurement, currently recorded as a 7.5% upfront discount of the unguaranteed principal balance of SBA loans held for investment, is based upon internal quantitative data on our portfolio with respect to historical default rates and future expected losses as well as the investor price paid for the senior interest in our unguaranteed loans with respect to the 2013 securitized transaction, and adjusted for the estimated servicing and interest income to be retained by the trust over an estimated repayment term of three years. This was further adjusted to reflect the estimated default rate on the senior notes based on the default rate on our loan portfolio, assuming a worst case scenario of no recoveries. Should the performance of the underlying loans to the senior notes change, this could impact the assumptions used in the estimated repayment term as well as the estimated default rate and thus result in a higher or lower discount rate taken in the future; management reviews these assumptions regularly. If a loan measured at fair value is subsequently impaired, then the fair value of the loan is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, or the fair value of the collateral if the loan is collateral dependent. The significant unobservable inputs used in the fair value measurement of the impaired loans involve management’s judgment in the use of market data and third party estimates regarding collateral values. Such estimates are further discounted by 20% - 80% to reflect the cost of liquidating the various assets under collateral. Any subsequent increases or decreases in any of the inputs would result in a corresponding decrease or increase in the reserve for loan loss or fair value of SBA loans, depending on whether the loan was originated prior or subsequent to October 1, 2010. Because the loans bear interest at a variable rate, NSBF does not have to factor in interest rate risk.

Below is a summary of the activity in SBA loans held for investment, at fair value (in thousands):

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Balance, beginning of year	\$ 21,857	\$ 2,310
SBA loans held for investment, originated	24,076	22,385
Payments received	(2,027)	(446)
Fair value loss	(851)	(2,392)
Balance, end of year	<u>\$ 43,055</u>	<u>\$ 21,857</u>

SBA Loans Held For Sale

For guaranteed portions funded, but not yet traded at each measurement date, management elected to fair value SBA loans held for sale within the fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value utilizing Level 2 assets. These inputs include debt securities with quoted prices that are traded less frequently than exchange-traded instruments or have values determined using a pricing model with inputs that are observable in the market. The secondary market for the guaranteed portions is extremely robust with broker dealers acting as primary dealers. NSBF sells regularly into the market and can quickly price its loans for sale. The Company values the guaranteed portion based on market prices equal to the guaranteed loan amount plus a premium that includes both an upfront cash payment (utilizing quoted prices) and the value of a stream of payments representing servicing income received in excess of NSBF's servicing cost (valued using a pricing model with inputs that are observable in the market).

Other Fair Value Measurements

Assets Measured at Fair Value on a Non-recurring Basis are as follows (In thousands):

Assets	Fair Value Measurements at December 31, 2012 Using:				Total Losses
	Total	Level 1	Level 2	Level 3	
Impaired loans	\$6,965	\$ —	\$ —	\$6,965	\$ (822)
Other real-estate owned	534	—	534	—	(168)
Total assets	<u>\$7,499</u>	<u>\$ —</u>	<u>\$ 534</u>	<u>\$6,965</u>	<u>\$ (990)</u>

Assets	Fair Value Measurements at December 31, 2011 Using:				Total Losses
	Total	Level 1	Level 2	Level 3	
Impaired loans	\$6,978	\$ —	\$ —	\$6,978	\$ (751)
Other real-estate owned	469	—	469	—	(43)
Total assets	<u>\$7,447</u>	<u>\$ —</u>	<u>\$ 469</u>	<u>\$6,978</u>	<u>\$ (794)</u>

Impaired loans

Impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. Impaired loans for which the carrying amount is based on fair value of the underlying collateral are included in assets and reported at estimated fair value on a non-recurring basis, both at initial recognition of impairment and on an on-going basis until recovery or charge-off of the loan amount. The significant unobservable inputs used in the fair value measurement of the impaired loans involve management's judgment in the use of market data and third party estimates regarding collateral values. Such estimates are further discounted by 20% - 80% to reflect the cost of liquidating the various assets under collateral. Valuations in the level of impaired loans and corresponding impairment affect the level of the reserve for loan losses. Any subsequent increases or decreases in any of the inputs would result in a corresponding decrease or increase in the reserve for loan loss or fair value of SBA loans, depending on whether the loan was originated prior or subsequent to October 1, 2010.

Other real-estate owned (included in Prepaid expenses and other assets)

The estimated fair value of other real-estate owned is calculated using observable market information, including bids from prospective purchasers and pricing from similar market transactions where available. The value is

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generally discounted between 20-25% based on market valuations as well as expenses associated with securing the Company's interests. Where bid information is not available for a specific property, the valuation is principally based upon recent transaction prices for similar properties that have been sold. These comparable properties share comparable demographic characteristics. Other real estate owned is generally classified within Level 2 of the valuation hierarchy.

NOTE 4—CREDITS IN LIEU OF CASH:

As discussed in Note 3, the Company adopted fair value option for financial assets and financial liabilities concurrent with its adoption of fair value accounting for certain of its assets and liabilities. Following is a summary of the credits in lieu of cash balance as of December 31, 2012 and 2011 (in thousands):

	2012	2011
Balance, beginning of year	\$ 16,948	\$ 35,494
Add: Income from tax credit accretion (at fair value)	1,360	1,390
Less: Deliveries made	(9,362)	(19,482)
Fair value adjustment	(243)	(454)
Balance, end of year	<u>\$ 8,703</u>	<u>\$ 16,948</u>

NOTE 5—SBA LOANS:

SBA loans are well diversified throughout numerous industries, but have a small concentration in the restaurant industry, as well as geographic concentrations in New York and Florida. On October 1, 2010, the Company elected to utilize the fair value option for SBA loans funded on or after that date creating a new loan pool, SBA loans held for investment, at fair value. The components of SBA loans held for investment, at fair value, and SBA loans held for investment, net, as of December 31, 2012 and 2011 are as follows (in thousands):

	2012 Fair Value	2012 Cost Basis	2011 Fair Value	2011 Cost Basis
Gross loans receivable	\$ 46,585	\$ 18,315	\$ 24,535	\$ 22,836
Less: Allowance for loan losses	—	(2,589)	—	(2,900)
Less: Deferred origination fees, net	—	(1,079)	—	(1,381)
Less: Fair value adjustment	(3,530)	—	(2,678)	—
Total	<u>\$ 43,055</u>	<u>\$ 14,647</u>	<u>\$ 21,857</u>	<u>\$ 18,555</u>

The contractual maturities of SBA loans held for investment are as follows (in thousands):

	2012 Fair Value	2012 Cost Basis	2011 Fair Value	2011 Cost Basis
Due in one year or less	\$ —	\$ 40	\$ —	\$ 1,033
Due between one and five years	—	4,534	—	3,390
Due after five years	46,585	13,741	24,535	18,413
Total loans receivable, gross	<u>\$ 46,585</u>	<u>\$ 18,315</u>	<u>\$ 24,535</u>	<u>\$ 22,836</u>

All loans are priced at the Prime interest rate plus approximately 2.75% to 3.75%. The only loans with a fixed interest rate are defaulted loans of which the guaranteed portion sold is repurchased from the secondary market by the SBA, while the unguaranteed portion of the loans still remains with the Company. As of December 31, 2012 and 2011, net SBA loans receivable held for investment with adjustable interest rates totaled \$58,382,000 and \$40,475,000, respectively.

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For the years ended December 31, 2012 and 2011, the Company funded \$107,425,000 and \$97,129,000 in loans and sold approximately \$84,743,000 and \$73,871,000 of the guaranteed portion of the loans, respectively. Receivables from loans traded but not settled of \$16,698,000 and \$4,911,000 as of December 31, 2012 and 2011, respectively, are presented as broker receivable in the accompanying consolidated balance sheets.

As of December 31, 2012, \$15,030,000 of the guaranteed portion of SBA loans and \$28,523,000 of the unguaranteed portion of SBA loans collateralized the current outstanding balance on the Company's line of credit with Capital One and \$36,450,000 of the unguaranteed portions of SBA loans transferred via our securitization transaction collateralized the notes issued by the Trust.

The outstanding balances of loans past due over 90 days and still accruing interest as of December 31, 2012 and 2011 totaled \$1,128,000 and \$516,000, respectively.

Loans by industry and geographic concentration that accounted for more than 5% of the outstanding gross loans receivable held for investment balance as of December 31, 2012 and 2011 were as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Industry		
Restaurants	\$4,569	\$2,256*
State		
New York	\$8,178	\$5,618
Florida	7,161	7,136
New Jersey	5,624	3,362
Texas	5,056	3,303
California	4,584	4,170
Georgia	4,579	3,007
Pennsylvania	3,453	1,546*
Connecticut	3,433	1,780*
Louisiana	2,547*	2,506

(*) Amounts shown for comparative purposes and represent less than 5%.

Below is a summary of the activity in the allowance for loan losses for the years ended December 31, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 2,900	\$ 3,559
Provision for loan losses	829	763
Loans charged-off	(1,169)	(1,444)
Recoveries	29	22
Balance, end of year	<u>\$ 2,589</u>	<u>\$ 2,900</u>

At December 31, 2012 and 2011, total impaired non-accrual loans amounted to \$6,965,000 and \$6,978,000, respectively, of which \$1,212,000 were on a fair value basis at December 31, 2012; there were no corresponding impaired loans on a fair value basis at December 31, 2011. For the years ended December 31, 2012 and 2011, average balance of impaired non-accrual loans was \$6,935,000 and \$8,404,000, respectively. Approximately \$2,204,000 and \$2,428,000 of the allowance for loan losses and \$126,000 and \$— of SBA fair value discount were allocated against such impaired non-accrual loans, respectively.

Had interest on these impaired non-accrual loans been accrued, such interest would have totaled \$407,000 and \$490,000 for 2012 and 2011, respectively. Interest income, which is recognized on a cash basis, related to the impaired non-accrual loans for the years ended December 31, 2012 and 2011, was not material.

[Table of Contents](#)**NOTE 6—ACCOUNTS RECEIVABLE:**

Accounts receivable consists of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Purchased receivables	\$ 7,599	\$4,922
Electronic payment processing settlement receivables	2,182	2,379
Customer receivables	1,583	1,153
Other receivables	68	34
	<u>11,432</u>	<u>8,488</u>
Allowance for doubtful accounts	(561)	(308)
Total	<u>\$10,871</u>	<u>\$8,180</u>

NOTE 7—INVESTMENTS IN QUALIFIED BUSINESSES:

Included in prepaid expenses and other assets on the consolidated balance sheets are certain investments in qualified businesses, which are presented separately below between their debt and equity components, and a summary of the activity for the years ended December 31, 2012 and 2011 (in thousands):

Held to maturity debt investments comprised three long-term loans totaling \$1,532,000 at December 31, 2012 with original principal balances totaling \$1,851,000, and interest rates ranging from 4.25% to 6.00%. At December 31, 2011, the Company had one loan with an outstanding balance of \$13,000 with an original principal of \$200,000 and interest rate of 4.25%. Following is a summary of activity for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Principal outstanding, beginning of year	\$ 13	\$ 260
Investments made during 2012	1,651	—
Return of principal, net of recoveries	(132)	(247)
Principal outstanding, end of year	<u>\$1,532</u>	<u>\$ 13</u>

The Company has a 49% ownership interest in one equity method investment with a balance of \$175,000 at December 31, 2012. The original amount invested was \$800,000. A summary of activity for the years ended December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Total equity investments, beginning of year	\$131	\$105
Equity in earnings	44	26
Total equity investments, end of year	<u>\$175</u>	<u>\$131</u>

The Company has not guaranteed any obligation 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 decide to provide such additional financial support which, as of December 31, 2012 was zero. Should the Company determine that impairment exists upon its periodic review, 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 consolidated statements of income. During 2012, the Company made additional investments in two held to maturity debt instruments totaling \$1,651,000. One of the loans, a \$551,000 Bidco investment in an SBA loan, is currently partially funded; upon full funding, which is anticipated to occur in 2013, the guaranteed portion will be sold. During the years ended December 31, 2012 and 2011, the Company received \$132,000 and \$247,000 in principal repayments on its debt investments, respectively.

[Table of Contents](#)**NOTE 8—SERVICING ASSETS:**

The Company reviews capitalized servicing rights for impairment. This review is performed based on risk strata, which are determined on a disaggregated basis given the predominant risk characteristics of the underlying loans. The predominant risk characteristics are loan terms and year of loan origination.

The following summarizes the activity pertaining to servicing assets for the years ended December 31, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$3,420	\$2,225
Servicing assets capitalized	2,050	1,971
Servicing assets amortized	(788)	(776)
Balance, end of year	<u>\$4,682</u>	<u>\$3,420</u>

For the years ended December 31, 2012, 2011 and 2010, servicing fees received on the Company's SBA 7(a) originated portfolio totaled \$2,297,000, \$1,629,000 and \$1,785,000, respectively. The Company also performs servicing functions on loans originated by other SBA lenders. The Company does not retain any risk on such portfolios and earns servicing fees based upon a mutually negotiated fee per loan. The total servicing fee income recognized for loans serviced for others in 2012, 2011 and 2010 was \$4,564,000, \$1,466,000 and \$784,000, respectively. The carrying value of the capitalized servicing asset was \$4,679,000 and \$3,416,000 at December 31, 2012 and 2011, respectively, while the estimated fair value of capitalized servicing rights was \$6,067,000 and \$3,958,000 at December 31, 2012 and 2011, respectively. The estimated fair value of servicing assets at December 31, 2012 was determined using a discount rate of 11%, weighted average prepayment speeds ranging from 1% to 14%, depending upon certain characteristics of the loan portfolio, weighted average life of 5.00 years, and an average default rate of 5%. The estimated fair value of servicing assets at December 31, 2011 was determined using a discount rate of 14%, weighted average prepayment speeds ranging from 1% to 12%, depending upon certain characteristics of the loan portfolio, weighted average life of 3.94 years, and an average default rate of 6%.

The unpaid principal balances of loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others within the NSBF originated portfolio were \$271,548,000 and \$235,909,000 as of December 31, 2012 and 2011, respectively. The unpaid principal balances of loans serviced for others which were not originated by NSBF and are outside of the Newtek portfolio were \$176,988,000 and \$136,971,000 as of December 31, 2012 and 2011, respectively.

NOTE 9—FIXED ASSETS:

The Company's fixed assets are composed of the following at December 31, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Computer and office equipment	\$ 3,082	\$ 3,767
Furniture and fixtures	636	675
Leasehold improvements	384	409
Computer software and website	4,174	3,706
Computer servers and storage	5,537	10,759
Leased property	632	—
	<u>14,445</u>	<u>19,316</u>
Accumulated depreciation and amortization	<u>(10,922)</u>	<u>(16,463)</u>
Net fixed assets	<u>\$ 3,523</u>	<u>\$ 2,853</u>

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Depreciation and amortization expense for fixed assets for the years ended December 31, 2012, 2011 and 2010 was \$1,619,000, \$1,816,000 and \$2,451,000, respectively.

During 2012, the Company leased certain phone equipment with a term of three years. The useful life of the equipment was estimated to be between 7 – 10 years and includes a bargain purchase element at lease expiration. As a result, the transaction has been recorded as a capital lease. The capitalized cost of the lease transaction was \$632,000; during 2012 the Company recorded approximately \$3,800 in associated amortization.

Included in computer software and website are certain costs associated with internally developed software. The following table summarizes the activity for capitalized software development costs for the years ended December 31, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 3,235	\$ 2,912
Additions	421	323
Balance, end of year	3,656	3,235
Less: accumulated amortization	(2,952)	(2,629)
Software development costs, net	<u>\$ 704</u>	<u>\$ 606</u>

NOTE 10—GOODWILL AND OTHER INTANGIBLES:

The net carrying value of goodwill as of December 31, 2012 and 2011 by segment is as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Electronic payment processing	\$ 3,004	\$ 3,004
Web hosting	7,203	7,203
Corporate activities	179	179
Small business finance	1,706	1,706
Total goodwill	<u>\$12,092</u>	<u>\$12,092</u>

Other intangible assets as of December 31, 2012 and 2011 are comprised of the following (in thousands):

	<u>2012</u>	<u>2011</u>
Customer merchant accounts	\$ 14,123	\$ 14,096
Customer insurance accounts	740	—
Trade name (indefinite lived)	550	550
	15,413	14,646
Accumulated amortization	(13,855)	(13,226)
Net intangible assets	<u>\$ 1,558</u>	<u>\$ 1,420</u>

During 2012, the Company acquired a portfolio of approximately 340 health-related insurance policies for \$740,000; NIA is servicing this book of business. The Company has accounted for this transaction as a business combination and the acquisition cost has been recorded as an intangible asset to be amortized over its estimated useful life, or 60 months. The Company estimated the fair value of the asset using a discounted cash flow analysis which resulted in a valuation that approximated the purchase price; there was no goodwill associated with this transaction.

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Customer merchant accounts are being amortized over a 55 to 66 month period. Other intangibles (excluding the trade name which has an indefinite life and is subject to annual impairment review) are being amortized over a period ranging from 18 to 36 months. Total amortization expense included in the accompanying consolidated statements of income for the years ended December 31, 2012, 2011 and 2010 was \$629,000, \$1,363,000 and \$1,582,000, respectively.

Total expected amortization expense for the next five fiscal years is as follows (in thousands):

<u>December 31,</u>	<u>Merchant</u>	<u>Insurance</u>
	<u>Accounts</u>	<u>Accounts</u>
2013	\$ 205	\$ 148
2014	41	148
2015	12	148
2016	4	148
2017	—	148
	<u>\$ 262</u>	<u>\$ 740</u>

Based upon the Company's performance of the impairment tests using the fair value approach of the discounted cash flow method, the Company determined that goodwill was not impaired for the years ended December 31, 2012, 2011 and 2010. For the years ended December 31, 2012 and 2011, there was no impairment related to its customer merchant accounts; for the year ended December 31, 2010, impairments on customer merchant accounts totaled \$25,000 and was included in depreciation and amortization in the accompanying consolidated statements of income. The Company's intangible trade name, CrystalTech Web Hosting, has an indefinite life and is assessed annually for impairment.

NOTE 11—ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES:

The following table details the components of accounts payable, accrued expenses and other liabilities at December 31, 2012 and 2011 (Restated) (in thousands):

	<u>2012</u>	<u>2011</u>
		<u>(Restated)</u>
Due to participants and SBA (a)	\$ 1,961	\$ 1,994
Due to clients (b)	357	480
Accrued payroll and related expenses	276	2,015
Deferred rent	1,293	1,616
Chargeback reserves	911	726
Deposits and other reserves	1,557	602
Residuals and commissions payable	1,045	1,118
Current tax payable	502	955
Other	<u>3,304</u>	<u>2,621</u>
Total accounts payable, accrued expenses and other liabilities	<u>\$11,206</u>	<u>\$ 12,127</u>

- (a) Primarily represents loan related remittances received by NSBF, and due to third parties; amounts also classified as restricted cash.
- (b) Composed primarily of discount client holdbacks at CDS which represents the difference between the receivables the Company purchases less the actual amount the Company releases to the client, net of the discount fee and other miscellaneous fees charged to the client.

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NOTE 12—NOTES PAYABLE:

At December 31, 2012 and 2011, the Company had long-term debt outstanding comprised of the following (in thousands):

	<u>2012</u>	<u>2011</u>
Notes payable:		
Capital One lines of credit (NSBF)		
Guaranteed line	\$12,000	\$ 5,355
Unguaranteed line	11,854	3,009
Summit Partners Credit Advisors, L.P. (NBS)	8,288	—
Sterling National bank line of credit (NBC)	6,674	3,777
Capital One term loan (NTS)	1,007	1,424
Total notes payable	39,823	13,565
Note payable – Securitization trust VIE	22,039	26,368
Total notes payable	<u>\$61,862</u>	<u>\$39,933</u>

On April 26, 2012, the Company closed a \$15,000,000 Second Lien Credit Facility (the “Facility”) issued by Summit Partners Credit Advisors, L.P. (“Summit”), comprised of a \$10,000,000 term loan, which was drawn at closing, and a \$5,000,000 delayed draw term loan to be made upon the satisfaction of certain conditions. The \$5,000,000 second tranche of this loan will not be drawn by the Company. The funds were used primarily for general corporate purposes including the origination of SBA 7(a) loans. The loan bears interest at 12.5% per annum on the amount outstanding plus payment-in-kind interest at 2.5%, which can either be paid quarterly in arrears or added to the outstanding loan amount. The Facility will mature in 5.5 years and can be prepaid without penalty at any time following the second anniversary of the closing date.

In addition to a second lien on all of the Company’s assets behind the first lien held by Capital One, N.A., the principal lender to the Company’s SBA lender, NSBF, Summit was given second-lien secured guarantees by each of the Company’s principal subsidiaries: NTS and Universal Processing Services of Wisconsin, LLC, as well as certain other smaller subsidiaries. The Company has also committed to attempt to obtain the approval of the SBA for NSBF to provide a guaranty to Summit of the Company’s obligations.

Total closing fees were approximately \$1,033,000 which included a 3% fee paid to Summit on the aggregate amount of the Facility, as well as legal, accounting and other closing related costs which were recorded as deferred financing costs and amortized over the life of the facility. The majority of these fees were paid at closing and netted against the initial draw down. Net cash proceeds received at closing were \$9,353,000.

In addition, the Company issued to Summit a warrant representing the right to purchase 1,696,810 common shares, or 4.4% of the Company’s current outstanding common equity. The warrant is exercisable at \$0.02 per share, included registration rights and anti-dilution protection, which has been subsequently removed. Summit is prohibited from selling any common shares it receives on exercise of the warrant for a period of 24 months following the closing; provided, however, that if the Company’s common shares trade at or above \$2.25 per share for a period of fifteen consecutive days, Summit will have the ability to sell the common shares. Any sales by Summit will be subject to a right of first refusal in favor of the Company. The Facility calls for financial covenants such as minimum EBITDA, maximum capital expenditures, minimum unrestricted cash and cash equivalents, minimum tangible net worth and maximum leverage.

In accordance with ASC 470 and ASC 815, the accounting for these warrants reflects the notion that the consideration received upon issuance must be allocated between the debt and the warrant components based on the relative fair values of the debt instrument without the warrants and of the warrants themselves at time of issuance. The warrant was originally recorded as a liability, due to an anti-dilution provision and was marked to

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market on the first reporting date, or June 30, 2012. The remainder of the proceeds was allocated to the debt instrument portion of the transaction. As such, the note was initially valued at \$8,041,000, and the difference of \$1,959,000 was allocated to the value of the warrants and recorded as debt discount, which is being amortized over the life of the note using the interest method. Debt discount amortization for the year ended December 31, 2012 was \$241,000, and is included in interest expense in the Company's consolidated statement of income. The warrant was replaced and the anti-dilutive provision was removed to reflect management and Summit's original understanding and intent related to the warrants. As a result, subsequent to July 1, 2012, the warrants were reclassified to a component of equity and will no longer be marked to market.

Through December 31, 2012, the Company has capitalized \$1,033,000 of deferred financing costs attributable to the Summit facility of which \$129,000 has been amortized and included in interest expense. The net balance of \$904,000 is included in prepaid expenses and other assets in the Company's consolidated balance sheet.

Total interest expense related to the Summit financing for the year ended December 31, 2012 was \$1,422,000, which includes interest, payment-in-kind interest, discount on the valuation of the warrant and amortization of deferred financing costs.

NBC had a \$10,000,000 line of credit with Wells Fargo ("Wells") due in February 2012. This facility was used to purchase receivables and for other working capital purposes. In February 2011, NBC entered into a three year line of credit with Sterling National Bank ("Sterling") in an amount up to \$10,000,000. This facility paid off the Wells line of credit and is and will be used to purchase receivables and for other working capital purposes. In December 2012, an amendment was signed providing that upon the occurrence of certain events, the maximum amount of the line of credit under the Agreement can be increased from \$10,000,000 to \$15,000,000 at a later date upon NBC's request. The Amendment also extended the maturity date from February 28, 2014 to February 28, 2016.

As of December 31, 2012 and 2011, NBC had \$6,674,000 and \$3,777,000 outstanding under the lines of credit. The Sterling interest rate is set at 5.00% or Prime plus 2.00%, whichever is higher, with interest on the line to be paid monthly in arrears. The line is and will be collateralized by the receivables purchased, as well as all other assets of NBC. The line is guaranteed by the Company; in addition, the Company deposited \$750,000 with Sterling to collateralize the guarantee. The agreement includes such financial covenants as minimum tangible net worth and maximum leverage ratio. The Company is subject to meeting a maximum leverage ratio test and a future net loss test. As of December 31, 2012, the Company was in compliance with the financial covenants set in this line.

Total interest expense for the years ended December 31, 2012, 2011 and 2010 was approximately \$333,000, \$283,000 and \$258,000, respectively. The weighted average effective interest rate for the year ended December 31, 2012 was 6.41%. Through December 31, 2012, NBC has capitalized \$144,000 of deferred financing costs attributable to the Sterling line of which \$64,000 has been amortized. The net balance of \$80,000 is included in other assets in the accompanying consolidated balance sheet. Amortization for the years ended December 31, 2012, 2011 and 2010 was \$35,000, \$57,000 and \$24,000, respectively, and is included in interest expense in the accompanying consolidated statements of income.

In October 2007, NTS entered into a Loan and Security Agreement with Capital One which provided for a revolving credit facility of up to \$10,000,000 available to both NTS and the Company, for a term of two years. The interest rate was LIBOR plus 2.5% and the agreement included a quarterly facility fee equal to 25 basis points on the unused portion of the Revolving Credit calculated as of the end of each calendar quarter. The agreement included such financial covenants as a minimum fixed charge coverage ratio and a maximum funded debt to EBITDA. NTS capitalized \$65,000 of deferred financing costs attributable to the Capital One line. In connection with the loan, on October 19, 2007 Newtek Business Services, Inc. entered into a Guaranty of Payment and Performance with Capital One Bank and entered into a Pledge Agreement with Capital One pledging all NTS stock as collateral. In October 2009, the \$2,500,000 borrowed under the Capital One line of credit converted to a three year term loan with a level principal repayment under the terms of the line of credit.

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In April 2010, the Company closed two five-year term loans aggregating \$14,583,000 with Capital One of which \$12,500,000 refinanced Newtek Small Business Finance's debt to General Electric Commercial Capital ("GE") and \$2,083,000 refinanced the pre-existing term loan between Capital One and NTS. The interest rate on the 2010 NTS term loan is variable based on the monthly LIBOR rate plus 4.25% or Prime plus 2.25%, but no lower than 5.75%. The agreement includes such financial covenants as a minimum fixed charge coverage ratio and minimum EBITDA; the Company guarantees the term loan. The balance of the NTS term loan is included in notes payable on the consolidated balance sheet. As of December 31, 2012 and 2011, \$1,007,000 and \$1,424,000 of the note was outstanding, respectively. The weighted average effective interest rate at December 31, 2012 was 5.75%. Interest is paid in arrears along with each monthly principal payment due. Total interest expense for the years ended December 31, 2012, 2011 and 2010 was approximately \$70,000, \$94,000 and \$101,000, respectively. Amortization associated with the deferred financing costs attributable to the Capital One line and term loans for the years ended December 31, 2012, 2011 and 2010 was \$10,000, \$9,000 and \$6,000, respectively, and is included in interest expense in the accompanying consolidated statements of income.

The refinancing to NSBF supported the lending operations of NSBF by providing working capital. The interest rate on the note was set at Prime plus 2.25% or LIBOR plus 4.25%, not less than 5.75%. Total interest expense for the year ended December 31, 2010 was \$435,000. In connection with the refinancing, the Company incurred \$329,000 of deferred financing costs which was amortized into interest expense over a five year period. In December 2010, in connection with the securitization of the NSBF unguaranteed portfolio, the remaining principal balance under this term note of \$9,903,000 was paid in full and the balance of the deferred financing costs of \$289,000 was fully amortized.

Also in December 2010, NSBF entered into a revolving credit facility with Capital One N.A. for \$6,000,000 collateralized by the guaranteed portion of SBA 7(a) loans originated. Upon meeting certain requirements, NSBF has the right to increase the maximum amount under the facility by \$6,000,000 which was exercised in March 2011. The credit facility is used to fund those portions of SBA 7(a) loans made by NSBF that are guaranteed by the SBA, with funds received on the sale of those guaranteed portions of the SBA 7(a) loans by NSBF reducing the facility. In June 2011, NSBF obtained from Capital One an increase in its total revolving credit facility from \$12,000,000 to \$27,000,000. In October 2011, the term of the revolver was extended by nine months through September 2013, at which time the outstanding balance will be converted into a three year term loan. This increase in the line will enable the Company to finance both the government-guaranteed and non-guaranteed portions of SBA 7(a) loans. As of December 31, 2012, NSBF had \$23,854,000 outstanding under the lines of credit. The interest rate on the \$12,000,000 portion of the facility, collateralized by the government guaranteed portion of SBA 7(a) loans, is set at Prime plus 1.00%, and there is a quarterly facility fee equal to 25 basis points on the unused portion of the revolving credit calculated as of the end of each calendar quarter. The interest rate on the \$15,000,000 portion of the facility, collateralized by the non-guaranteed portion of SBA 7(a) loans, is set at Prime plus 1.875%, and there is a quarterly facility fee equal to 25 basis points on the unused portion of the revolving credit calculated as of the end of each calendar quarter. The agreement includes financial covenants at the parent company level with its consolidated subsidiaries including a minimum fixed charge coverage ratio, minimum EBITDA requirements and minimum cash requirements held at Capital One. As of December 31, 2012, the Company was in compliance with the financial covenants set in this line.

Total interest expense for the years ended December 31, 2012 and 2011 was \$392,000 and \$376,000, respectively. Through December 31, 2012, NSBF has capitalized \$446,000 of deferred financing costs attributable to the credit line of which \$280,000 has been amortized. The balance of \$166,000 is included in other assets in the accompanying consolidated balance sheet.

In December 2010, NSBF engaged in a securitization of the unguaranteed portions of its SBA 7(a) loans. In the securitization, it used a special purpose entity (Newtek Small Business Loan Trust 2010-1 or the "Trust") which is a VIE. Applying the consolidation requirements for VIEs under the accounting rules in ASC Topic 860, Transfers and Servicing, and ASC Topic 810, Consolidation, which became effective January 1, 2010, the Company determined that as the primary beneficiary of the securitization vehicle, based on its power to direct

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activities through its role as servicer for the Trust and its obligation to absorb losses and right to receive benefits, it needed to consolidate the securitization into its financial statements. NSBF therefore consolidated the entity using the carrying amounts of the Trust's assets and liabilities: NSBF continues to recognize the assets in loans held for investment and recognize the associated financing in Bank notes payable.

During the year ended December 31, 2010, NSBF transferred SBA loans held for investment of \$19,615,000, and agreed to transfer \$3,000,000 of future SBA loans held for investment when originated, to the Trust which in turn issued notes for the par amount of \$16,000,000 against the assets. The notes were sold at a dollar price that resulted in gross proceeds before reserve accounts and transaction expenses of \$15,392,000. See Note 5 – SBA loans, above, for a description of the loans and loan balances.

In December 2011, NSBF entered into a Supplemental Indenture by which the original \$16,000,000 of securitization notes were amended to reflect a new initial principal amount of \$12,880,000 as a result of principal payments made, and additional notes were issued in an initial principal amount of \$14,899,000, so that the initial aggregate principal amount of all notes as of December 31, 2011 totaled \$27,779,000. The notes were backed by approximately \$40,500,000 of the unguaranteed portions of loans originated and to be originated by NSBF under the SBA loan program. The notes retained their AA rating under S&P, and the final maturity date of the amended notes is March 22, 2037. The initial proceeds of the transaction were used to repay debt, and the balance of the \$5,000,000 prefunding account was used to originate new loans. Deferred financing costs associated with both transactions total \$1,516,000 at December 31, 2012 of which \$393,000 has been amortized. The balance of \$1,123,000 is included in prepaid expenses and other assets on the accompanying consolidated balance sheet. At December 31, 2012, the assets (before reserve for loan losses and discount) and liabilities of the consolidated Trust totaled \$35,964,000 and \$22,039,000, respectively.

The Trust is only permitted to purchase the unguaranteed portion of SBA 7(a) loans, issue asset-backed securities, and make payments on the securities. The Trust only issued a single series of securities to pay for the unguaranteed portions it acquired from NSBF and will be dissolved when those securities have been paid in full. The primary source for repayment of the debt is the cash flows generated from the unguaranteed portion of SBA 7(a) loans owned by the Trust; principal on the debt will be paid by cash flow in excess of that needed to pay various fees related to the operation of the Trust and interest on the debt. The debt has an expected maturity of about six years based on the expected performance of the underlying collateral and structure of the debt and a legal maturity of 30 years from the date of issuance. The assets of the Trust are legally isolated and are not available to pay NSBF's creditors. However, NSBF continues to retain rights to cash reserves and residual interests in the Trust and will receive servicing income. For bankruptcy analysis purposes, NSBF sold the unguaranteed portions to the Trust in a true sale and the Trust is a separate legal entity. The investors and the Trusts have no recourse to any of NSBF's other assets for failure of debtors to pay when due; however, NSBF's parent, Newtek, has provided a limited guaranty to the investors in the Trust in an amount not to exceed 10% of the original issuance amount (or \$2,778,000), to be used after all of the assets of the Trust have been exhausted. The notes were issued with an AA rating from S&P based on the underlying collateral.

Total expected principal repayments for the next five fiscal years and thereafter are as follows (in thousands):

<u>December 31,</u>	<u>Notes Payable</u>	<u>Capital Lease</u>	<u>Total</u>
2013	\$ 13,404	\$ 199	\$13,603
2014	4,542	211	4,753
2015	3,951	222	4,173
2016	9,638	—	9,638
2017	8,288	—	8,288
Thereafter	22,039	—	22,039
	<u>\$ 61,862</u>	<u>\$ 632</u>	<u>\$62,494</u>

NOTE 13—NOTES PAYABLE IN CREDITS IN LIEU OF CASH:

Each Capco has separate contractual arrangements with the Certified Investors obligating the Capco to make payments on the Notes.

At the time the Capcos obtained the proceeds from the issuance of the Notes, Capco warrants or Company common shares to the Certified Investors, the proceeds were deposited into escrow accounts which required that the insurance contracts be concurrently and simultaneously purchased from the insurer before the remaining proceeds could be released to and utilized by the Capco. The Capco Note agreements require, as a condition precedent to the funding of the Notes that insurance be purchased to cover the risks associated with the operation of the Capco. This insurance is purchased from Chartis Specialty Insurance Company and National Union Fire Insurance Company of Pittsburgh, both subsidiaries of Chartis, Inc. (Chartis), an international insurer. Chartis and these subsidiaries are "A+" credit rated by S&P. In order to comply with this condition precedent to the funding, the Notes closing is structured as follows: (1) the Certified Investors wire the proceeds from the Notes issuance directly into an escrow account; (2) the escrow agent, pursuant to the requirements under the Note and escrow agreement, automatically and simultaneously funds the purchase of the insurance contract from the proceeds received. The Notes offering cannot close without the purchase of the insurance, and the Capcos are not entitled to the use and benefit of the net proceeds until the escrow agent has completed the payment for the insurance. Under the terms of this insurance, the insurer incurs the primary obligation to repay the Certified Investors a substantial portion of the debt as well as to make compensatory payments in the event of a loss of the availability of the related tax credits. The Coverage A portion of these contracts makes the insurer primarily obligated for a portion of the liability.

The Capcos, however, are secondarily, or contingently, liable for such payments. The Capco, as a secondary obligor, must assess whether it has a contingency to record on the date of issuance and at every reporting date thereafter until the insurer makes all their required payments. As of December 31, 2012, the insurer has made all of the scheduled cash payments under Coverage A, therefore the contingent liability of the Company has been extinguished.

The Coverage B portion of these contracts provides for the payment of cash in lieu of tax credits in the event the Capco becomes decertified. The Capcos remain primarily liable for the requirement to deliver tax credits (or make cash payments in lieu of tax credits not delivered).

Although Coverage B protects the Certified Investors as described above, the Company remains primarily liable for the portion of this obligation. This liability has been recorded as notes payable in credits in lieu of cash, representing the present value of the Capcos' total liability it must pay to the Certified Investors. Such amount will be increased by an accretion of interest expense during the term of the Notes and will decrease as the Capcos pay interest by delivering the tax credits, or paying cash.

As discussed in Note 3, the Company adopted fair value option for financial assets and liabilities concurrent with its adoption fair value accounting effective January 1, 2008 for valuing Notes payable in lieu of cash with the exception of Wilshire Advisers, LLC. Following is a summary of activity of Notes payable in credits in lieu of cash balance for the years ended December 31, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$16,948	\$ 35,494
Add: Accretion of interest expense	522	1,390
Less: Deliveries of tax credits	(9,362)	(19,482)
Fair value adjustment	595	(454)
Balance, end of year	<u>\$ 8,703</u>	<u>\$ 16,948</u>

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Under the Note agreements, no interest is paid by the Capcos in cash provided that the Certified Investors receive the uninterrupted use of the tax credits. The Certified Investors acknowledge, in the Note agreements, that the insurer is primarily responsible for making the scheduled cash payments as provided in the Notes.

NOTE 14—NON-CONTROLLING INTERESTS:

The non-controlling interests held by the investees in the form of warrants entitle the holders to purchase, for a \$0.01 exercise price, an interest in a Capco or Capco fund. The values ascribed to the warrants issued to the Certified Investors and the Insurer have been recorded as non-controlling interests. In addition, certain non-controlling interests have already been acquired by minority stockholders. A portion of the initial proceeds received from the Certified Investors is allocated to the warrants using a discounted cash flow method. The following is the aggregate percentage interest of the non-controlling stockholders in each respective Capco or Capco fund as of December 31, 2012 and 2011 (in thousands):

<u>Capco or Capco Fund</u>	<u>% Interest</u>	<u>2012</u>	<u>2011</u>
WP, Florida	0.80%	\$ —	\$ 330
WLA, Louisiana	3.78%	—	9
WAP, Alabama	0.60%	7	9
Total Capco		7	348
WNYIV, New York	—	—	769
Expo New York	—	2,326	—
Other	—	(278)	63
Total		<u>\$2,055</u>	<u>\$1,180</u>

During 2012, unexercised warrants that had entitled holders to interests in five Capcos expired. As a result, the non-controlling interest balance as of the expiration date, approximately \$339,000, was reclassified to additional paid-in capital.

The non-controlling interest under WNYIV related to NBC, a subsidiary of WNYIV, which had converted \$1,000,000 of debt payable to Exponential of New York, LLC (“Expo”), a related party, to preferred stock in 2007. During 2012, Expo, which is 61% minority owned, became a consolidated subsidiary due to a trigger event in April 2011, and there is no longer a direct non-controlling interest related to WNYIV.

In addition, in December 2012 a non-controlling interest in UPS sold their 0.9683% interest back to the Company for \$275,000.

NOTE 15—COMMITMENTS AND CONTINGENCIES:

Operating and Employment Commitments

The Company leases office space and other office equipment in several states under operating lease agreements which expire at various dates through 2019. Those office space leases which are for more than one year generally contain scheduled rent increases or escalation clauses.

The following summarizes the Company’s obligations and commitments, as of December 31, 2012, for future minimum cash payments required under operating lease and employment agreements (in thousands):

<u>Year</u>	<u>Operating Leases *</u>	<u>Employment Agreements</u>	<u>Total</u>
2013	\$ 3,392	\$ 316	\$3,708
2014	2,573	—	2,573
2015	1,388	—	1,388

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<u>Year</u>	<u>Operating Leases *</u>	<u>Employment Agreements</u>	<u>Total</u>
2016	\$ 594	—	\$ 594
2017	514	—	514
Thereafter	391	—	391
Total	<u>\$ 8,852</u>	<u>\$ 316</u>	<u>\$9,168</u>

*Minimum payments have not been reduced by minimum sublease rentals of \$1,933,000 due in the future under non-cancelable subleases.

Rent expense for 2012, 2011 and 2010 was approximately \$2,459,000, \$3,748,000 and \$2,971,000, respectively.

Under the terms of a service agreement between UPS), its merchant processor and a sponsoring bank, UPS is required to pay minimum fees during each 12-month period, as defined in the service agreement, to the merchant processor and sponsoring bank. The minimum fees for the 12-month period ending November 30, 2012, are to be equal to at least \$1,500,000 and in future years equal to at least 95% of the fees paid during the preceding 12-month period or \$1,500,000, whichever amount is greater. The Company's fee payments for the 12-month period ended November 30, 2012, exceeded the minimum required amount under the agreement.

Legal Matters

In the ordinary course of business, the Company may from time to time be party to lawsuits and claims. The Company evaluates such matters on a case by case basis and its policy is to contest vigorously any claims it believes are without compelling merit. The Company is currently involved in various litigation matters. Management has reviewed all legal claims against the Company with counsel and has taken into consideration the views of such counsel, as to the outcome of the claims, and on that basis the Company has determined that it is "reasonably possible" that claims will result in a loss in the near term which it estimates to be between \$100,000 and \$500,000.

NOTE 16—TREASURY STOCK:

Shares of common stock repurchased by us are recorded at cost as treasury stock and result in a reduction of equity in our consolidated balance sheet. From time-to-time, treasury shares may be reissued as part of our stock-based compensation programs. When shares are reissued, we use the weighted average cost method for determining cost. The difference between the cost of the shares and the issuance price is added or deducted from additional paid-in capital.

In November 2011, the Newtek board of directors adopted a stock buy-back program authorizing management to enter the market to re-purchase up to 1,000,000 of the Company's common shares. This 1,000,000 share authorization replaces the unexercised portions of two previous authorizations and will terminate in one year. As of December 31, 2012, the Company purchased a total of 802,920 treasury shares under this authorization. The Company reissued 66,760 and 49,813 shares in 2012 and 2011, respectively, in connection with the Company's 401k match program. In addition, 472,814 shares that were held by an affiliate were issued to the Company in 2008 as settlement of an outstanding liability and are being held as treasury shares.

NOTE 17—INCOME PER SHARE:

Basic income per share is computed based on the weighted average number of common shares outstanding during the period. The dilutive effect of common share equivalents is included in the calculation of diluted income per share only when the effect of their inclusion would be dilutive (in thousands, except for per share data).

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	YEAR ENDED DECEMBER 31,		
	2012	2011 (Restated)	2010
The calculations of Net Income (Loss) Per Share were:			
Numerator:			
Numerator for basic and diluted EPS—income available to common stockholders	\$ 5,643	\$ 3,335	\$ 1,439
Denominator:			
Denominator for basic EPS—weighted average shares	35,523	35,706	35,655
Denominator for diluted EPS—weighted average shares	36,747	36,073	35,801
Net income per share: Basic	\$ 0.16	\$ 0.09	\$ 0.04
Net income per share: Diluted	\$ 0.15	\$ 0.09	\$ 0.04

The amount of anti-dilutive shares/units excluded from above is as follows (in thousands):

	YEAR ENDED DECEMBER 31,		
	2012	2011	2010
Stock options	—	856	888
Warrants	50	50	50
Contingently issuable shares	83	83	83

NOTE 18—INCOME FROM TAX CREDITS:

Each Capco has a contractual arrangement with a particular state or jurisdiction that legally entitles the Capco to earn and deliver tax credits (ranging from 4% to 11% per year) from the state or jurisdiction upon satisfying certain criteria. In fiscal 2012, 2011 and 2010, the Company recognized income from tax credits resulting from the accretion of the discount attributable to tax credits earned in prior years. As the tax credits are delivered to the Certified Investors, the asset balance is offset against notes payable in credits in lieu of cash. As discussed in Note 3, the Company adopted fair value accounting concurrently with the adoption of fair value option for financial assets and financial liabilities on January 1, 2008 to value its credits in lieu of cash balance. As a result, the income from tax credit accretion for the years ended December 31, 2012, 2011 and 2010 has been recorded at fair value. The total income from tax credits recognized in revenues in the consolidated statements of income was \$522,000, \$1,390,000 and \$2,380,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

NOTE 19—INCOME TAXES:

Provision (benefit) for income taxes for the years ended December 31, 2012, 2011 (Restated) and 2010 is as follows (in thousands):

	2012	2011 (Restated)	2010
Current:			
Federal	\$ 4,511	\$ 415	\$ —
State and local	1,519	1,263	130
	<u>6,030</u>	<u>1,678</u>	<u>130</u>
Deferred:			
Federal	(1,731)	(2,441)	(466)
State and local	(417)	(432)	(82)
	<u>(2,148)</u>	<u>(2,873)</u>	<u>(548)</u>
Total provision (benefit) for income taxes	<u>\$ 3,882</u>	<u>\$ (1,195)</u>	<u>\$(418)</u>

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A reconciliation of income taxes computed at the U.S. federal statutory income tax rate (35% in 2012, and 34% in 2011 and 2010) to the provision (benefit) for income taxes for the years ended December 31, 2012, 2011 and 2010 is as follows (in thousands):

	<u>2012 Provision</u>	<u>2011 Benefit (Restated)</u>	<u>2010 Benefit</u>
Provision (benefit) for income taxes at U.S. federal statutory rate of 35% (2012) and 34% (2011 and 2010)	\$ 3,304	\$ 689	\$ 298
State and local taxes, net of federal benefit	720	734	195
Permanent differences	46	(80)	(84)
Deferred tax asset valuation allowance decrease	(185)	(3,056)	(670)
Other	(3)	518	(157)
Total provision (benefit) for income taxes	<u>\$ 3,882</u>	<u>\$ (1,195)</u>	<u>\$ (418)</u>

Deferred tax assets and liabilities consisted of the following at December 31, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011 (Restated)</u>
Deferred tax assets:		
Net operating losses and capital losses	\$ 7,161	\$ 7,635
Prepaid insurance	472	813
Loan loss reserves and discounts	1,300	1,051
Flow through of deferred items from investments in qualified businesses	522	619
Deferred compensation	599	347
Loss on investments	257	257
Interest payable in credits in lieu of cash	1,306	1,611
Depreciation and amortization	1,383	1,993
Other	1,323	1,586
Total deferred tax assets before valuation allowance	<u>14,323</u>	<u>15,912</u>
Less: Valuation allowance	<u>(6,870)</u>	<u>(7,055)</u>
Total deferred tax assets	<u>7,453</u>	<u>8,857</u>
Deferred tax liabilities:		
Credits in lieu of cash	(4,571)	(8,122)
Deferred income	(564)	(565)
Total deferred tax liabilities	<u>(5,135)</u>	<u>(8,687)</u>
Net deferred tax asset	<u>\$ 2,318</u>	<u>\$ 170</u>

As of December 31, 2012, the Company had gross Federal NOLs of approximately \$5,956,000 and state and local NOLs of approximately \$50,263,000 which will begin to expire in 2020, and \$2,549,000 of capital losses which will begin expiring in 2013. The Federal NOLs are attributable to NOLs at NSBF, SBL and NBC, of which the NOLs at NBC have a full valuation allowance allowance and the NOLs at NSBF, subject to IRC Section 382 limitations, have a partial valuation allowance. The SBL NOL has a full valuation allowance as the entity currently does not have sufficient taxable income to use the NOL. Included in the \$50,263,000 state and local NOL is a \$47,900,000 NYC NOL that the Company believes it will not use before expiration and, therefore, has a full valuation allowance.

Realization of the deferred tax assets is dependent on generating sufficient taxable income in future years. The Company has a valuation allowance of approximately \$6,870,000 and \$7,055,000 as of December 31, 2012 and 2011, respectively. The decrease in the valuation allowance of \$185,000 represents a release in valuation

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allowance at NBC for use of the portion of the NOL attributable to current year taxable income, a release in valuation allowance related to NSBF Section 382 NOL that the Company believes it is more likely than not that it will use, offset by an increase in the valuation allowance for Capco related flow through items that the Company believes it is more likely than not it will not use in the future.

The Company analyzed its tax positions taken on their Federal and state tax returns for the open tax years 2009, 2010 and 2011, and used three levels of analysis in determining whether any uncertainties existed with respect to these positions. The first level consisted of an analysis of the technical merits of the position, past administrative practices and precedents, industry norms and historical audit outcome. The second level of analysis was used to determine if the threshold (more than 50%) was met for the tax filing position. The third level of analysis consisted of determining the probable outcome once it was determined that the threshold was met for the tax filing position. Based on our analysis, the Company determined that there were no uncertain tax positions and that the Company should prevail upon examination by the taxing authorities.

The Company's operations have been extended to other jurisdictions. This extension involves dealing with uncertainties and judgments in the application of tax regulations in these jurisdictions. The final resolution of any tax liabilities are dependent upon factors including negotiations with taxing authorities in these jurisdictions and resolution of disputes arising from federal, state and local tax audits. The Company recognizes potential liabilities associated with anticipated tax audit issues that may arise during an examination. Interest and penalties that are anticipated to be due upon examination are recognized as accrued interest and other liabilities with an offset to interest and other expense. The Company determined that there were no uncertainties with respect to the application of tax regulations in these jurisdictions.

NOTE 20—LEASE RESTRUCTURING CHARGES:

During 2011, the Company relocated its corporate and lending facility to two smaller spaces in order to reduce its expense and improve its cash flows. Simultaneous with this relocation, on November 1, 2011, the Company entered into a sublease agreement with respect to its offices located at 1440 Broadway, New York, NY. The Company continues to remain obligated under the terms of the original lease. Based on the remaining obligation of the original lease and the estimated sublet income, during 2011 the Company recorded a pretax charge to earnings of approximately \$990,000 upon the cease-use date representing the present value of the amount by which the rent and other direct costs paid by the Company to the landlord exceeds any rent paid to the Company by its tenant under the new sublease over the remainder of the lease term, which expires in October 2015. The Company recorded a credit to rent expense of approximately \$291,000 for the year ended December 31, 2012 from the reduction in the accrued lease loss for the year. This amount is included in other general and administrative expense on the consolidated statement of income.

NOTE 21—BENEFIT PLANS:

Defined Contribution Plan

The Company's employees participate in a defined contribution 401(k) plan (the "Plan") adopted in 2004 which covers substantially all employees based on eligibility. The Plan is designed to encourage savings on the part of eligible employees and qualifies under Section 401(k) of the Internal Revenue Code. Under the Plan, eligible employees may elect to have a portion of their pay, including overtime and bonuses, reduced each pay period, as pre-tax contributions up to the maximum allowed by law. The Company may elect to make a matching contribution equal to a specified percentage of the participant's contribution, on their behalf as a pre-tax contribution. For the years ended December 31, 2012 and 2011, the Company matched 50% of the first 2% of employee contributions.

NOTE 22—RELATED PARTY TRANSACTIONS:

During the years ended December 31, 2012, 2011, and 2010, the Company provided merchant processing for a company controlled by the father-in-law of a major stockholder and former President of the Company, in the approximate amount of \$27,000, \$48,000 and \$42,000, respectively. In connection with these transactions, the Company recorded a receivable of \$2,000 and \$3,000 at December 31, 2012 and 2011, respectively.

A major stockholder of the Company earns gross residual payments on merchant processing revenue that his unrelated company generates for the Company. During the years ended December 31, 2012, 2011 and 2010, the Company paid him gross residuals of approximately \$3,155,000, \$1,649,000 and \$1,180,000, respectively.

During the years ended December 31, 2012, 2011 and 2010, the Company employed the brother, sister-in-law and nephew of a major stockholder of the Company, and incurred combined wages and benefits expense totaling approximately \$224,600, \$210,000 and \$154,000, respectively.

During the years ended December 31, 2012, 2011 and 2010, the Company contracted with PMTWorks, LLC for payroll related services. Certain owners of PMTWorks, LLC also own non-controlling interest in Newtek Payroll Services, LLC, a consolidated VIE. PMTWorks, LLC provided services including operational, administrative, customer support, technical, risk management, sales and marketing and other services in order to assist Newtek Payroll Services, LLC in conducting payroll processing, tax filing, human resource information services, benefits administration, time and labor management and related ancillary business services. The Company paid \$28,000 and \$67,500 for these services for the years ended December 31, 2011 and 2010, respectively. There were no corresponding charges for services performed by related parties for the year ended December 31, 2012.

The Company may also, from time to time, provide business services to family members or executives of the Company. These transactions are conducted at arm's length and do not represent a material portion of the Company's revenues.

NOTE 23—STOCK OPTIONS AND RESTRICTED STOCK GRANTED TO EMPLOYEES:

As of December 31, 2012, the Company had three share-based compensation plans, which are described below. The compensation cost that has been charged against operations for those plans was \$543,000, \$480,000 and \$81,000 for the years ended December 31, 2012, 2011 and 2010, respectively, and is included in salaries and benefits in the accompanying consolidated statements of income.

The Newtek Business Services, Inc. 2000 Stock Incentive and Deferred Compensation Plan, as amended, (the "2000 Plan") currently provides for the issuance of awards of restricted shares for up to a maximum of 4,250,000 common shares to employees and non-employees. The issuance of options under this Plan expired on December 31, 2009. All restricted shares or previously granted options are issued at the fair value on the date of grant. Options issued generally have a maximum term that ranges from 2 to 10 years and vesting provisions that range from 0 to 3 years. As of December 31, 2012, there are 2,239,108 shares available for future grant under this plan.

The Newtek Business Services, Inc. 2003 Stock Incentive Plan, as amended, (the "2003 Plan") currently provides for the issuance of awards of restricted shares or options for up to a maximum of 1,000,000 common shares to employees and non-employees. All restricted shares or options are issued at the fair value on the date of grant. Options issued generally have a maximum term that ranges from 2 to 10 years and vesting provisions that range from 0 to 3 years. As of December 31, 2012, there are 632,160 shares available for future grant under this plan.

The Newtek Business Services, Inc. 2010 Stock Incentive Plan, (the "2010 Plan") currently provides for the issuance of awards of restricted shares or options for up to a maximum of 1,650,000 common shares to employees and non-employees. All restricted shares or options are issued at the fair value on the date of grant.

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Options issued generally have a maximum term that ranges from 2 to 10 years and vesting provisions that range from 0 to 4 years. As of December 31, 2012, there are 534,500 shares available for future grant under this plan.

A summary of stock option activity under the 2000, 2003 and 2010 Plans as of December 31, 2012 and changes during the year then ended are presented below:

<u>Stock Options</u>	<u>Shares (In thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Term (In years)</u>	<u>Aggregate Intrinsic Value (In thousands)</u>
Outstanding—December 31, 2011	890	\$ 1.45	5.36	\$ 21
Exercised	—	—	—	—
Cancelled	(95)	1.54		
Outstanding—December 31, 2012	<u>795</u>	\$ 1.44	4.68	\$ 333
Exercisable—December 31, 2012	<u>795</u>	\$ 1.44	4.68	\$ 333

There were no options granted during the years ended December 31, 2012, 2011 and 2010.

As of December 31, 2012, there was \$948,000 of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the 2000, 2003 and 2010 Plans. That cost is expected to be recognized ratably through July 2014.

During the year ended December 31, 2010, Newtek granted four employees an aggregate of 41,900 shares of restricted stock valued at \$41,000. The grants vest on July 1, 2014. The fair values of these grants were determined using the fair value of the common shares at the grant date. The restricted shares are forfeitable upon early voluntary or involuntary termination of the employee. Upon vesting, the grantee will receive one common share for each restricted share vested. The Company charged \$—, \$16,000 and \$4,000 to operations in 2012, 2011 and 2010, respectively, in connection with the vesting period associated with grants that remain outstanding.

In March 2011, Newtek granted certain employees, executives and board of directors an aggregate of 1,142,000 shares of restricted stock valued at \$1,941,000 or \$1.70 per share. The fair value of these grants was determined using the fair value of the common shares at the grant date. The restricted shares are forfeitable upon early voluntary or involuntary termination of the employee. Upon vesting, the grantee will receive one common share for each restricted share vested. Under the terms of the plan, these share awards do not include voting rights until the shares vest. The grants are valued using the straight-line method and vest on July 1, 2014. As a result, the Company charged \$465,000 and \$464,000 to operations in 2012 and 2011, respectively, in connection with the vesting period associated with grants that remain outstanding.

In the second quarter of 2012, Newtek granted certain employees and executives an aggregate of 123,000 restricted shares valued at \$184,000. The grants vest on July 1, 2014. The fair value of these grants was determined using the fair value of the common shares at the grant date. The restricted shares are forfeitable upon early voluntary or involuntary termination of the employee. Upon vesting, the grantee will receive one common share for each restricted share vested. Under the terms of the plan, these share awards do not include voting rights until the shares vest. The Company charged \$38,000 and \$25,000 to share-based compensation expense during the years ended December 31, 2012 and 2011, respectively, in connection with the vesting period associated with grants that remain outstanding.

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A summary of the status of Newtek's non-vested restricted shares as of December 31, 2012 and changes during the year then ended is presented below:

	<u>Non-vested Restricted Shares</u>	<u>Number of Shares (in thousands)</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested—December 31, 2011		1,134	\$ 1.68
Granted		123	\$ 1.49
Vested and issued		—	\$ —
Forfeited		(109)	\$ 1.50
Non-vested—December 31, 2012		<u>1,148</u>	<u>\$ 1.68</u>

NOTE 24—SEGMENT REPORTING:

Operating segments are organized internally primarily by the type of services provided. The Company has aggregated similar operating segments into six reportable segments: Electronic payment processing, Managed technology solutions, Small business finance, All other, Corporate and Capcos.

The Electronic payment processing segment is a processor of credit card transactions, as well as a marketer of credit card and check approval services to the small- and medium-sized business market. Expenses include direct costs (included in a separate line captioned electronic payment processing costs), professional fees, salaries and benefits, and other general and administrative costs, all of which are included in the respective caption on the consolidated statements of income.

The Managed technology solutions segment consists of NTS, acquired in July 2004. NTS's revenues are derived primarily from web hosting services and consist of web hosting and set up fees. NTS generates expenses such as professional fees, payroll and benefits, and depreciation and amortization, which are included in the respective caption on the accompanying consolidated statements of income, as well as licenses and fees, rent, and general office expenses, all of which are included in other general and administrative costs in the respective caption on the consolidated statements of income.

The Small business finance segment consists of Small Business Lending, Inc., a lender that primarily originates, sells and services government guaranteed SBA 7(a) loans to qualifying small businesses through NSBF, its licensed SBA lender; the Texas Whitestone Group which manages the Company's Texas Capco; and NBC which provides accounts receivable financing, billing and accounts receivable maintenance services to businesses. NSBF generates revenues from sales of loans, servicing income for those loans retained or contracted to service by NSBF and interest income earned on the loans themselves. The lender generates expenses for interest, professional fees, salaries and benefits, depreciation and amortization, and provision for loan losses, all of which are included in the respective caption on the consolidated statements of income. NSBF also has expenses such as loan recovery expenses, loan processing costs, and other expenses that are all included in the other general and administrative costs caption on the consolidated statements of income.

The All other segment includes revenues and expenses primarily from qualified businesses that received investments made through the Company's Capcos which cannot be aggregated with other operating segments. The two largest entities in the segment are Newtek Insurance Agency, LLC, an insurance sales operation, and Business Connect, LLC, a provider of sales and processing services.

Corporate activities represent revenue and expenses not allocated to our segments. Revenue includes interest income and management fees earned from Capcos (and included in expenses in the Capco segment). Expenses primarily include corporate operations related to broad-based sales and marketing, legal, finance, information technology, corporate development and additional costs associated with administering the Capcos.

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The Capco segment, which consists of the twelve Capcos, generates non-cash income from tax credits, interest income and gains from investments in qualified businesses which are included in other income. Expenses primarily include non-cash interest and insurance expense, management fees paid to Newtek (and included in the Corporate activities revenues), legal, and auditing fees and losses from investments in qualified businesses.

Management has considered the following characteristics when making its determination of its operating and reportable segments:

- the nature of the product and services;
- the type or class of customer for their products and services;
- the methods used to distribute their products or provide their services; and
- the nature of the regulatory environment (for example, banking, insurance, or public utilities).

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The following table presents the Company's segment information for the years ended December 31, 2012, 2011 (Restated) and 2010 and total assets as of December 31, 2012 and 2011 (in thousands):

	For the year ended December 31, 2012	For the year ended December 31, 2011 (Restated)	For the year ended December 31, 2010
Third Party Revenue			
Electronic payment processing	\$ 85,489	\$ 82,486	\$ 80,936
Managed technology solutions	18,211	19,184	19,168
Small business finance	25,408	21,025	9,371
All Other	1,860	1,835	1,527
Corporate activities	785	1,092	2,257
Capcos	683	1,497	2,442
Total reportable segments	<u>132,436</u>	<u>127,119</u>	<u>115,701</u>
Eliminations	(1,306)	(1,780)	(2,982)
Consolidated Total	<u>\$ 131,130</u>	<u>\$ 125,339</u>	<u>\$ 112,719</u>
Inter Segment Revenue			
Electronic payment processing	\$ 1,813	\$ 1,159	\$ 814
Managed technology solutions	612	647	524
Small business finance	212	81	65
All Other	1,102	1,135	3,942
Corporate activities	2,908	1,726	1,835
Capco	(317)	806	1,332
Total reportable segments	<u>6,330</u>	<u>5,554</u>	<u>8,512</u>
Eliminations	(6,330)	(5,554)	(8,512)
Consolidated Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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	For the year ended December 31, 2012	For the year ended December 31, 2011 (Restated)	For the year ended December 31, 2010
Income (loss) before income taxes			
Electronic payment processing	\$ 7,041	\$ 6,157	\$ 5,684
Managed technology solutions	4,254	4,837	4,703
Small business finance	8,094	4,135	2,045
All Other	(1,038)	(734)	(1,422)
Corporate activities	(7,511)	(10,169)	(6,935)
Capco	(1,401)	(2,197)	(3,198)
Total reportable segments	<u>9,439</u>	<u>2,029</u>	<u>877</u>
Eliminations	—	—	—
Totals	<u>\$ 9,439</u>	<u>\$ 2,029</u>	<u>\$ 877</u>
Depreciation and Amortization			
Electronic payment processing	\$ 743	\$ 1,419	\$ 1,632
Managed technology solutions	1,214	1,387	1,828
Small business finance	919	893	790
All Other	36	80	135
Corporate activities	118	163	312
Capco	6	13	12
Totals	<u>\$ 3,036</u>	<u>\$ 3,955</u>	<u>\$ 4,709</u>
	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
Interest (income) expense, net			
Electronic payment processing	\$ (6)	\$ (11)	\$ (12)
Managed technology solutions	80	103	103
Small business finance	466	(515)	169
All Other	(2)	(10)	(61)
Corporate activities	8	(20)	(24)
Capco	527	1,240	2,401
Consolidated total	<u>\$ 1,073</u>	<u>\$ 787</u>	<u>\$ 2,576</u>
		For the year ended December 31, 2012	For the year ended December 31, 2011 (Restated)
Identifiable assets			
Electronic payment processing		\$ 12,465	\$ 10,722
Managed technology solutions		12,022	10,838
Small business finance		104,155	78,484
All Other		1,762	2,878
Corporate activities		5,726	3,379
Capco		16,612	23,494
Consolidated total		<u>\$ 152,742</u>	<u>\$ 129,795</u>

NOTE 25—QUARTERLY INFORMATION (UNAUDITED):

The following table sets forth certain unaudited consolidated quarterly statement of income data from the eight quarters ended December 31, 2012 as restated. This information is unaudited, but in the opinion of management, it has been prepared substantially on the same basis as the audited consolidated financial statements appearing elsewhere in this report, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below. The consolidated quarterly data should be read in conjunction with the current audited consolidated statements and notes thereto. The total of the quarterly EPS data may not equal to the full year results.

	Three Months Ended (In Thousands, except Per Share Data)			
	3/31 (Restated)	6/30 (Restated)	9/30 (Restated)	12/31
2012 (Restated)				
Total Revenue	\$ 30,729	\$ 32,338	\$ 33,458	\$34,605
Income before income taxes	\$ 1,633	\$ 1,946	\$ 2,659	\$ 3,201
Net income available to common stockholders	\$ 1,019	\$ 1,243	\$ 1,307	\$ 2,074
Income per share—Basic	\$ 0.03	\$ 0.03	\$ 0.04	\$ 0.06
Income per share—Diluted	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.06

	Three Months Ended (In Thousands, except Per Share Data)			
	3/31	6/30	9/30	12/31 (Restated)
2011 (Restated)				
Total Revenue	\$30,523	\$32,322	\$30,657	\$ 31,837
Income before income taxes	\$ 834	\$ 136	\$ 335	\$ 723
Net income (loss) available to common stockholders	\$ 509	\$ (287)	\$ 880	\$ 2,233
Income (loss) per share—Basic and diluted	\$ 0.01	\$ (0.01)	\$ 0.02	\$ 0.07

NOTE 26—RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS AND UNAUDITED QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Impact on Consolidated Financial Statements

Prior to the issuance of the Company's consolidated financial statements for the year ended December 31, 2012, the Company determined there were errors included in its previously issued consolidated financial statements for the quarter and year ended December 31, 2011, as well as each of the 2012 quarterly interim periods. During the Company's annual review of its chargeback reserves held at UPS, management identified losses that had been concealed through the unauthorized use of merchant funds held in a merchant cash reserve account at the Company's sponsor bank. The losses and the unauthorized use of funds were the result of a number of violations of Company policies and procedures by a member of senior management in the Electronic Payment Processing segment which resulted in the misstatement of chargeback loss reserves for a group of merchants under a single independent sales agent. Those losses were intentionally concealed by the senior manager and not reported or communicated to the accounting department, the Board of Managers of UPS, the Audit Committee or the Company's executives. Upon discovery, the Company disclosed the losses, replaced the misapplied funds and terminated the manager responsible. The Company and its Audit Committee retained a consulting firm with extensive expertise in the credit card payments industry to conduct a detailed and in-depth investigation, in the areas in which the former manager was involved, as well as a review of what steps may be appropriate to ensure future compliance with the Company's accounting and disclosure policies and practices relating to merchant chargeback reserves. The Audit Committee and independent investigations were completed prior to issuance of these financial statements; both the Audit Committee and the Company's independent consultants and counsel concluded the incident to be an isolated event specifically related to the independent sales agent and group of merchants.

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The following sets forth the changes resulting from the restatements of all related financial statements for the quarter and year ended December 31, 2011, the three months ended March 31, 2012, the three and six months ended June 30, 2012 and the three and nine months ended September 30, 2012.

For the quarter and year ended December 31, 2011:

The Company understated its provision for merchant charge-back loss reserves in the amount of \$244,000 for the quarter and year ended December 31, 2011, resulting in an overstatement of net income of approximately \$146,000, an understatement of total assets of \$98,000 and an understatement of total liabilities of \$244,000. Since the Company does not report quarterly results for the fourth quarter, the impact is restated for the full year 2011 results. The following is a summary of the effect of the restatements on the originally issued consolidated statement of income for the year ended December 31, 2011, consolidated balance sheet as of December 31, 2011, and consolidated statements of cash flows for the year ended December 31, 2011 (in thousands):

CONSOLIDATED STATEMENT OF INCOME
(In Thousands, except for Per Share Data)

	For the Year Ended December 31, 2011		
	Previously Reported	Restatement Adjustments	As Restated
Operating revenues:			
Electronic payment processing	\$ 82,473	\$ —	\$ 82,473
Web hosting and design	19,181	—	19,181
Premium income	12,468	—	12,468
Interest income	2,629	—	2,629
Servicing fee income – NSBF portfolio	1,635	—	1,635
Servicing fee income – External portfolios	1,466	—	1,466
Income from tax credits	1,390	—	1,390
Insurance commissions	1,071	—	1,071
Other income	3,026	—	3,026
Total operating revenues	<u>125,339</u>	<u>—</u>	<u>125,339</u>
Net change in fair value of:			
SBA loans	(5,493)	—	(5,493)
Warrants	—	—	—
Credits in lieu of cash and notes payable in credits in lieu of cash	(131)	—	(131)
Total net change in fair value	<u>(5,624)</u>	<u>—</u>	<u>(5,624)</u>
Operating expenses:			
Electronic payment processing costs	69,145	244	69,389
Salaries and benefits	21,042	—	21,042
Interest	3,416	—	3,416
Depreciation and amortization	3,955	—	3,955
Provision for loan losses	763	—	763
Lease restructuring charges	990	—	990
Other general and administrative costs	18,132	—	18,132
Total operating expenses	<u>117,443</u>	<u>244</u>	<u>117,687</u>
Income(loss) before income taxes	2,272	(244)	2,028
Benefit for income taxes	(1,097)	(98)	(1,195)
Net income	3,369	(146)	3,223
Net loss attributable to non-controlling interests	112	—	112
Net income attributable to Newtek Business Services, Inc.	<u>\$ 3,481</u>	<u>\$ (146)</u>	<u>\$ 3,335</u>
Weighted average common shares outstanding			
Basic	35,706	—	35,706
Diluted	36,073	—	36,073
Basic and diluted income per share	<u>\$ 0.10</u>	<u>\$ (0.01)</u>	<u>\$ 0.09</u>

CONSOLIDATED BALANCE SHEET
(In Thousands, except for Per Share Data)

	As of December 31, 2011		
	Previously Reported	Restatement Adjustments	As Restated
ASSETS			
Cash and cash equivalents	\$ 11,201	\$ —	\$ 11,201
Restricted cash	14,228	—	14,228
Broker receivable	4,911	—	4,911
SBA loans held for investment, net (includes \$15,217 related to securitization trust VIE; net of reserve for loan losses of \$2,900)	18,555	—	18,555
SBA loans held for investment, at fair value (includes \$19,617 related to securitization trust VIE)	21,857	—	21,857
Accounts receivable (net of allowance of \$308)	8,180	—	8,180
SBA loans held for sale, at fair value	2,198	—	2,198
Prepaid expenses and other assets, net (includes \$1,211 related to securitization trust VIE)	11,762	—	11,762
Servicing assets (net of accumulated amortization and allowances of \$5,964)	3,420	—	3,420
Fixed assets (net of accumulated depreciation and amortization of \$16,463)	2,853	—	2,853
Intangible assets (net of accumulated amortization of \$13,226)	1,420	—	1,420
Credits in lieu of cash	16,948	—	16,948
Goodwill	12,092	—	12,092
Deferred tax asset, net	72	98	170
Total assets	<u>\$129,697</u>	<u>\$ 98</u>	<u>\$129,795</u>
LIABILITIES AND EQUITY			
Liabilities:			
Accounts payable, accrued expenses and other liabilities	\$ 11,883	\$ 244	\$ 12,127
Notes payable	13,565	—	13,565
Note payable – Securitization trust VIE	26,368	—	26,368
Deferred revenue	1,634	—	1,634
Notes payable in credits in lieu of cash	16,948	—	16,948
Total liabilities	<u>70,398</u>	<u>244</u>	<u>70,642</u>
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; 35,702 outstanding, not including 83 shares held in escrow)	734	—	734
Additional paid-in capital	57,960	—	57,960
Retained earnings (accumulated deficit)	45	(146)	(101)
Treasury stock, at cost (999 shares)	(620)	—	(620)
Total Newtek Business Services, Inc. stockholders' equity	<u>58,119</u>	<u>(146)</u>	<u>57,973</u>
Non-controlling interests	1,180	—	1,180
Total equity	<u>59,299</u>	<u>(146)</u>	<u>59,153</u>
Total liabilities and equity	<u>\$129,697</u>	<u>\$ 98</u>	<u>\$129,795</u>

CONSOLIDATED STATEMENT OF CASH FLOWS
(In Thousands)

	<u>For the Year Ended December 31, 2011</u>		
	<u>As Reported</u>	<u>Restatement Adjustments</u>	<u>As Restated</u>
Cash flows from operating activities:			
Net income	\$ 3,369	\$ (146)	\$ 3,223
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Income from tax credits	(1,390)	—	(1,390)
Accretion of interest expense	1,259	—	1,259
Fair value adjustments on SBA loans	5,493	—	5,493
Fair value adjustment of credits in lieu of cash and notes payable in credits in lieu of cash	131	—	131
Deferred income taxes	(2,775)	(98)	(2,873)
Depreciation and amortization	3,955	—	3,955
Provision for loan losses	763	—	763
Lease restructuring charges	990	—	990
Other, net	394	—	394
Changes in operating assets and liabilities:		—	
Originations of SBA loans held for sale	(74,546)	—	(74,546)
Originations of SBA loans transferred, subject to premium recourse	(274)	—	(274)
Proceeds from sale of SBA loans held for sale	73,871	—	73,871
Proceeds from sale of SBA loans, achieving sale status	27,855	—	27,855
Liability on SBA loans transferred, subject to premium recourse	(30,783)	—	(30,783)
Broker receivable	7,148	—	7,148
Accounts receivable	(513)	—	(513)
Prepaid expenses, accrued interest receivable and other assets	(3,093)	—	(3,093)
Accounts payable, accrued expenses, other liabilities and deferred revenue	2,538	244	2,782
Other, net	(2,987)	—	(2,987)
Net cash provided by operating activities	<u>11,405</u>	<u>—</u>	<u>11,405</u>
Cash flows from investing activities:			
Returns of investments in qualified businesses	242	—	242
Purchase of fixed assets and customer accounts	(1,498)	—	(1,498)
SBA loans originated for investment, net	(22,269)	—	(22,269)
Payments received on SBA loans	4,672	—	4,672
Change in restricted cash	1,239	—	1,239
Purchase of non-controlling interest	(196)	—	(196)
Net cash used in investing activities	<u>(17,810)</u>	<u>—</u>	<u>(17,810)</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(In Thousands)

	For the Year Ended December 31, 2011		
	<u>As Reported</u>	<u>Restatement Adjustments</u>	<u>As Restated</u>
Cash flows from financing activities:			
Net borrowings on bank lines of credit	\$ 1,033	\$ —	\$ 1,033
Payments on bank term note payable	(417)	—	(417)
Issuance of senior notes, net of issuance costs	13,513	—	13,513
Change in restricted cash due to debt refinancing	(750)	—	(750)
Change in restricted cash related to securitization	(2,954)	—	(2,954)
Payments on senior notes	(2,821)	—	(2,821)
Purchase of treasury shares	(16)	—	(16)
Other, net	(364)	—	(364)
Net cash provided by financing activities	<u>7,224</u>	<u>—</u>	<u>7,224</u>
Net increase in cash and cash equivalents	819	—	819
Cash and cash equivalents—beginning of year	10,382	—	10,382
Cash and cash equivalents—end of year	<u>\$ 11,201</u>	<u>\$ —</u>	<u>\$ 11,201</u>
Supplemental disclosure of cash flow activities:			
Cash paid for interest	<u>\$ 1,346</u>	<u>\$ —</u>	<u>\$ 1,346</u>
Cash paid for taxes	<u>\$ 1,280</u>	<u>\$ —</u>	<u>\$ 1,280</u>
Non-cash investing and 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	<u>\$ 19,482</u>	<u>\$ —</u>	<u>\$ 19,482</u>

For the three months ended March 31, 2012:

The Company understated its provision for merchant charge-back loss reserves in the amount of \$472,000 for the three months ended March 31, 2012, resulting in an overstatement of net income of approximately \$284,000, an understatement of total assets of \$98,000 and an understatement of total liabilities of \$528,000 as of March 31, 2012. The following is a summary of the effect of the restatements on the originally issued unaudited condensed consolidated statement of income for the three months ended March 31, 2012, unaudited condensed consolidated balance sheet as of March 31, 2012, and the unaudited condensed consolidated statement of cash flows for the three months ended March 31, 2012 (in thousands):

CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)
(In Thousands, except for Per Share Data)

	For the Three Months Ended March 31, 2012		
	Previously Reported	Restatement Adjustments	As Restated
Operating revenues:			
Electronic payment processing	\$ 20,617	\$ —	\$ 20,617
Web hosting and design	4,693	—	4,693
Premium income	2,390	—	2,390
Interest income	722	—	722
Servicing fee income – NSBF portfolio	481	—	481
Servicing fee income – External portfolios	601	—	601
Income from tax credits	191	—	191
Insurance commissions	310	—	310
Other income	724	—	724
Total operating revenues	30,729	—	30,729
Net change in fair value of:			
SBA loans	(94)	—	(94)
Credits in lieu of cash and notes payable in credits in lieu of cash	36	—	36
Total net change in fair value	(58)	—	(58)
Operating expenses:			
Electronic payment processing costs	16,881	472	17,353
Salaries and benefits	5,676	—	5,676
Interest	837	—	837
Depreciation and amortization	801	—	801
Provision for loan losses	110	—	110
Other general and administrative costs	4,261	—	4,261
Total operating expenses	28,566	472	29,038
Income before income taxes	2,105	(472)	1,633
Provision for income taxes	796	(188)	608
Net income	1,309	(284)	1,025
Net loss attributable to non-controlling interests	(6)	—	(6)
Net income attributable to Newtek Business Services, Inc.	\$ 1,303	\$ (284)	\$ 1,019
Weighted average common shares outstanding			
Basic	35,779	—	35,779
Diluted	36,193	—	36,193
Basic and diluted income per share	\$ 0.04	\$ (0.01)	\$ 0.03

CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)
(In Thousands, except for Per Share Data)

	Previously Reported	As of March 31, 2012	
		Restatement Adjustments	As Restated
ASSETS			
Cash and cash equivalents (includes \$2,850 related to VIE)	\$ 15,341	\$ —	\$ 15,341
Restricted cash	7,307	—	7,307
Broker receivable	13,923	—	13,923
SBA loans held for investment, net (includes \$14,671 related to securitization trust VIE; net of reserve for loan losses of \$2,814)	17,871	—	17,871
SBA loans held for investment, at fair value (includes \$24,005 related to securitization trust VIE)	27,226	—	27,226
Accounts receivable (net of allowance of \$454)	12,503	—	12,503
SBA loans held for sale, at fair value	2,642	—	2,642
Prepaid expenses and other assets, net (includes \$1,259 related to securitization trust VIE)	8,298	—	8,298
Servicing assets (net of accumulated amortization and allowances of \$6,152)	3,609	—	3,609
Fixed assets (net of accumulated depreciation and amortization of \$12,645)	2,867	—	2,867
Intangible assets (net of accumulated amortization of \$13,443)	1,230	—	1,230
Credits in lieu of cash	14,485	—	14,485
Goodwill	12,092	—	12,092
Deferred tax asset, net	936	98	1,034
Total assets	<u>\$140,330</u>	<u>\$ 98</u>	<u>\$140,428</u>
LIABILITIES AND EQUITY			
Liabilities:			
Accounts payable, accrued expenses and other liabilities	\$ 13,859	\$ 528	\$ 14,387
Notes payable	21,586	—	21,586
Note payable – Securitization trust VIE	25,400	—	25,400
Deferred revenue	1,490	—	1,490
Notes payable in credits in lieu of cash	14,485	—	14,485
Total liabilities	<u>76,820</u>	<u>528</u>	<u>77,348</u>
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; 35,914 outstanding, respectively, not including 83 shares held in escrow)	738	—	738
Additional paid-in capital	58,199	—	58,199
Retained earnings (includes \$1,466 and \$0, respectively, related to consolidation of VIE on January 1, 2012)	2,814	(430)	2,384
Treasury stock, at cost (1,735 and 999 shares, respectively)	(620)	—	(620)
Total Newtek Business Services, Inc. stockholders' equity	<u>61,131</u>	<u>(430)</u>	<u>60,701</u>
Non-controlling interests	2,379	—	2,379
Total equity	<u>63,510</u>	<u>(430)</u>	<u>63,080</u>
Total liabilities and equity	<u>\$140,330</u>	<u>\$ 98</u>	<u>\$140,428</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Thousands)

	<u>For the Three Months Ended March 31, 2012</u>		
	<u>As Reported</u>	<u>Restatement Adjustments</u>	<u>As Restated</u>
Cash flows from operating activities:			
Net income	\$ 1,309	\$ (284)	\$ 1,025
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Income from tax credits	(191)	—	(191)
Accretion of interest expense	227	—	227
Fair value adjustments on SBA loans	94	—	94
Fair value adjustment of credits in lieu of cash and notes payable in credits in lieu of cash	(36)	—	(36)
Deferred income taxes	(864)	—	(864)
Depreciation and amortization	801	—	801
Provision for loan losses	110	—	110
Other, net	225	—	225
Changes in operating assets and liabilities:			
Originations of SBA loans held for sale	(18,683)	—	(18,683)
Proceeds from sale of SBA loans held for sale	18,287	—	18,287
Broker receivable	(9,013)	—	(9,013)
Accounts receivable	(2,012)	—	(2,012)
Prepaid expenses, accrued interest receivable and other assets	3,488	—	3,488
Accounts payable, accrued expenses, other liabilities and deferred revenue	(487)	284	(203)
Other, net	186	—	186
Net cash used in operating activities	<u>(6,559)</u>	<u>—</u>	<u>(6,559)</u>
Cash flows from investing activities:			
Returns of investments in qualified businesses	100	—	100
Purchase of fixed assets and customer accounts	(439)	—	(439)
SBA loans originated for investment, net	(5,838)	—	(5,838)
Payments received on SBA loans	946	—	946
Change in restricted cash	1,687	—	1,687
Net cash used in investing activities	<u>(3,544)</u>	<u>—</u>	<u>(3,544)</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(Unaudited)
(In Thousands)

	For the Three Months Ended March 31, 2012		
	As Reported	Restatement Adjustments	As Restated
Cash flows from financing activities:			
Net borrowings on bank lines of credit	\$ 8,125	\$ —	\$ 8,125
Increase in cash due to consolidation of VIE	2,763	—	2,763
Payments on bank term note payable	(104)	—	(104)
Payments on senior notes	(1,021)	—	(1,021)
Change in restricted cash related to securitization	4,673	—	4,673
Other, net	(193)	—	(193)
Net cash provided by financing activities	<u>14,243</u>	<u>—</u>	<u>14,243</u>
Net increase in cash and cash equivalents	4,140	—	4,140
Cash and cash equivalents – beginning of period	11,201	—	11,201
Cash and cash equivalents – end of period	<u>\$ 15,341</u>	<u>\$ —</u>	<u>\$ 15,341</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	<u>\$ 3,069</u>	—	<u>\$ 3,069</u>
Addition to assets and liabilities on January 1, 2012 as a result of consolidation of interests in Exponential of New York, LLC			
Assets	\$ 2,763	—	\$ 2,763
Liabilities	7	—	7
Equity	<u>\$ 2,756</u>	—	<u>\$ 2,756</u>
Addition to additional paid-in capital for warrants expired previously attributable to non-controlling interests	<u>\$ 330</u>	—	<u>\$ 330</u>

For the three and six months ended June 30, 2012:

The Company (over) understated its provision for merchant charge-back loss reserves in the amount of \$(16,000) and \$456,000 for the three and six months ended June 30, 2012, respectively, resulting in an (under) overstatement of net income of approximately \$(10,000) and \$274,000, respectively, an understatement of total assets of \$98,000 and an understatement of total liabilities of \$518,000 as of June 30, 2012. The following is a summary of the effect of the restatements on the originally issued unaudited condensed consolidated statement of income for the three and six months ended June 30, 2012, unaudited condensed consolidated balance sheet as of June 30, 2012, and the unaudited condensed consolidated statement of cash flows for the six months ended June 30, 2012 (in thousands):

CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)
(In Thousands, except for Per Share Data)

	For the Three Months Ended June 30, 2012		
	Previously Reported	Restatement Adjustments	As Restated
Operating revenues:			
Electronic payment processing	\$ 21,371	\$ —	\$ 21,371
Web hosting and design	4,569	—	4,569
Premium income	2,414	—	2,414
Interest income	817	—	817
Servicing fee income – NSBF portfolio	496	—	496
Servicing fee income – External portfolios	1,475	—	1,475
Income from tax credits	129	—	129
Insurance commissions	319	—	319
Other income	748	—	748
Total operating revenues	<u>32,338</u>	<u>—</u>	<u>32,338</u>
Net change in fair value of:			
SBA loans	(569)	—	(569)
Warrants	(111)	—	(111)
Credits in lieu of cash and notes payable in credits in lieu of cash	5	—	5
Total net change in fair value	<u>(675)</u>	<u>—</u>	<u>(675)</u>
Operating expenses:			
Electronic payment processing costs	17,849	(16)	17,833
Salaries and benefits	5,437	—	5,437
Interest	1,136	—	1,136
Depreciation and amortization	711	—	711
Provision for loan losses	154	—	154
Other general and administrative costs	4,446	—	4,446
Total operating expenses	<u>29,733</u>	<u>(16)</u>	<u>29,717</u>
Income before income taxes	1,930	16	1,946
Provision for income taxes	726	(6)	732
Net income	1,204	10	1,214
Net income attributable to non-controlling interests	29	—	29
Net income attributable to Newtek Business Services, Inc.	<u>\$ 1,233</u>	<u>\$ 10</u>	<u>\$ 1,243</u>
Weighted average common shares outstanding			
Basic	<u>35,922</u>	<u>—</u>	<u>35,922</u>
Diluted	<u>36,881</u>	<u>—</u>	<u>36,881</u>
Basic and diluted income per share	<u>\$ 0.03</u>	<u>\$ —</u>	<u>\$ 0.03</u>

CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)
(In Thousands, except for Per Share Data)

	For the Six Months Ended June 30, 2012		
	Previously Reported	Restatement Adjustments	As Restated
Operating revenues:			
Electronic payment processing	\$ 41,988	\$ —	\$ 41,988
Web hosting and design	9,262	—	9,262
Premium income	4,804	—	4,804
Interest income	1,538	—	1,538
Servicing fee income – NSBF portfolio	978	—	978
Servicing fee income – External portfolios	2,075	—	2,075
Income from tax credits	319	—	319
Insurance commissions	630	—	630
Other income	1,473	—	1,473
Total operating revenues	63,067	—	63,067
Net change in fair value of:			
SBA loans	(663)	—	(663)
Warrants	(111)	—	(111)
Credits in lieu of cash and notes payable in credits in lieu of cash	41	—	41
Total net change in fair value	(733)	—	(733)
Operating expenses:			
Electronic payment processing costs	34,730	456	35,186
Salaries and benefits	11,113	—	11,113
Interest	1,973	—	1,973
Depreciation and amortization	1,512	—	1,512
Provision for loan losses	264	—	264
Other general and administrative costs	8,707	—	8,707
Total operating expenses	58,299	456	58,755
Income before income taxes	4,035	(456)	3,579
Provision for income taxes	1,522	(182)	1,340
Net income	2,513	(274)	2,239
Net income attributable to non-controlling interests	23	—	23
Net income attributable to Newtek Business Services, Inc.	\$ 2,536	\$ (274)	\$ 2,262
Weighted average common shares outstanding			
Basic	35,851	—	35,851
Diluted	36,536	—	36,536
Basic and diluted income per share	\$ 0.07	\$ (0.01)	\$ 0.06

CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)
(In Thousands, except for Per Share Data)

	As of June 30, 2012		
	Previously Reported	Restatement Adjustments	As Restated
ASSETS			
Cash and cash equivalents (includes \$2,850 related to VIE)	\$ 23,061	\$ —	\$ 23,061
Restricted cash	8,938	—	8,938
Broker receivable	5,643	—	5,643
SBA loans held for investment, net (includes \$14,120 related to securitization trust VIE; net of reserve for loan losses of \$2,380)	17,075	—	17,075
SBA loans held for investment, at fair value (includes \$24,004 related to securitization trust VIE)	31,410	—	31,410
Accounts receivable (net of allowance of \$633)	12,775	—	12,775
SBA loans held for sale, at fair value	1,783	—	1,783
Prepaid expenses and other assets, net (includes \$1,235 related to securitization trust VIE)	9,285	—	9,285
Servicing assets (net of accumulated amortization and allowances of \$6,322)	3,831	—	3,831
Fixed assets (net of accumulated depreciation and amortization of \$12,942)	2,844	—	2,844
Intangible assets (net of accumulated amortization of \$13,585)	1,088	—	1,088
Credits in lieu of cash	11,552	—	11,552
Goodwill	12,092	—	12,092
Deferred tax asset, net	1,617	98	1,715
Total assets	<u>\$142,994</u>	<u>\$ 98</u>	<u>\$143,092</u>
LIABILITIES AND EQUITY			
Liabilities:			
Accounts payable, accrued expenses and other liabilities	\$ 12,996	\$ 518	\$ 13,514
Notes payable	26,631	—	26,631
Note payable – Securitization trust VIE	24,253	—	24,253
Deferred revenue	1,484	—	1,484
Notes payable in credits in lieu of cash	11,552	—	11,552
Warrant liability	2,070	—	2,070
Total liabilities	<u>78,986</u>	<u>518</u>	<u>79,504</u>
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, 36,913 issued; 35,200 outstanding, not including 83 shares held in escrow)	738	—	738
Additional paid-in capital	58,344	—	58,344
Retained earnings (includes \$1,466 related to consolidation of VIE on January 1, 2012)	4,044	(420)	3,624
Treasury stock, at cost (1,713 shares)	(1,467)	—	(1,467)
Total Newtek Business Services, Inc. stockholders' equity	61,659	(420)	61,239
Non-controlling interests	2,349	—	2,349
Total equity	<u>64,008</u>	<u>(420)</u>	<u>63,588</u>
Total liabilities and equity	<u>\$142,994</u>	<u>\$ 98</u>	<u>\$143,092</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Thousands)

	For the Six Months Ended June 30, 2012		
	<u>As Reported</u>	<u>Restatement Adjustments</u>	<u>As Restated</u>
Cash flows from operating activities:			
Net income	\$ 2,513	\$ (274)	\$ 2,239
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Income from tax credits	(319)	—	(319)
Accretion of interest expense	360	—	360
Fair value adjustments on SBA loans	663	—	663
Fair value adjustment of credits in lieu of cash and notes payable in credits in lieu of cash	(41)	—	(41)
Fair value adjustment on warrants	111	—	111
Deferred income taxes	(1,545)	—	(1,545)
Depreciation and amortization	1,512	—	1,512
Provision for loan losses	264	—	264
Other, net	451	—	451
Changes in operating assets and liabilities:			
Originations of SBA loans held for sale	(34,686)	—	(34,686)
Proceeds from sale of SBA loans held for sale	35,019	—	35,019
Broker receivable	(733)	—	(733)
Accounts receivable	(2,347)	—	(2,347)
Prepaid expenses, accrued interest receivable and other assets	3,390	—	3,390
Accounts payable, accrued expenses, other liabilities and deferred revenue	(1,218)	274	(944)
Other, net	(1,049)	—	(1,049)
Net cash provided by operating activities	<u>2,345</u>	<u>—</u>	<u>2,345</u>
Cash flows from investing activities:			
Returns of investments in qualified businesses	101	—	101
Purchase of fixed assets and customer accounts	(813)	—	(813)
SBA loans originated for investment, net	(10,923)	—	(10,923)
Payments received on SBA loans	2,086	—	2,086
Change in restricted cash	530	—	530
Net cash used in investing activities	<u>(9,019)</u>	<u>—</u>	<u>(9,019)</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(Unaudited)
(In Thousands)

	For the Six Months Ended June 30, 2012		
	As Reported	Restatement Adjustments	As Restated
Cash flows from financing activities:			
Net borrowings on bank lines of credit	\$ 5,167	\$ —	\$ 5,167
Increase in cash due to consolidation of VIE	2,763	—	2,763
Proceeds from term loan	10,000	—	10,000
Payments on bank term note payable	(208)	—	(208)
Payments on senior notes	(2,228)	—	(2,228)
Change in restricted cash related to securitization	5,041	—	5,041
Additions to deferred financing costs	(1,257)	—	(1,257)
Purchase of treasury shares	(926)	—	(926)
Other, net	182	—	182
Net cash provided by financing activities	<u>18,534</u>	<u>—</u>	<u>18,534</u>
Net increase in cash and cash equivalents	11,860	—	11,860
Cash and cash equivalents – beginning of period	11,201	—	11,201
Cash and cash equivalents – end of period	<u>\$ 23,061</u>	<u>\$ —</u>	<u>\$ 23,061</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	<u>\$ 6,167</u>	—	<u>\$ 6,167</u>
Addition to assets and liabilities on January 1, 2012 as a result of consolidation of interests in Exponential of New York, LLC			
Assets	\$ 2,763	—	\$ 2,763
Liabilities	7	—	7
Equity	<u>\$ 2,756</u>	—	<u>\$ 2,756</u>
Addition to additional paid-in capital for warrants expired previously attributable to non-controlling interests	<u>\$ 330</u>	—	<u>\$ 330</u>
Initial allocation of value issued to warrants issued in financing transaction	<u>\$ 1,959</u>	—	<u>\$ 1,959</u>

For the three and nine months ended September 30, 2012:

The Company understated its provision for merchant charge-back loss reserves in the amount of \$275,000 and \$731,000 for the three and nine months ended September 30, 2012, respectively, resulting in an overstatement of net income of approximately \$165,000 and \$438,000, respectively, an understatement of total assets of \$98,000 and an understatement of total liabilities of \$683,000 as of September 30, 2012. The following is a summary of the effect of the restatements on the originally issued unaudited condensed consolidated statement of income for the three and nine months ended September 30, 2012, unaudited condensed consolidated balance sheet as of September 30, 2012, and the unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2012 (in thousands):

CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)
(In Thousands, except for Per Share Data)

	For the Three Months Ended September 30, 2012		
	Previously Reported	Restatement Adjustments	As Restated
Operating revenues:			
Electronic payment processing	\$ 21,686	\$ —	\$ 21,686
Web hosting and design	4,525	—	4,525
Premium income	3,154	—	3,154
Interest income	894	—	894
Servicing fee income – NSBF portfolio	560	—	560
Servicing fee income – External portfolios	1,517	—	1,517
Income from tax credits	122	—	122
Insurance commissions	286	—	286
Other income	714	—	714
Total operating revenues	<u>33,458</u>	<u>—</u>	<u>33,458</u>
Net change in fair value of:			
SBA loans	(554)	—	(554)
Warrants	—	—	—
Credits in lieu of cash and notes payable in credits in lieu of cash	(20)	—	(20)
Total net change in fair value	<u>(574)</u>	<u>—</u>	<u>(574)</u>
Operating expenses:			
Electronic payment processing costs	18,081	275	18,356
Salaries and benefits	5,597	—	5,597
Interest	1,233	—	1,233
Depreciation and amortization	763	—	763
Provision for loan losses	90	—	90
Other general and administrative costs	4,186	—	4,186
Total operating expenses	<u>29,950</u>	<u>275</u>	<u>30,225</u>
Income before income taxes	2,934	(275)	2,659
Provision for income taxes	1,469	(110)	1,359
Net income	1,465	(165)	1,300
Net income attributable to non-controlling interests	7	—	7
Net income attributable to Newtek Business Services, Inc.	<u>\$ 1,472</u>	<u>\$ (165)</u>	<u>\$ 1,307</u>
Weighted average common shares outstanding			
Basic	35,200	—	35,200
Diluted	37,520	—	37,520
Basic income per share	<u>\$ 0.04</u>	<u>\$ —</u>	<u>\$ 0.04</u>
Diluted income per share	<u>\$ 0.04</u>	<u>\$ (0.01)</u>	<u>\$ 0.03</u>

CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)
(In Thousands, except for Per Share Data)

	For the Nine Months Ended September 30, 2012		
	Previously Reported	Restatement Adjustments	As Restated
Operating revenues:			
Electronic payment processing	\$ 63,674	\$ —	\$ 63,674
Web hosting and design	13,787	—	13,787
Premium income	7,958	—	7,958
Interest income	2,432	—	2,432
Servicing fee income – NSBF portfolio	1,537	—	1,537
Servicing fee income – External portfolios	3,593	—	3,593
Income from tax credits	441	—	441
Insurance commissions	915	—	915
Other income	2,188	—	2,188
Total operating revenues	96,525	—	96,525
Net change in fair value of:			
SBA loans	(1,217)	—	(1,217)
Warrants	(111)	—	(111)
Credits in lieu of cash and notes payable in credits in lieu of cash	21	—	21
Total net change in fair value	(1,307)	—	(1,307)
Operating expenses:			
Electronic payment processing costs	52,811	731	53,542
Salaries and benefits	16,710	—	16,710
Interest	3,206	—	3,206
Depreciation and amortization	2,275	—	2,275
Provision for loan losses	354	—	354
Other general and administrative costs	12,893	—	12,893
Total operating expenses	88,249	731	88,980
Income before income taxes	6,969	(731)	6,238
Provision for income taxes	2,991	(293)	2,698
Net income	3,978	(438)	3,540
Net income attributable to non-controlling interests	30	—	30
Net income attributable to Newtek Business Services, Inc.	\$ 4,008	\$ (438)	\$ 3,570
Weighted average common shares outstanding			
Basic	35,632	—	35,632
Diluted	36,646	—	36,646
Basic and diluted income per share	\$ 0.11	\$ (0.01)	\$ 0.10

CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)
(In Thousands, except for Per Share Data)

	As of September 30, 2012		
	Previously Reported	Restatement Adjustments	As Restated
ASSETS			
Cash and cash equivalents (includes \$1,751 related to VIE)	\$ 18,304	\$ —	\$ 18,304
Restricted cash	9,764	—	9,764
Broker receivable	10,533	—	10,533
SBA loans held for investment, net (includes \$13,714 related to securitization trust VIE; net of reserve for loan losses of \$2,372)	16,491	—	16,491
SBA loans held for investment, at fair value (includes \$23,428 related to securitization trust VIE)	36,411	—	36,411
Accounts receivable (net of allowance of \$747)	11,746	—	11,746
SBA loans held for sale, at fair value	1,048	—	1,048
Prepaid expenses and other assets, net (includes \$1,179 related to securitization trust VIE)	10,650	—	10,650
Servicing assets (net of accumulated amortization and allowances of \$6,528)	4,153	—	4,153
Fixed assets (net of accumulated depreciation and amortization of \$12,229)	2,925	—	2,925
Intangible assets (net of accumulated amortization of \$13,725)	948	—	948
Credits in lieu of cash	10,063	—	10,063
Goodwill	12,092	—	12,092
Deferred tax asset, net	2,534	98	2,632
Total assets	<u>\$147,662</u>	<u>\$ 98</u>	<u>\$147,760</u>
LIABILITIES AND EQUITY			
Liabilities:			
Accounts payable, accrued expenses and other liabilities	\$ 11,041	\$ 683	\$ 11,724
Notes payable	34,279	—	34,279
Note payable – Securitization trust VIE	23,151	—	23,151
Deferred revenue	1,437	—	1,437
Notes payable in credits in lieu of cash	10,063	—	10,063
Total liabilities	<u>79,971</u>	<u>683</u>	<u>80,654</u>
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, 36,913 issued; 35,200 outstanding, not including 83 shares held in escrow)	738	—	738
Additional paid-in capital	60,560	—	60,560
Retained earnings (includes \$1,466 related to consolidation of VIE on January 1, 2012)	5,518	(585)	4,933
Treasury stock, at cost (1,713 shares)	(1,467)	—	(1,467)
Total Newtek Business Services, Inc. stockholders' equity	<u>65,349</u>	<u>(585)</u>	<u>64,764</u>
Non-controlling interests	2,342	—	2,342
Total equity	<u>67,691</u>	<u>(585)</u>	<u>67,106</u>
Total liabilities and equity	<u>\$147,662</u>	<u>\$ 98</u>	<u>\$147,760</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Thousands)

	<u>For the Nine Months Ended September 30, 2012</u>		
	<u>As Reported</u>	<u>Restatement Adjustments</u>	<u>As Restated</u>
Cash flows from operating activities:			
Net income	\$ 3,978	\$ (438)	\$ 3,540
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Income from tax credits	(441)	—	(441)
Accretion of interest expense	462	—	462
Fair value adjustments on SBA loans	1,217	—	1,217
Fair value adjustment on warrants	111	—	111
Fair value adjustment of credits in lieu of cash and notes payable in credits in lieu of cash	(21)	—	(21)
Deferred income taxes	(2,462)	—	(2,462)
Depreciation and amortization	2,275	—	2,275
Provision for loan losses	354	—	354
Other, net	884	—	884
Changes in operating assets and liabilities:			
Originations of SBA loans held for sale	(55,147)	—	(55,147)
Proceeds from sale of SBA loans held for sale	56,397	—	56,397
Broker receivable	(5,622)	—	(5,622)
Accounts receivable	(3,631)	—	(3,631)
Prepaid expenses, accrued interest receivable and other assets	3,455	—	3,455
Accounts payable, accrued expenses, other liabilities and deferred revenue	(907)	438	(469)
Other, net	(3,128)	—	(3,128)
Net cash used in operating activities	<u>(2,226)</u>	<u>—</u>	<u>(2,226)</u>
Cash flows from investing activities:			
Investments in qualified businesses	(1,651)	—	(1,651)
Returns of investments in qualified businesses	101	—	101
Purchase of fixed assets and customer accounts	(1,313)	—	(1,313)
SBA loans originated for investment, net	(17,105)	—	(17,105)
Payments received on SBA loans	3,261	—	3,261
Change in restricted cash	999	—	999
Net cash used in investing activities	<u>(15,708)</u>	<u>—</u>	<u>(15,708)</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(Unaudited)
(In Thousands)

	For the Nine Months Ended September 30, 2012		
	As Reported	Restatement Adjustments	As Restated
Cash flows from financing activities:			
Net borrowings on bank lines of credit	\$ 12,829	\$ —	\$ 12,829
Increase in cash due to consolidation of VIE	2,763	—	2,763
Proceeds from term loan	10,000	—	10,000
Payments on bank term note payable	(313)	—	(313)
Payments on senior notes	(3,389)	—	(3,389)
Change in restricted cash related to securitization	5,053	—	5,053
Additions to deferred financing costs	(1,313)	—	(1,313)
Purchase of treasury shares	(926)	—	(926)
Other, net	333	—	333
Net cash provided by financing activities	<u>25,037</u>	<u>—</u>	<u>25,037</u>
Net increase in cash and cash equivalents	7,103	—	7,103
Cash and cash equivalents – beginning of period	11,201	—	11,201
Cash and cash equivalents – end of period	<u>\$ 18,304</u>	<u>\$ —</u>	<u>\$ 18,304</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	<u>\$ 7,903</u>	—	<u>\$ 7,903</u>
Addition to assets and liabilities on January 1, 2012 as a result of consolidation of interests in Exponential of New York, LLC			
Assets	\$ 2,763	—	\$ 2,763
Liabilities	7	—	7
Equity	<u>\$ 2,756</u>	—	<u>\$ 2,756</u>
Addition to additional paid-in capital for warrants expired previously attributable to non-controlling interests	<u>\$ 330</u>	—	<u>\$ 330</u>
Initial allocation of value issued to warrants issued in financing transaction	<u>\$ 1,959</u>	—	<u>\$ 1,959</u>

NOTE 27—SUBSEQUENT EVENTS

In March 2013, the Company completed a third securitization resulting in \$20,900,000 of notes being issued in a private placement transaction. The SBA lender transferred the unguaranteed portions of SBA loans in the amount of \$23,569,000 and an additional \$5,900,000 for additional loans to be funded subsequent to the transaction, to a special purpose entity Newtek Small Business Loan Trust 2013-1 (the “Trust”). The notes received an “A” rating by S&P, and the final maturity date of the amended notes is June 25, 2038. The proceeds of the transaction have been and will be used to repay debt and originate new loans.

[—] Shares

Common Stock



NEWTEK BUSINESS SERVICES CORP.

PRELIMINARY PROSPECTUS

, 2013

JMP Securities

Stifel

William Blair

PART C — OTHER INFORMATION

ITEM 25. FINANCIAL STATEMENTS AND EXHIBITS

1. Financial Statements

The following financial statements of Newtek Business Services, Inc. (the “Registrant” or the “Company”) are included in Part A “Information Required to be in the Prospectus” of the Registration Statement.

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2. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
a.1	Amended and Restated Certificate of Incorporation of Newtek Business Services, Inc., as amended (Incorporated by reference herein to Exhibit 3.1 to Newtek’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed August 12, 2010).
a.2	Amended and Restated Articles of Incorporation of Newtek Business Services Corp.*
b.1	Bylaws of Newtek Business Services, Inc. (Incorporated by reference to Exhibit 3.2 to Newtek’s Registration Statement on Form S-4, No. 333-115615, filed August 11, 2000).
b.2	Bylaws of Newtek Business Services Corp.*
e.	Dividend Reinvestment Plan*
h.	Form of Underwriting Agreement*
j.	Form of Custodian Agreement*
k.1	Employment Agreement with Barry Sloane, dated April 9, 2012, (Incorporated by reference to Exhibit 10.1.1 to Newtek’s Quarterly Report on Form 10-Q for the period ended March 31, 2012, filed May 10, 2012).

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<u>Exhibit Number</u>	<u>Description</u>
k.2	Employment Agreement with Craig J. Brunet, dated April 9, 2012 (Incorporated by reference to Exhibit 10.2.2 to Newtek's Quarterly Report on Form 10-Q for the period ended March 31, 2012, filed May 10, 2012).
k.3	Employment Agreement with Jennifer Eddelson, dated June 1, 2012 (Incorporated by reference to Exhibit 10.10 to Newtek's Quarterly Report on Form 10-Q for the period ended June 30, 2012, filed August 6, 2012).
k.4	Lease and Master Services Agreement dated March 15, 2007 between CrystalTech Web Hosting, Inc. and i/o Data Centers (Incorporated by reference to Exhibit 10.4 to Newtek's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, filed May 15, 2007).
k.5.1	Loan and Security Agreement, dated as of April 30, 2010, between CrystalTech Web Hosting, Inc., Newtek Small Business Finance, Inc. and Capital One, N.A. (Incorporated by reference herein to Exhibit 10.16.1 to Newtek's Current Report on Form 8-K, filed May 4, 2010).
k.5.2	Guaranty of Payment and Performance, dated as of April 30, 2010, between Newtek Business Services, Inc. and Capital One Bank, N.A. (Incorporated by reference herein to Exhibit 10.16.2 to Newtek's Current Report on Form 8-K, filed May 4, 2010).
k.6.1	Newtek Business Services, Inc. 2010 Stock Incentive Plan (Incorporated by reference herein to Exhibit 10.17 to Newtek's Current Report on Form 8-K, filed June 14, 2010).
k.6.2	Form of ISO Stock Option Agreement for Newtek's 2010 Stock Incentive Plan (Incorporated by reference herein to Exhibit 10.17.2 to Newtek's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed August 12, 2010).
k.6.3	Form of Non-ISO Stock Option Agreement for Newtek's 2010 Stock Incentive Plan (Incorporated by reference herein to Exhibit 10.17.3 to Newtek's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed August 12, 2010).
k.6.4	Form of Stock Appreciation Rights Agreement for Newtek's 2010 Stock Incentive Plan (Incorporated by reference herein to Exhibit 10.17.4 to Newtek's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed August 12, 2010).
k.6.5	Form of Restricted Share Award Agreement for Newtek's 2010 Stock Incentive Plan (Incorporated by reference herein to Exhibit 10.17.5 to Newtek's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed August 12, 2010.)
k.7.1	Loan and Security Agreement, dated as of December 15, 2010, between Newtek Small Business Finance, Inc. and Capital One Bank, N.A. (Incorporated by reference herein to Exhibit 10.18.1 to Newtek's Current Report on Form 8-K, filed December 20, 2010, as amended on March 2, 2011).
k.7.2	Guaranty Agreement, dated as of December 15, 2010, between Newtek Business Services, Inc. and Capital One Bank, N.A. (Incorporated by reference herein to Exhibit 10.18.2 to Newtek's Current Report on Form 8-K, filed December 20, 2010, as amended on March 2, 2011).
k.7.3	Amended and Restated Loan and Security Agreement, dated as of June 16, 2011, by and between Newtek Small Business Finance, Inc. and Capital One, N.A. (Incorporated by reference herein to Exhibit 10.8.3 to Newtek's Current Report on Form 8-K, filed June 21, 2011).
k.7.4	Amended and Restated Guaranty of Payment and Performance, dated as of June 16, 2011, by and between Newtek Business Services, Inc., and Capital One, N.A. (Incorporated by reference herein to Exhibit 10.8.4 to Newtek's Current Report on Form 8-K, filed June 21, 2011).
k.7.5	Amendment to Loan Documents, dated October 6, 2011, by and among Newtek Small Business Finance, Inc., Capital One Bank, N.A. and each of the guarantors listed on the signature pages thereto (Incorporated by reference herein to Exhibit 10.8.5 to Newtek's Current Report on Form 8-K, filed October 11, 2011).

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<u>Exhibit Number</u>	<u>Description</u>
k.7.6	Amended and Restated Loan and Security Agreement, dated as of July 16, 2013, by and between Newtek Small Business Finance, Inc. and Capital One, National Association (Incorporated by reference herein to Exhibit 10.1 to Newtek's Current Report on Form 8-K, filed July 19, 2013).
k.7.7	Guaranty and Security Agreement Letter Amendment, dated as of July 16, 2013, by and between Capital One, National Association and Newtek Business Services, Inc. (Incorporated by reference herein to Exhibit 10.1 to Newtek's Current Report on Form 8-K, filed July 19, 2013).
k.8.1	Newtek Small Business Loan Trust Class A Notes, dated December 22, 2010 (Incorporated by reference herein to Exhibit 10.19.1 to Newtek's Current Report on Form 8-K, filed December 23, 2010).
k.8.2	Amended Newtek Small Business Loan Trust Class A Notes, dated December 29, 2011 (Incorporated by reference herein to Exhibit 10.19.2 to Newtek's Current Report on Form 8-K, filed January 5, 2012).
k.8.3	Additional Newtek Small Business Loan Trust Class A Notes, dated December 29, 2011 (Incorporated by reference herein to Exhibit 10.19.3 to Newtek's Current Report on Form 8-K, filed January 5, 2012).
k.9.1	Loan and Security Agreement, dated as of February 28, 2011, by and between CDS Business Services, Inc. and Sterling National Bank (Incorporated by reference herein to Exhibit 10.10.1 to Newtek's Current Report on Form 8-K, filed March 3, 2011).
k.9.2	Guaranty, dated as of February 28, 2011, by and between Newtek Business Services, Inc. and Sterling National Bank (Incorporated by reference herein to Exhibit 10.10.2 to Newtek's Current Report on Form 8-K, filed March 3, 2011).
k.9.3	Amendment No. 1, dated December 5, 2012, to Loan and Security Agreement, dated as of February 28, 2011, by and between CDS Business Services, Inc. and Sterling National Bank (Incorporated by reference herein to Exhibit 10.9.3 to Newtek's Current Report on Form 8-K, filed December 11, 2012).
k.10.1	Credit Agreement by and between Newtek Business Services, Inc. and Several Lenders dated as of April 25, 2012 (Incorporated by reference to Exhibit 10.10.1 to Newtek's Current Report on Form 8-K filed May 1, 2012).
k.10.2	Warrant issued to Summit Partners Credit Advisers, L.P., dated April 25, 2012 (Incorporated by reference to Exhibit 10.10.1 to Newtek's Current Report on Form 8-K filed May 1, 2012).
k.10.3	Waiver and First Amendment to Credit Agreement, dated as of July 16, 2013, by and among the Newtek Business Services, Inc., the Lenders and the Administrative Agent (Incorporated by reference to Exhibit 10.1 to Newtek's Current Report on Form 8-K filed August 9, 2013).
l.	Opinion of Sutherland Asbill & Brennan LLP*
n.1	Consent of Sutherland Asbill & Brennan LLP (Incorporated by reference to exhibit l hereto)*
n.2	Consent of Independent Registered Public Accounting Firm
n.3	Consent of Independent Registered Public Accounting Firm*
r.	Code of Ethics*
99.1	Code of Business Conduct of Registrant*

* To be filed by amendment.

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ITEM 26. MARKETING ARRANGEMENTS

The information contained under the heading “Underwriting” on this Registration Statement is incorporated herein by reference.

ITEM 27. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

SEC registration fee	\$6,440
FINRA filing fee	\$8,000
NASDAQ Capital Market	*
Printing and postage	*
Legal fees and expenses	*
Accounting fees and expenses	*
Miscellaneous	*
Total	\$ *

Note: All listed amounts are estimates, except for the SEC registration fee and FINRA filing fee.

* To be provided by amendment.

ITEM 28. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL

See “Management,” “Certain Relationships and Transactions” and “Control Persons and Principal Stockholders” in the Prospectus contained herein.

ITEM 29. NUMBER OF HOLDERS OF SECURITIES

The following table sets forth the number of record holders of the Registrant’s common stock at [•], 2013:

<u>Title of Class</u>	<u>Number of Record Holders</u>
Common Stock, par value \$0.02 per share	[•]

ITEM 30. INDEMNIFICATION

Directors and Officers

Reference is made to Section 2-418 of the Maryland General Corporation Law, Article VII of the Registrant’s charter and Article XI of the Registrant’s bylaws.

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. The Registrant’s charter contains such a provision which eliminates directors’ and officers’ liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act of 1940, as amended (the “1940 Act”).

The Registrant’s charter authorizes the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any

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individual who, while serving as the Registrant’s director or officer and at the Registrant’s request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The Registrant’s bylaws obligate the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as the Registrant’s director or officer and at the Registrant’s request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit the Registrant to indemnify and advance expenses to any person who served a predecessor of the Registrant in any of the capacities described above and any of the Registrant’s employees or agents or any employees or agents of the Registrant’s predecessor. In accordance with the 1940 Act, the Registrant will not indemnify any person for any liability to which such person would be subject by reason of such person’s willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Maryland law requires a corporation (unless its charter provides otherwise, which the Registrant’s charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received unless, in either case, a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer in advance of final disposition of a proceeding upon the corporation’s receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

ITEM 31. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER

Not applicable.

ITEM 32. LOCATION OF ACCOUNTS AND RECORDS

All accounts, books, and other documents required to be maintained by Section 31(a) of the 1940 Act, and the rules thereunder are maintained at the offices of:

- (1) the Registrant, Newtek Business Services, Inc., 212 West 35th Street, 2nd Floor, New York, New York 1001;
- (2) the Transfer Agent, , , , ; and
- (3) the Custodian, , , , .

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ITEM 33. MANAGEMENT SERVICES

Not applicable.

ITEM 34. UNDERTAKINGS

- (1) Registrant undertakes to suspend the offering of the shares of common stock covered hereby until it amends its prospectus contained herein if (a) subsequent to the effective date of this Registration Statement, its net asset value per share of common stock declines more than 10% from its net asset value per share of common stock as of the effective date of this Registration Statement, or (b) its net asset value per share of common stock increases to an amount greater than its net proceeds as stated in the prospectus contained herein.
- (2) Not applicable.
- (3) Not applicable.
- (4) Not applicable.
- (5) Registrant undertakes that:
 - (a) For purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from the form of prospectus filed as part of the Registration Statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 497(h) under the Securities Act of 1933, as amended, shall be deemed to be part of this Registration Statement as of the time it was declared effective.
 - (b) For purposes of determining any liability under the Securities Act of 1933, as amended, each post-effective amendment that contains a form of prospectus shall be deemed to a new registration statement relating to the securities at that time shall be deemed to be the initial bona fide offering thereof.
- (6) Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, in the State of New York, on December 9, 2013.

NEWTEK BUSINESS SERVICES CORP.

BY: /s/ Barry Sloane
Barry Sloane
Chief Executive Officer, President and Chairman of the
Board of Directors

Pursuant to the requirements of the Securities Act of 1933, as amended, this Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Barry Sloane</u> Barry Sloane	Chief Executive Officer, President and Chairman of the Board of Directors (Principal Executive Officer)	December 9, 2013
<u>/s/ Jennifer Eddelson</u> Jennifer Eddelson	Executive Vice President and Chief Accounting Officer (Principal Financial and Accounting Officer)	December 9, 2013
<u>*</u> David C. Beck	Director	December 9, 2013
<u>*</u> Sam Kirschner	Director	December 9, 2013
<u>*</u> Salvatore F. Mulia	Director	December 9, 2013

* Signed by Barry Sloane pursuant to a power of attorney executed on October 1, 2013.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the inclusion in this Amendment No. 1 to the registration statement on Form N-2 of our report dated April 1, 2013, on our audits of the consolidated financial statements of Newtek Business Services, Inc. and Subsidiaries as of December 31, 2012 and 2011 (Restated) and for the years ended December 31, 2012, 2011 (Restated) and 2010. We also consent to the reference to our firm under the caption "Independent Registered Public Accounting Firm."

/s/ CohnReznick LLP

Jericho, New York
December 4, 2013

VIA EDGAR

Ms. Mary A. Cole
Ms. Sheila Stout
Division of Investment Management
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Newtek Business Services Corp.
Registration Statement on Form N-2
File Nos.: 814-01035; 333-191499

Dear Ms. Cole and Ms. Stout:

On behalf of Newtek Business Services Corp. (the "**Company**"), set forth below are the Company's responses to the comments provided by the staff of the Division of Investment Management (the "**Staff**") of the Securities and Exchange Commission (the "**Commission**") to the Company in a letter dated October 31, 2013 with respect to the Company's registration statement on Form N-2 (File No. 333-191499), filed with the Commission on October 1, 2013, as amended (the "**Registration Statement**"), and the prospectus included therein (the "**Prospectus**"). The Staff's comments are set forth below and are followed by the Company's responses. Where revisions to the Prospectus are indicated in the Company's responses, such revisions are set forth in the Prospectus included in Amendment No. 1 to the Registration Statement, filed concurrently herewith.

General

1. Whenever a comment is made with respect to disclosure in one location of the filing, it applies to similar disclosure found elsewhere.

Response: The Company acknowledges the Staff's comment.

2. Certain items of disclosure were omitted from the registration statement. We may have comments on such items when they are included in a pre-effective amendment to the registration statement.

Response: The Company acknowledges the Staff's comment.

3. Cover—The disclosure states that Newtek Business Services, Inc.'s ("Newtek Inc.") common shares are currently traded on the NASDAQ Capital Market ("NASDAQ") under the symbol "NEWT," which symbol will be transferred to the Company. Does NASDAQ need to approve the merger between Newtek Inc. and the Company before the Company's shares may be listed on this exchange? If the Company cannot disclose that the exchange listing has been approved before effectiveness, the prospectus (including its cover page) needs to be revised to disclose the risks of Company shares being unlisted.

Response: The Company advises the Staff on a supplemental basis that NASDAQ must approve the transfer of the symbol "NEWT" to the Company and has revised the above-referenced disclosure in response to the Staff's comment. In addition, the Company advises the Staff on a supplemental basis that it intends to obtain any necessary approvals from NASDAQ prior to completing the offering contemplated by the Registration Statement.

4. In your response, discuss whether the public shareholders purchasing in this offering will be subject to some degree of dilution. If so, additional disclosure will be required. Will any insiders benefit from an accretion in net asset value per share ("NAV") as a result of the public offering? In this regard, please explain the relationship between Summit Partners Credit Advisors, LP ("Summit") and the Company? Why was Summit issued warrants to purchase shares at a discount? Were these warrants issued for services? Please address this issue in the context of Big Apple Capital Corporation (pub. avail. May 6, 1982).

Response: The Company advises the Staff on a supplemental basis that it does not expect investors purchasing in the offering will experience dilution because the Company expects that its shares will be sold at a price at or less than the NAV of such shares. Similarly, the Company does not expect that existing investors, including insiders, will experience accretion in NAV as a result of the public offering.

The Company advises the Staff on a supplemental basis that Summit is a creditor of the Company and has provided the Company with a \$10 million term loan (the "Term Loan"). The Company issued warrants to Summit in connection with the issuance of the Term Loan in order to improve the terms of such loan and induce Summit to complete the financing transaction. The Company advises the Staff that it considered the cost and impact to shareholders of issuing the warrants in connection with the Term Loan, and

determined that issuing such warrants provided an overall benefit to the Company and its shareholders. The Company does not believe that the analysis at issue in *Big Apple Capital Corporation* (pub. avail. May 6, 1982) applies in this context given that the warrants were issued at the time the Company's shares were publicly traded, no insiders benefitted from the issuance of the warrants, and the Company had a specific business purpose for issuing such warrants unrelated to any future potential equity capital raising transaction.

5. Cover—Please provide information about the terms of the reverse stock split.

Response: The Company advises the Staff on a supplemental basis that the terms of the reverse stock split will be disclosed by pre-effective amendment upon effectuating the reverse stock split.

6. With respect to Newtek Small Business Finance, Inc. ("SBLC"), a small business lending company under regulations of the Small Business Administration ("SBA"), please provide the following information: (1) It appears as though the Company intends to engage in most of its small business lending company activities through SBLC. Is this assumption correct or will lending also be taking place at the parent level? Please provide a legal analysis of the status of SBLC under the 1940 Act. According to disclosure in the prospectus, SBLC will, besides providing loans to small businesses, also service loans on behalf of third parties. Will SBLC be engaged primarily in the business of investing, reinvesting, or trading in securities? What percentage of its activities is represented by activities on behalf of third parties? (2) The prospectus disclosure indicates that SBLC will be a "consolidated subsidiary." Provide an analysis that supports consolidated treatment under Regulation S-X, taking into account SBLC's services to third parties. (3) SBLC is not deemed an "eligible portfolio company" of the prospective BDC under Section 2(a) (46)(B) of the 1940 Act. Please confirm that SBLC, together with other ineligible BDC investments of the Company, will not constitute 30 percent or more of the total assets of the Company, as required under Section 55 of the 1940 Act.

Response: The Company advises the Staff on a supplemental basis that it intends to engage in small business lending primarily through SBLC, with certain non-SBA 7(a) loans being made through other subsidiaries or portfolio companies. SBLC will be primarily engaged in the business of making debt investments to small businesses, and estimates that less than 10% of its activities will be represented by servicing loans and other activities on behalf of third parties. As such, SBLC would be considered an "investment company" under section 3(a) of the 1940 Act, but for the exception provided under section 3(c)(7) of the 1940 Act. In addition, the Company advises the Staff that the Company will own 100% of the equity interests in, and as a result control, SBLC at the time the Company elects to be regulated as a business development company ("BDC"). As a result, the Company believes that consolidating SBLC with the Company for accounting purposes is consistent with Rule 6-03(c) of Regulation S-X. As a consolidated

subsidiary, SBLC should not be considered a “portfolio company” of the Company and the Company intends to look through to SBLC’s portfolio investments for purposes of complying with section 55 of the 1940 Act.

7. With respect to the Company, please provide the following information: (1) Since SBLC must be included in the 30 percent basket of ineligible investments, how will the Company meet the definitional requirements of Section 3 of the 1940 Act? (2) Will the Company be primarily engaged, directly or through a wholly-owned subsidiary or subsidiaries, in a business or businesses other than that of investing, reinvesting, owning, holding, or trading in securities? Please provide an analysis of the Company’s structure and activities under Section 3(b)(2) of the 1940 Act, using the five factors articulated in Tonopah Mining Co. of Nevada, 26SE426 (1947). Those factors are a) the issuer’s historical development, b) the issuer’s public representations of policy, c) the activities of the issuer’s officers and directors, d) the nature of the issuer’s current assets, and e) the current source of the issuer’s income. Prospectus disclosure states that the Company holds controlling interests in “certain portfolio companies” representing approximately 50 percent of the Company’s total investment portfolio on a pro forma fair value basis. Since these controlled companies are the wholly owned subsidiaries through which the Company is engaged in operating businesses, please substantiate the 50 percent figure, providing support for the “fair value” assessment.

Response: The Company respectfully refers the Staff to its response to General Comment 6 above. Specifically, the Company advises the Staff on a supplemental basis that SBLC will be primarily engaged in the business of making debt investments to small businesses and therefore the value of SBLC should not be included in the 30 percent basket of ineligible investments as a result of its consolidation with the Company. As currently structured, Newtek Inc. does not operate as an investment company within the meaning of Section 3(a) under the 1940 Act. However, by restructuring and electing to be regulated as a BDC, the Company intends to operate as an investment company and expand its small business financing activities through SBLC. Upon completion of the restructuring, the Company intends to treat its historical operating company subsidiaries as portfolio companies (the “Controlled Portfolio Companies”). The Controlled Portfolio Companies are managed by individuals that focus solely on the operations of such entities. The Controlled Portfolio Companies will provide the Company with dividend and interest income in connection with the Company’s equity or debt investments in such entities, and the fair value of such entities will be included on the Company’s balance sheet. In determining the fair value of the Controlled Portfolio Companies, which equals approximately 45% of the Company’s pro forma total investment portfolio as of September 30, 2013, the Company’s board of directors considered both valuations provided by management as well as a third-party valuation firm. As discussed above, portfolio investments held by SBLC are included in the Company’s pro forma investment portfolio because SBLC will be consolidated with the Company for accounting purposes. The Company’s board of directors approved the valuation of each investment comprising

the Company's pro forma investment portfolio, as reflected in the special purpose Schedule of Investments to be included in the Prospectus. Upon electing to be regulated as a BDC, the Company's board of directors will determine the fair value of its portfolio investments, including its interests in the Controlled Portfolio Companies, on a quarterly basis in accordance with the 1940 Act.

8. The prospectus disclosure states that the government guaranteed portion of the SBLC loans will be rapidly sold and the unguaranteed portions will be securitized. Has the SBA eliminated its prior requirement that an SBLC retain at least 10 percent of the loans made to small businesses? If it's permissible for SBLC to securitize the unguaranteed portion of its loan portfolio, does it retain any risk related to the loans it makes? How will the Company report its portfolio holdings if 100 percent of its loan portfolio is sold off or securitized?

Response: The Company advises the Staff on a supplemental basis that the consistent practice of the SBLC is as follows: Typically within 30 days of origination of a loan, the SBLC will sell for cash the guaranteed portion of the loan, which is the right to receive the principal and interest guaranteed by the SBA (typically 75 percent of the total loan), into a secondary market established and supervised by the SBA. Thereafter, the remaining portion of each loan is held by the SBLC until loans may be aggregated to a sufficient size for a securitization transaction, typically about 6 months and a minimum aggregate amount of \$25 million. The SBLC then creates a securitization trust to which it sells the entire portfolio of unguaranteed loan portions and receives in return (1) cash proceeds from the private placement of the trust's obligations and (2) the residual equity in the trust which is subordinate to the obligations sold to investors. The SBA specifically approves each of these transactions and, with respect to the requirement that the SBLC continue to hold an interest in the SBA loans, permits and requires the continued holding of the trust's residual equity as satisfying that condition. The residual equity typically represents a 25-30% interest in the assets of the securitization trust, which assets consist solely of the unguaranteed portions of the SBA loans, and represents the risk that the SBLC retains with respect to its SBA loans.

Notwithstanding the sale of the loans to a securitization trust, applicable accounting rules require that the Company treat the transaction as a financing and continue to carry both the assets and the obligations of the trust on its consolidated financial statements. Please also refer to the Response to Accounting Comment 9 below.

9. Small Business Finance—The disclosure in this section states that SBLC will, among other things, “sell” and service loans to small businesses. What does it mean to sell loans? Are these the third party loans mentioned elsewhere in the prospectus? How can the Company consolidate such loans at the parent level? If these third party loans will not be consolidated, under what financial reporting theory is it appropriate to consolidate only a portion of a subsidiary's holdings? Further disclosure in this section of the prospectus states that the unguaranteed portion of SBLC's loans is “held by the lender.”

How does this statement comport with other disclosure stating that the unguaranteed portion of the loans is securitized? Please reconcile the disclosure.

Response: The Company respectfully refers the Staff to its response to General Comment 8 above for a description of the sale process. The Company advises the Staff on a supplemental basis that the third-party loans referenced in the Prospectus are the loans serviced by a subsidiary of Newtek Inc., which subsidiary will become a wholly-owned portfolio company as a result of the BDC Conversion. Such serviced loans currently primarily consist of SBA loans, but also may consist of other non-SBA loans. In addition, the Company advises the Staff on a supplemental basis that it will consolidate only the unguaranteed portion of the SBLC's SBA loans that the SBLC places in a securitization trust. The Company will not consolidate the guaranteed portions of SBA loans that are sold to third parties because the Company will retain no right to such portion of the loans. The Company respectfully refers the Staff to Accounting Comment 9 below for an explanation of consolidating the securitization trusts.

The Company has revised the above-referenced disclosure in response to the Staff's comment.

10. Newtek Branding—Please explain in your response the relationship between the “strategic alliance partners” and the Company.

Response: The Company advises the Staff on a supplemental basis that “strategic alliance partners” is the term Newtek Inc. uses to refer to companies and organizations which have entered into Referral Agreements by which they receive referral fees in exchange for referring customers or members to Newtek Inc. for one or more of the services provided by its subsidiaries. Fees are only paid for referrals which result in sales and vary greatly by industry. Examples of organizations with which Newtek Inc. has such relationships are Credit Union National Association, over 300 independent credit unions, AIG Insurance, Iberia Bank, New York Community Bank, Morgan Stanley and the GM Minority Dealers Association. Finally, the Company advises the Staff on a supplemental basis that any strategic alliance partners of the Company would not be considered “affiliates” of the Company under the 1940 Act.

11. Market Opportunity—This section includes a reference to “risk-adjusted returns.” Please explain how the Company provides returns that are risk adjusted. Are the returns risk adjusted because the Company sells off and securitizes the loans?

Response: The Company advises the Staff on a supplemental basis that the term “risk-adjusted returns” relates to the fact that riskier portfolio investments generally carry a higher expected rate of return while less risky portfolio investments generally carry a lower expected rate of return. As a result, when determining the attractiveness of certain return levels, the Company considers the risk inherent in the underlying investments.

12. The Offering—Leverage—Upon effectiveness of its registration statement, will the Company be in compliance with the asset coverage requirements of the 1940 Act?

Response: The Company confirms that it will be in compliance with the asset coverage requirements of the 1940 Act upon the effectiveness of the registration statement.

13. The Offering—Distributions—The disclosure states that the Company may pay distributions that constitute a return of capital. Many investors may not fully understand a return of capital. Please clarify that shareholders who periodically receive the payment of a dividend or other distribution consisting of a return of capital may be under the impression that they are receiving net profits when they are not and that shareholders should not assume that the source of a distribution from the Company is net profit. In addition, please inform us whether the Company intends to report a distribution yield at any point prior to finalizing its tax figures. The Company should disclose the estimated portion of the distribution yield that results from return of capital. In addition, reports containing distribution yields should be accompanied by the total return and/or SEC yields. Please disclose whether the Company will calculate return of capital on a tax or a book basis for purposes of sending Rule 19a-1 notices. In addition, please disclose that, while such distributions are not taxable, they may result in higher capital gains taxes when the shares are eventually sold.

Response: The Company has revised the above-referenced disclosure in response to the Staff's comment. The Company advises the Staff on a supplemental basis that it does not intend to report a historical distribution yield.

14. Fee Table—Please consider whether the line item for acquired fund fees and expenses is appropriate.

Response: The Company has removed the line item for acquired fund fees and expenses in response to the Staff's comment.

15. Risks Relating to Our Business and Structure—Our board of directors may change our investment objective...etc. Please include the information that the Company may not change its policy to function as a BDC without shareholder approval.

Response: The Company has revised the above-referenced disclosure in response to the Staff's comment.

16. Risks Related to Our Investments Generally—This section mentions senior secured loans, mezzanine loans and equity securities. Please make sure all these types of investments are listed in the earlier section on investment policies.

Response: The Company has revised the above-referenced disclosure in response to the Staff's comment.

17. Our executive officers and directors may be named as defendants...please explain in your response why such litigation would be “in the ordinary course of business.”

Response: The Company advises the Staff on a supplemental basis that its officers and directors may be named as defendants in connection with matters involving subsidiaries or portfolio companies. For example, such individuals may be subject to liability claims for actions taken by them with respect to a portfolio company’s business or in instances where the Company exercises control over the portfolio company. The Company will evaluate each litigation matter on a case-by-case basis to determine any impact on the ability of officers and directors to serve as such, and continually examine the Company’s public disclosure obligations with respect to such litigation matters.

18. Second priority liens—Are all senior loans second priority liens?

Response: The Company advises the Staff on a supplemental basis that second lien loans are subordinate and have a secondary priority to first lien loans. In addition, the Company has revised the above-referenced disclosure in response to the Staff’s comments.

19. Our failure to make follow-on investments—this section mentions warrants, options or convertible securities. Please list these in investment policies and explain the portion of the portfolio represented by such instruments. Also include hedging transactions (forward contracts, currency options and interest rate swaps, caps, collars and floors) in the strategies section of the prospectus.

Response: The Company has removed the above-referenced risk factor because it does not expect the related risk to be material to the Company’s operations.

20. Please disclose if there is any present intent to issue preferred shares.

Response: While the Company has no present intent to issue preferred stock in the near term, the Company respectfully refers the Staff to the statement addressing the above-referenced disclosure in the risk factor titled “*Our board of directors will be authorized to reclassify any unissued shares of common stock into one or more classes of preferred stock, which could convey special rights and privileges to its owners.*”

21. BDC Revenues—This section mentions fees for providing managerial assistance and performance-based fees. Please inform us whether the fees for managerial assistance remain with the Company or are they directed to affiliates of the Company. Also, please explain the reference to performance-based fees.

Response: The Company advises the Staff on a supplemental basis that any fees received for managerial assistance to portfolio companies will remain with the Company or a wholly-owned consolidated subsidiary. The Company has revised the above-referenced disclosure to remove the reference to performance-based fees given that it does not expect to receive such fees.

22. Servicing Portfolios and related Servicing Income—This section refers to “unguaranteed loans.” Please explain the derivation of SBA loans that are “unguaranteed.” Also, explain the reference to loans “held for investment.” Do these differ from loans that are spun off and/or securitized?

Response: The Company advises the Staff on a supplemental basis that the SBA typically guarantees between 55-90% of each SBA 7(a) loan depending on certain characteristics of the loan. The portion of the loan which is not guaranteed (i.e. 10-45% of the loan amount) is referred to by the Company as the “unguaranteed” portion of the loan.

The SBLC generally seeks to sell the guaranteed portion of SBA loans to third parties as quickly as possible. If at the end of any reporting period, the SBLC holds an SBA loan, or a portion of an SBA loan, with the intent to sell, it will include the value of such loan in “SBA loans held for sale, at fair value” on its balance sheet. On the other hand, the SBLC seeks to hold the unguaranteed portion of SBA loans until such time as it may complete a securitization. Both before and after completing such a securitization, the value of the unguaranteed portions of the SBA loans is included in “SBA loans held for investment” on Newtek Inc.’s balance sheet. The Company respectfully refers the Staff to its response to General Comments 7 and 8 above for a description of the SBA loan sale and securitization process.

23. Cash Flow—Disclosure in this section implies that the Company will make loans to start-up companies. If true, please include this information in the summary section of the prospectus.

Response: The Company has revised the above-referenced disclosures in response to the Staff’s comment.

24. Other, Primarily Equity Investments—Please disclose the amount of Company assets that will be invested in non-SBA loans.

Response: The Company advises the Staff on a supplemental basis that, at the time it elects to be regulated as a BDC, it expects approximately 40% of its investment portfolio will be invested in non-SBA loans, the primary component of which will be the Company’s investments in the Controlled Portfolio Companies.

25. Sales of Common Stock Below Net Asset Value—Please explain the legal basis for selling shares below net asset value to public shareholders who have not approved the discounted sales.

Response: The Company advises the staff on a supplemental basis that new shareholders purchasing shares in an offering below net asset value experience accretion and approve of such a sale implicitly by making their purchase.

Accounting Comments

1. The fee table is incomplete and will need to be reviewed by the staff; we may have comments when the missing information is supplied.

Response: The Company acknowledges the Staff's comment.

2. The capitalization table is incomplete and will need to be reviewed by the staff; we may have additional comments. Please add two line items in the capitalization table. One in the asset section labeled "other assets" and another in the liabilities section labeled "other liabilities." The assets and liabilities should add up to their respective totals.

Response: The Company has revised the above-referenced disclosure in response to the Staff's comment.

3. In your response, discuss the timing of the reverse stock split and whether it will occur prior to the Company's BDC election. In addition, discuss whether the effect of the reverse stock split will be presented in the financial statements included in the registration statement prior to effectiveness.

Response: The Company advises the Staff on a supplemental basis that it expects the reverse stock split to occur prior to the Company's BDC election. The Company does not intend to include the effects of the reverse stock split in its pro forma financial information because including such effects would hinder comparability to prior periods' per share figures. The Company also confirms to the Staff that there has never been a stock split or reverse stock split in the Company's history.

4. In your response, describe the presentation of the financial statements to be included in a pre-effective amendment. Discuss whether the financial statements will be in compliance with Article 6 of Regulation S-X.

Response: The Company advises the Staff on a supplemental basis that it will continue to include the Consolidated Financial Statements of Newtek Inc. in pre-effective amendments to the Registration Statement. In addition, the Company will include a special purpose audited Schedule of Investments as of a recent date reflecting the expected impact of the Company's BDC election and deconsolidation. Such Schedule of Investments will present the Controlled Portfolio Companies as portfolio companies of the Company consistent with Article 6 of Regulation S-X, which prohibits consolidation of any subsidiary that is not an investment company.

5. Please provide in your response a consolidation analysis that separately discusses each majority owned subsidiary to be consolidated with the Company as well as those that will no longer be consolidated and the reasons supporting the de-consolidation. Discuss whether the financial statements will include a change in accounting principles.

Response: The Company advises the Staff on a supplemental basis that, upon electing to be regulated as a BDC, it intends to consolidate SBLC and respectfully refers the Staff to its response to General Comment 6 for an analysis thereof. Given that SBLC is currently consolidated with Newtek Inc., the Company does not expect a related change in accounting principles.

The Company advises the Staff on a supplemental basis that its other majority-owned subsidiaries (i.e. the Controlled Portfolio Companies) are not investment companies, and therefore, in accordance with Article 6 of Regulation S-X, will not be consolidated with the Company and will be treated instead as portfolio companies. As a result, each Controlled Portfolio Company, and the fair value thereof as determined pursuant to Accounting Standard Codification Topic 820 Fair Value Measurements and Disclosures ("ASC 820"), will be included in the Company's Schedule of Investments.

6. IM Guidance was issued in September 2013, regarding the applicability of Regulation S-X Rules 3-09 and 4-08(g) to BDCs. In your response, discuss this assessment for each significant subsidiary held by the Company and whether or not Rule 3-09 or 4-08(g) is triggered, requiring separate financial statements or summarized financial information to be included with the financial statements of the Company.

Response: The Company advises the Staff on a supplemental basis that it expects two Controlled Portfolio Companies to qualify as significant subsidiaries under Rule 3-09, and as a result intends to comply with the related provisions of Regulation S-X subsequent to completion of this offering and its election to be regulated as a BDC. However, given that both entities are included in the Consolidated Financial Statements of Newtek Inc. that are included in the Registration Statement, the Company does not believe providing separate financial statements for each Controlled Portfolio Company prior to deconsolidation would be meaningful to investors.

7. Page 3 of the prospectus discusses an additional wholly owned subsidiary, Small Business Lending, Inc., that engages in third party loan servicing for SBA and non-SBA loans. In your response, discuss the accounting treatment of this subsidiary. Will the accounting treatment stay the same after the Company has elected BDC status?

Response: The Company advises the Staff on a supplemental basis that Small Business Lending, Inc. will be considered a non-consolidated Controlled Portfolio Company after the Company has elected BDC status, in view of the fact that it is not an investment company. As a result, Small Business Lending, Inc., and the fair value thereof as determined pursuant to ASC 820, will be included in the Company's Schedule of Investments. Historically, Small Business Lending, Inc. was a consolidated subsidiary of the Company.

8. In your response, discuss the function of SBLC and include a description of the function of this wholly owned subsidiary after the Company becomes a BDC. Include in the discussion whether SBLC services loans for third parties and, if so, to what extent. If the services of SBLC are not primarily for the benefit of the Company, discuss the decision to consolidate SBLC with the Company and cite the accounting literature to support consolidation.

Response: The Company respectfully refers the Staff to its response to General Comment 6.

9. In your response, describe the accounting treatment of the securitized loans of the unguaranteed portion of the SBA loans.

Response: The Company advises the Staff on a supplemental basis that the securitization trusts that the SBLC uses to securitize the unguaranteed portions of SBA loans are considered variable interest entities ("VIEs"). The Company applies consolidation requirements for VIEs under the accounting rules in ASC Topic 860, "Transfers and Servicing", and ASC Topic 810, "Consolidation." Under this guidance, the SBLC has determined that it is the primary beneficiary of the securitization vehicles, based on (1) its power to direct activities through its role as servicer for the trusts and (2) its ownership of the residual equity interests and its obligations and rights with respect thereto. The SBLC therefore consolidates the securitization trusts using the carrying amounts of the trusts' assets and liabilities. Consequently, the SBLC recognizes the related assets in "SBA loans held for investment" and recognizes the related liabilities in "Notes payable – Securitization trust VIE," which treatment is consolidated into Newtek Inc.'s financial statements.

10. Page 11 of the prospectus states "we expect our quarterly distributions during our first full year of operations as a BDC to be at an annual rate equal to approximately 9%-10% of our estimated net asset value." In your response, discuss whether the adviser will waive expenses in order to guarantee a rate of 9%-10%, whether that rate is inclusive of a potential return of capital, and whether waived fees are subject to recoupment.

Response: The Company advises the Staff on a supplemental basis that it does not intend to waive expenses given its structure as an internally-managed fund. The Company anticipates that distributions will be paid from taxable earnings and will not include a return of capital.

11. The Consolidated Balance Sheet includes the following lines "SBA Loans held for investments, net", "SBA loans held for investment, at fair value", and "SBA loans held for sale, at fair value." Will the "SBA Loans held for investments, net" be stated on a fair value basis in order to comply with Topic 820, Fair Valuation?

Response: The Company advises the Staff on a supplemental basis that it intends to state “SBA loans held for investment, net” at fair value in compliance with Topic 820, Fair Valuation.

12. In your response, explain the term “credits in lieu of cash”.

Response: The Company advises the Staff on a supplemental basis that these credits are uniquely related to the accounting for the Company’s Capcos. After a state notifies a company that it has been certified as a Capco, it allocates an aggregate dollar amount of tax credits to the Capco. However, such amount is neither recognized as income nor otherwise recorded in the financial statements since it has yet to be earned by the Capco. The Capco is entitled to earn tax credits upon satisfying defined investment percentage thresholds within specified time requirements. Newtek has Capcos operating in five states and the District of Columbia. Each statute requires that the Capco invest a threshold percentage of “certified capital” (the funds provided by the insurance company investors) in businesses defined as qualified within the time frames specified. As the Capco meets these requirements, it avoids grounds under the statute for its disqualification for continued participation in the Capco program. Such a disqualification, or “decertification,” as a Capco results in a permanent recapture of all or a portion of the allocated tax credits. The proportion of the possible recapture is reduced over time as the Capco remains in general compliance with the program rules and meets the progressively increasing investment benchmarks. As the Capco progresses in its investments in Qualified Businesses and, accordingly, places an increasing proportion of the tax credits beyond recapture, it earns an amount equal to the non-recapturable tax credits and records such amount as income, with a corresponding asset called “credits in lieu of cash” in the balance sheet.

The amount earned and recorded as income is determined by multiplying the total amount of tax credits allocated to the Capco by the percentage of tax credits immune from recapture (the earned income percentage) at that point. To the extent that the investment requirements are met ahead of schedule, and the percentage of non-recapturable tax credits is accelerated, the present value of the tax credit earned is recognized currently and the asset, credits in lieu of cash, is accreted up to the amount of tax credits deliverable to the certified investors. The obligation to deliver tax credits to the certified investors is recorded as notes payable in credits in lieu of cash. On the date the tax credits are utilizable by the certified investors, the Capco decreases credits in lieu of cash with a corresponding decrease to notes payable in credits in lieu of cash.

13. Regulation S-X 12-14 requires the Company to include information on Investments in and Advances to Affiliates. Refer to Regulation S-X 12-14 and ensure that you are in compliance with the required disclosures.

Response: The Company advises the Staff on a supplemental basis that it will include the schedule required by Regulation S-X 12-14 in a pre-effective amendment to the Registration Statement as part of its proposed special purpose audited Schedule of Investments.

14. The disclosure states, "After we elect to be regulated as a business development company, we expect that our net asset value per common share will be approximately \$3.00 (excluding the effect of the proposed reverse stock split and anticipated special dividend, as described herein)." And, later on page 11, the disclosure states, "in connection with the BDC Conversion, we anticipate our board of directors will declare a special dividend of \$[] per share, which may be paid all in cash or partially in cash and partially in our common shares..."

- a. The terms of the reverse stock split were not included in the registration statement. The staff may have additional comments after the terms of the stock split have been reviewed.

Response: The Company acknowledges the Staff's comment.

- b. Please explain how it was determined that the NAV will be \$3.00. If the special dividend will be paid in cash and stock, how will the value of the stock portion of the dividend be determined (as it states, the estimated \$3.00 per share excludes the reverse stock split and the special dividend)?

Response: The approximate \$3.00 NAV per share was determined by adjusting Newtek Inc.'s June 30, 2013 balance sheet for deconsolidation of all of its subsidiaries except NSBF, and further adjusting for the market value of its portfolio companies. In addition, the company assumed all outstanding stock awards would vest prior to conversion. The Company expects that approximately 80% of the special dividend will be paid in the form of stock, and will be determined based on the amount of earnings that the Company must distribute in connection with its election to be taxed as a regulated investment company. Our expected NAV of \$3.10 currently included in the Prospectus was calculated in the same manner using Newtek Inc.'s September 30, 2013 balance sheet. Finally, in an amendment to the Registration Statement, the Company intends to disclose NAV, as adjusted to reflect the effect of the reverse stock split and special dividend.

- c. The disclosure states that you intend to conduct a proxy solicitation in order to approve, among other things, the adoption of an equity compensation plan. Please explain who will receive the equity in the compensation plan and how it will be accounted for on the BDC's books? Will the equity compensation be in exchange for services received by the BDC?

Response: The Company advises the Staff on a supplemental basis that it intends to grant equity compensation to the officers and employees of the Company in exchange for services to the Company. Given the Company's internally-managed structure, the Company will rely on section 61(a)(3)(B) of the 1940 Act to make such equity compensation grants. In accordance with GAAP, the Company will record all share-based payments to employees based on their fair values using the Black Scholes option-pricing model at the date of the grant.

15. Balance Sheet – How is the value of the intangible assets and goodwill determined? (In the notes, it is mentioned that the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the good will and intangible assets. How do intangible assets and goodwill generate cash flow?)

Response: The Company advises the Staff on a supplemental basis that the value of intangible assets and goodwill were initially calculated as the fair value of certain acquired assets, and the excess of the acquisition costs of businesses over the fair value of the identifiable net assets acquired, respectively. Both intangible assets and goodwill are tested annually for impairment. As part of this annual assessment, the Company may estimate the future cash flows *of the underlying acquired assets*, rather than the intangible asset or the goodwill itself, in order to determine if impairment exists. The Company further advises the Staff that it will expand the disclosure in its notes to the consolidated financial statements in future filings.

16. Notes to financial statements – Note 2 Broker receivable – Are any of the broker receivables past due? If so, have you determined whether or not they are collectible?

Response: The Company advises the Staff on a supplemental basis that Broker receivables represent funds due from investors who purchased the guaranteed portions of SBA loans originated by the SBLC. These receivables are typically paid within 10 business days after the trade date and none of such receivables are currently past due or considered uncollectible.

17. Notes to financial statements – Note 5 Servicing Asset – The disclosure states, “The unpaid principal balances of loans serviced for others are not included in the accompanying condensed consolidated balance sheets. The unpaid principal balances of loans serviced for others within the NSBF originated portfolio were \$326 mil and \$271 mil as of June 30, 2013 and December 31, 2012, respectively. The unpaid principal balances of loans serviced for others which were not originated by NSBF and are outside of the Newtek portfolio were \$171 mil and \$176 mil as of June 30, 2013 and December 31, 2012, respectively.” Is Newtek liable for these loans? Are any of Newtek's assets affected by these outstanding loans? Are any of Newtek's assets used as collateral or cover for these loans? What are the risks to Newtek concerning these loans?

Response: The Company advises the Staff on a supplemental basis that Newtek Inc. is not at risk of loss due to delinquency on these loans and Newtek Inc.'s assets are not pledged as collateral for the loans. The above-referenced disclosure is referring to the guaranteed portions of loans that were originated and sold by NSBF, in which Newtek Inc. retains the servicing responsibility. The disclosure is also citing the dollar amount of loans serviced by Newtek Inc. that were not originated by NSBF and are owned by third parties. The risk to Newtek Inc. regarding these loans is the financial risk that would result from a failure by Newtek Inc. to carry out its duties in accordance with the service agreement. Newtek Inc. carries errors and omissions insurance to mitigate such risk.

18. Notes to financial statements – Note 7 Stock Options and Restricted Shares – Please explain why only a portion of the value of the restricted shares is recorded on the company's books as share-based compensation. In the first example, 4% of the restricted shares was recorded on the company's books. Are these accounted for based on "Share-Based Compensation"? Note 2 to the financial statements states that, "All share-based payments to employees are recognized in the financial statements based on their fair values using an option-pricing model at the date of grant. The Company recognizes compensation on a straight-line basis over the requisite service period for the entire award."

Response: The Company advises the Staff on a supplemental basis that, in accordance with GAAP, the value related to the issuance of restricted shares is to be expensed over the vesting period. Such shares were granted on May 21, 2013 and vest in March, 2016, for a vesting period of 33 months and 11 days. The total fair value of the underlying shares on the grant date equaled \$174,000. This amount divided by the number of days in the vesting period and multiplied by the days elapsed at June 30, 2013 equals \$7,006, which is rounded down to \$7,000 in Newtek Inc.'s financial statements.

19. Notes to financial statements – Note 8 Income per share – The disclosure states, "The effect of common share equivalents is included in the calculation of diluted loss per share only when the effect of their inclusion would be dilutive." Please explain common share equivalents. Please explain "Effect of dilutive securities" and how it is calculated. Please explain why stock options and restricted shares have been excluded from the calculation.

Response: The Company advises the Staff on a supplemental basis that common share equivalents are financial instruments such as stock options, warrants, restricted share awards, etc. which, when exercised, converted or vested, increase the number of shares of common stock outstanding. The "Effect of dilutive securities" measures the impact of the issuance of common shares (the "Dilutive Shares") in connection with the exercise, conversion or vesting of outstanding common share equivalents, and is calculated by

adding the Dilutive Shares to the Company's existing outstanding shares and using such sum as the denominator for the calculation of earnings per share ("EPS"). As a result, the "Effect of dilutive securities" is a decrease in EPS (i.e. diluted EPS is less than basic EPS). If a common share equivalent would be considered antidilutive (i.e. does not reduce EPS), it is excluded from the diluted EPS calculation. The Company further advises the Staff that it will expand the disclosure in its notes to the consolidated financial statements in future filings.

20. Page F-51 Note 4 – The disclosure states that \$36 million of the unguaranteed portions of SBA loans transferred via our securitization transaction collateralized the notes issued by the Trust." Are these secured borrowings?

Response: The Company advises the Staff on a supplemental basis that the above-referenced securitization transactions are, for accounting purposes only, treated as secured borrowings because the transfer of the underlying loans did not meet the criteria of the applicable accounting rules for a sale. NSBF continues to recognize the assets underlying the securitization trust in "SBA loans held for investment" and recognize the associated liabilities in "Notes payable – securitization trust VIE."

21. Page F-56 Note 12 Notes Payable – From the disclosure it appears as though the second lien credit facility issued by Summit Partners Credit Advisors, LP is particularly costly to the Company. Please explain the following:

- a. 12.5% per year on amount outstanding (\$10mil)
- b. 2.5% payment-in-kind, which may be paid or added to the outstanding loan amount (thereby increasing the cost of the loan each year)
- c. 3% front-end fee charged on the full amount of the facility (\$15mil) even though the company borrowed only \$10mil and the other \$5mil will not be drawn by the company
- d. Summit was given a warrant to purchase 1,686,810 shares (4.4% of Company's stock outstanding) at \$0.02 per share.

Response: The Company advises the Staff on a supplemental basis that the financing transaction with Summit was completed on an arms-length basis with an independent third party and the terms of the credit facility are comparable to the Company's other financing alternatives. At the time the Summit financing transaction commenced, the Company's board of directors and management determined that such transaction was in the best interests of the Company and its shareholders.

22. Page F-66 Note 22 Related Party Transactions – The disclosure states, "the Company provided merchant processing for a company controlled by the father-in-law of a major stockholder and former President of the Company, in the approximate amount of \$27,000 \$48,000 and \$42,000, respectively. In connection with these transactions, the Company

recorded a receivable of \$2,000 and \$3,000. Please explain the appropriateness of providing \$117,000 in services and recording only \$5,000 in receivables. Please verify whether or not the \$5,000 has been received from the related party.

Response: The Company advises the Staff on a supplemental basis that the above-referenced services were performed throughout the year and payments/collections on the account were made on a continuous basis. The related receivable amounts only indicate the balance of the amount due as of the end of the reporting period. The \$2,000 and \$3,000 receivables were subsequently collected.

23. Please include in the *Summary Risk Factors* on page 12 of the prospectus a bullet point that management recently identified a material weakness in its internal controls over financial reporting. Future internal control deficiencies could affect the accuracy of your financial results or prevent the detection of fraud as noted on page 28 of the prospectus.

Response: The Company has revised the above-referenced disclosure in response to the Staff's comment.

24. Please include the explanatory note that is included in the 10-K filed on April 1, 2013, to the December 31, 2012, financial statements included in the registration statement.

Response: The Company has revised the above-referenced disclosure in response to the Staff's comment.

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The Company confirms that:

- The Company is responsible for the accuracy and adequacy of the disclosure in the Registration Statement;
- Staff comments or changes to disclosure in response to Staff comments in the Registration Statement reviewed by the staff do not foreclose the Commission from taking any action with respect to the filing;
- The Company may not assert Staff comments as a defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

If you have any questions or additional comments concerning the foregoing, please contact the undersigned at (202) 383-0176 or John J. Mahon at (202) 383-0515.

Sincerely,

/s/ Steven B. Boehm

Steven B. Boehm

Cc: Barry Sloane, Newtek Business Services Corp.
Matthew Ash, Newtek Business Services Corp.
John Mahon, Sutherland Asbill & Brennan LLP
Bradford Sayler, Sutherland Asbill & Brennan LLP