NEWTEK CAPITAL INC
Form 10QSB
November 09, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2001

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

Commission File Number: 001-16123

NEWTEK CAPITAL, INC.
(Exact name of small business issuer as specified in its charter)

New York	11-3504638
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1500 Hempstead Tpke., East Meadow, NY	11554
(Address of principal executive offices)	(Zip Code)

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

Check if the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No___

As of November 7, 2001, 22,212,517 shares of Common Stock were issued and outstanding.

Transitional Small Business Disclosure Format Yes ___ No X

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PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1-FINANCIAL STATEMENTS

NEWTEK CAPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2001	D
ASSETS		
Cash and cash equivalents	$ 32,415,339	$ 34
Credits in lieu of cash	33,851,384	17
Investments in qualified businesses	15,414,443	15
Structured insurance product	2,666,443	2
Prepaid insurance	11,178,255	12
Prepaid expenses and other assets	873,408	
Furniture, fixtures and equipment, net	49,671	
Asset held for sale	500,000	
Goodwill	978,303	
Total	$ 97,927,246	$ 83

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:		
Accounts payable and accrued expenses	$ 2,331,673	$ 2
Notes payable- certified investors	3,855,469	3
Notes payable- insurance	9,666,666	5
Mortgage payable	331,770	
Interest payable	60,501,593	56
Deferred tax liability	3,272,176	1
Total liabilities	79,959,347	70
Minority interest	4,868,058	4
Stockholders' equity:		
Common Stock (par value $0.02 per share: authorized 39,000,000 shares, issued and outstanding 22,212,517 and 21,373,460)	444,250	
Additional Paid-In Capital	13,635,276	12
Accumulated deficit	(979,685)	(3
Total stockholders' equity	13,099,841	9
Total liabilities and stockholders' equity	$ 97,927,246	$ 8

See accompanying notes to these Consolidated financial statements.

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NEWTEK CAPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Se
	2001	2000	2001
Revenue:			
Income from tax credits	$ 5,611,956	$ 3,435,542	$20,263,
Consulting fee income	-	7,068	8,
Interest and dividend income	522,589	527,912	1,735,
Other Income	182,941	-	308,
Total revenue	6,317,486	3,970,522	22,315,
Expenses:			
General and administrative	2,154,597	1,278,911	5,924,
Interest	2,927,818	2,797,913	9,112,
Total expense	5,082,415	4,076,824	15,037,
Income (loss) before equity in net losses of affiliates,			

other than temporary decline in value of investments, provision for taxes, and minority interest	1,235,071	(106,302)	7,278,
Equity in net losses of affiliates	(856,656)	-	(1,817,
Other than temporary decline in value of investments, net of recovery	5,000	(336,050)	(220,
Income (loss) before provision for taxes, extraordinary gain on defeasance of debt and minority interest	383,415	(442,352)	5,240,
Provision for taxes	(153,365)	(2,285,129)	(2,096,
Extraordinary gain on defeasance of debt	-	-	
Income (loss) before minority interest	230,050	(2,727,481)	3,144,
Minority interest in (income) loss	230,541	927,708	(699,
Net income (loss)	$ 460,591	$(1,799,773)	$ 2,445,
Weighted average common shares outstanding			
Basic	22,212,517	21,204,461	21,779,
Diluted	22,212,517	21,204,461	21,779,
Income (loss) per share			
Basic	$ .02	$ (.08)	$
Diluted	$ .02	$ (.08)	$

See accompanying notes to these Consolidated financial statements.

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NEWTEK CAPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
	2001	2000
Cash flows from operating activities:		
Net income (loss)	$ 2,445,487	$ (4,000,266)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Extraordinary gain on defeasance of debt		(431,881)

Other than temporary decline in investments	220,000	936,050
Equity in net losses of affiliates	1,817,392	
Income from tax credits	(20,263,173)	(3,652,298)
Deferred income taxes	1,890,812	2,285,129
Depreciation and other amortization	6,207	4,137
Accretion of interest income	(106,582)	(105,495)
Accretion of interest expense	8,272,035	5,019,930
Issuance of warrants for services performed	58,800	
Minority interest included in income (loss)	699,105	(2,221,849)
Non-cash compensation - options vested	30,779	
Changes in assets and liabilities:		
Prepaid insurance	1,009,121	(222,648)
Prepaid expenses and other assets	(99,989)	16,031
Accounts payable and accrued expenses	(215,127)	(251,385)
Net cash used in operating activities	(4,235,133)	(2,624,545)
Cash flows from investing activities:		
Purchase of structured insurance product		(661,432)
Investments in qualified businesses	(20,662,289)	(10,630,942)
Return of principal - qualified investments	7,826,686	3,460,750
Consolidation of majority owned investments	11,103,283	
Other investments	(442,000)	(320,000)
Return of principal - other investments		125,000
Cash received from Rexx acquisition		143,790
Purchase of machinery and equipment	(24,417)	(28,898)
Net cash used in investing activities	(2,198,737)	(7,911,732)

See accompanying notes to these Consolidated financial statements.

NEWTEK CAPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

	Nine Mo Septe
	2001
Cash flows from financing activities:	
Payment of note payable - bank	
Proceeds from issuance of note payable-insurance	5,200,000
Proceeds from issuance of long-term debt	
Payments from defeasance of long-term debt	
Issuance of warrants	
Payments for deferred financing costs	
Repurchase of member's interest	(1,300)

Repayments of principal of note payable-insurance	(1,333,334)
Repayments of mortgage payable	(37,569)
Net proceeds from issuance of common stock	726,391
Distributions to Capco members	(402,060)
Loans payable - members	-
Net cash provided by financing activities	4,152,128
Net (decrease) in cash and cash equivalents	(2,281,742)
Cash and cash equivalents - beginning of period	34,697,081
Cash and cash equivalents - end of period	$32,415,339

Supplemental disclosure of non-cash financing activities:

Issuance of the following in partial payment for insurance:	
Notes	
Warrants	
Conversion to stock of Notes Payable - Other	
Reduction of credits in lieu of cash and interest payable balances due to delivery of tax credits to certified investors:	$ 3,908,599
Issuance of common stock in connection with acquisition of minority interest In Wilshire Investors	$ 978,303

See accompanying notes to these Consolidated financial statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation and description of business

On September 20, 2000, Newtek Capital, Inc. (Newtek) acquired the controlling interests in the underlying entities listed below and accordingly consolidates the financial statements of these entities with its own. Additionally, on September 20, 2000, Newtek's common stock began trading on the American Stock Exchange under the symbol "NKC". Newtek was formed on June 29, 1999 under the name Whitestone Holdings, Inc. and changed its name to Newtek Capital, Inc. on January 18, 2000, and the underlying entities comprise: BJB Holdings, Inc. ("BJB"), Wilshire Holdings I, Inc., Wilshire Holdings II, Inc., Newtek Securities, LLC, REXX Environmental Corp. ("REXX"), Whitestone Capital Markets, Inc., The Whitestone Group, LLC ("TWG"); Wilshire Advisers, LLC ("WA"), Wilshire NY Advisers II LLC ("WAII"), and Wilshire New York Partners III LLC ("WNYIII"), certified capital companies ("Capcos") in New York, Wilshire Partners, LLC ("WP"), a Capco in Florida, Wilshire Investors, LLC ("WI"), a Capco in Wisconsin, Wilshire Louisiana Advisers, LLC ("WLA"), and Wilshire Louisiana Partners II LLC ("WLPII"), a Capco and a subsidiary find, respectively, in Louisiana (the Capco entities are, collectively, the "Capcos" and Newtek and all of these aforementioned entities and Capcos are collectively the "Company"). TWG acts as an investment adviser and manager to the aforementioned Capcos as well as a merchant bank and provides investment banking and business development services including general business consulting services, strategic planning, due diligence, merger and acquisition analysis, technology design and implementation support, joint venture negotiations and litigation support services. All significant intercompany balances and transactions are eliminated in consolidation.

As described above, Newtek acquired the controlling interests in the underlying entities. In this connection, Newtek issued 18,823,285 shares of common stock in exchange for 100% of BJB's shares and the member interests in the underlying entities. The principal shareholders of Newtek were the principal owners of BJB and the underlying entities. As a result, Newtek has recorded the assets acquired and liabilities assumed at their historical values, with the net asset value recorded as a credit to stockholders' equity.

Additionally, on September 19, 2000, Newtek completed its acquisition of REXX. Pursuant to the acquisition, REXX stockholders received one share of Newtek common stock in exchange for each share of REXX common stock held. The Company issued 2,467,576 shares of common stock in exchange for 100% (2,467,576 shares) of REXX stock. This transaction has been accounted for as a recapitalization, whereby Newtek has recorded the monetary assets and liabilities of REXX at their historical values (which were not material to the Company), with the net asset value recorded as a credit to stockholders' equity.

The following is a summary of each Capco, state of certification and date of certification:

Capco	State of Certification	Date of Certification
WA	New York	May 1998
WP	Florida	December 1998
WI	Wisconsin	October 1999
WLA	Louisiana	October 1999
WAII	New York	April 2000
WLPII	Louisiana	October 2000
WNYIII	New York	December 2000

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In general, the Capcos issue debt and equity instruments, generally warrants ("Certified Capital"), to insurance company investors ("Certified Investors"). The Capcos then make targeted investments ("Investments in Qualified Businesses", as defined under the respective state statutes), with the Certified Capital raised. Such investments may be accounted for as either consolidated subsidiaries, under the equity method or cost method of accounting, or as notes receivable, depending upon the nature of the investment and the Company's and/or the Capco's ability to control or otherwise exercise significant influence over the investee. Each Capco has a contractual arrangement with the particular state that legally entitles the Capco to receive (or earn) tax credits from the state upon satisfying quantified, defined investment percentage thresholds and time requirements. In order for the Capcos to maintain their state-issued certifications, the Capcos must make Investments in Qualified Businesses in accordance with these requirements. Each Capco also has separate, legal contractual arrangements with the Certified Investors obligating the Capco to pay interest on the aforementioned debt instruments whether or not it meets the statutory requirements for Investments in Qualified Businesses. The Capco can satisfy this interest payment, at the Capco's discretion, by delivering tax credits in lieu of paying cash. The Capcos legally have the right to deliver the tax credits to the Certified Investors. The Certified Investors legally have the right to receive and use the tax credits and would, in turn, use these tax credits to reduce their respective state tax liabilities in an amount usually equal to 100% to 110% of their certified investment. The tax credits can be utilized over a ten-year period at a rate of generally between 10% and 11% per year and in some instances are transferable and can be carried forward.

The accompanying financial statements have been prepared without audit and do not include all footnotes and disclosures required under generally accepted accounting principles. Management believes that the results herein reflect all adjustments which are, in the opinion of management, necessary to fairly state the results and current financial condition of the Company for the respective periods. All such adjustments reflected herein are of a normal, recurring nature. These financial statements should be read in conjunction with the Company's financial statements contained in its Form 10-KSB for its year ended December 31, 2000, and all other filings with the Securities and Exchange Commission.

NOTE 2 - INVESTMENTS IN QUALIFIED BUSINESSES

The following table is a summary of investments as of September 30, 2001, shown separately between their debt ($12,324,725) and equity ($3,089,718) components for a total Investment in Qualified Businesses of $15,414,443. Terms of each are summarized. There are no expiration dates on any of the financial instruments, unless disclosed.

DEBT

Investee	Type	Date of Investment	Maturity Date	Original Principal Amount	Int
AIDA, LLC	Debt	3/01	3/02	$ 3,500,000	
1 800GiftCertificate	Debt	7/99, 7/01	9/01, 7/03	$ 1,250,000	
Starphire Technologies, LLC	Debt	6/01	6/02	$ 1,000,000	
4G's Truck Renting	Debt	12/00, 1/01	6/02	$ 1,000,000	
Multi-Media Distribution Corp.	Debt	6/00	6/02	$ 1,000,000	

Merchant Data Systems, Inc.	Debt	8/00	5/04	$ 1,000,000	
Direct Creations, LLC	Debt	9/00	3/02	$ 750,000	
OS Johnson /(4)/	Debt	9/01	Various	$ 750,000	P
Group Management Technologies, LLC	Debt	11/99	11/01	$ 3,150,000	
E&E Machine Shop /(4)/	Debt	9/01	Various	$ 523,244	P
Transworld Business Brokers, LLC	Debt	06/01	6/02, 6/04	$ 240,000	
BuySeasons, Inc.	Debt	6/01	6/06	$ 200,000	
Amerimed /(4)/	Debt	8/01, 9/01	Various	$ 155,962	P
St. Gabriel Hardware /(4)/	Debt	11/00, 8/01	Various	$ 792,000	P
Gerace Auto Parts /(4)/	Debt	4/00	Various	$ 810,000	P
Steve Kent Trucking /(4)/	Debt	3/00, 5/00	Various	$ 747,000	P
Gino's Seafood /(4)/	Debt	3/00, 4/00	Various	$ 517,942	P
Embosser's Sales and Service /(4)/	Debt	8/00	Various	$ 495,000	P
Data-Tel of Louisiana /(4)/	Debt	3/00	Various	$ 513,000	P
Tsunami Restaurants /(4)/	Debt	3/01	Various	$ 328,500	P
Raising Cain /(4)/	Debt	3/00, 4/00, 5/00	Various	$ 315,000	P
Tari's School of Dance /(4)/	Debt	5/00	Various	$ 189,000	P
BBQ West /(4)/	Debt	10/00, 11/00	Various	$ 49,500	P
Total Debt Investments				$19,276,148	

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NOTE 2 - INVESTMENTS IN QUALIFIED BUSINESSES (Continued):

EQUITY

Investee	Date of Investment	Type of Investment	Common Stock Equivalents/(1)/	Percentage of Ownership
Niche Directories, LLC	9/00, 12/00	Preferred Membership Interest w/ voting rights	N/A	37.50%
Starphire Technologies, LLC	8/00	Preferred Membership Interest w/ voting rights	N/A	50.00%
AIDA, LLC	10/00	Preferred Membership Interest w/ voting rights	N/A	50%
Transworld Business Brokers, LLC	06/01	Preferred Membership Interest w/ voting rights	N/A	33%
Multi-Media Distribution Corp.	6/00	Common Stock	66,000	3%
Group Management Technologies, LLC	6/01	Preferred Membership Interest w/ voting rights	N/A	47.5%
BuySeasons, Inc.	6/01	Common Stock	18,182	3%
1800GiftCertificate	7/99	Class B Preferred Stock	113,140	N/A
1800GiftCertificate	7/99	Class A Preferred Stock	3,159	N/A
Cedric Kushner Boxing, Inc. /(5)/	11/98	Options for Common Stock /(2)/	3	N/A
CB Real Net, LLC /(5)/	2/00	Membership Interest /(3)/	N/A	100.00%
Direct Creations /(5)/	12/00	Membership Interest	N/A	25%
Merchant Data Sysytems, Inc.	5/01	Warrants for Membership Interest /(3)/	N/A	10.00%-20.00%
TotaL Equity Investments				

Total Debt and Equity Investments September 30, 2001

/(1)/ Common Stock Equivalents reflect conversion of all financial instruments into common stock.
/(2)/ Expires four years from date of investment, and has a $.01 exercise price.
/(3)/ Expires six years from date of investment, and has a $.01 exercise price.
/(4)/ Represents participation in Small Business Administration (SBA) loans.
/(5)/ Represents additional equity interests received for making funds available to qualified businesses through qualified debt.

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The Company consolidates five of its investments. The following tables are summaries of such investments:

DEBT

Investee	Type	Date of Investment	Maturity Date	Original Principal Amount	Stat Interes
Universal Processing Services, LLC	Debt	3/01	3/02	$3,400,000	6.
United Processing Services - Wisconsin, LLC	Debt	6/01	6/06	$2,100,000	5.
PPM Link, LLC	Debt	3/01	9/02	$1,850,000	6.
Harvest Strategies, LLC	Debt	8/01	10/02	$ 950,000	5.
Total Consolidated Debt Investments				$8,300,000	

EQUITY

Investee	Date of Investment	Type of Investment	Common Stock Equivalents (1)	Percentage of Ownership	Or In A
United Processing Services - La	9/01	Preferred Membership Interest w/ voting rights	N/A	82%	$ 1,
Harvest Strategies, LLC	8/01	Preferred Membership Interest w/ voting rights	N/A	70%	$

PPM Link, LLC	3/01	Preferred Membership Interest w/ voting rights	N/A	67%	$
Universal Processing Services, LLC	3/01	Preferred Membership Interest w/ voting rights	N/A	60%	$
Total Consolidated Equity Investments					$ 2,
Total Consolidated Debt and Equity Investments September 30, 2001					$11,

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. Periodically, the Company evaluates each of its individual investments for potential impairment in value. Should the Company determine that an impairment exists and it is deemed to be other than temporary, the Company will write down the recorded value of the asset to its estimated fair value and record a corresponding charge in the statement of operations. At September 30, 2001, the Company has determined that there was $250,000 of other than temporary decline

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in the value of its investments for Hypercosm. In addition, the Company determined an impairment existed for certain non-Capco investments, and recorded a charge of $75,000. For the three months ended September 30, 2001, the Company had a net recovery of $5,000.

The Company recovered $105,000 of cash on two of its investments previously written down. This amount is shown on the statement of operations as a component of other than temporary decline in investments.

NOTE 3 - EARNINGS PER SHARE

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. The dilutive effect of common stock equivalents is included in the calculation of diluted earnings per share only when the effect of their inclusion would be dilutive. The effect of common stock equivalents were anti-dilutive for the Three and Nine Months ended September 30, 2001 and the Three and Nine Months ended September 30, 2000 and, therefore, have been excluded from the calculation of diluted earnings per share.

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

	Three months ended September 30,		Nine Months ended September 30,	
	2001	2000	2001	2000
Basic				
Net income (loss)	$ 460,591	$(1,799,773)	$ 2,445,487	$(4,000,266)
Weighted average shares	22,212,517	21,204,461	21,779,671	21,204,461
Basic and diluted	$ .02	$ (.08)	$ .11	$ (.19)

NOTE 4 - NEW ACCOUNTING PRONOUNCEMENTS

During the second quarter of 2001 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, Business Combinations ("SFAS 141") and Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). SFAS 141 is effective for all business combinations initiated after September 30, 2001 and for all business combinations accounted for by the purchase method for which the date of acquisition is after September 30, 2001. The provisions of SFAS 142 will be effective for fiscal years beginning after December 15, 2001. However, early adoption of SFAS 142 is permitted for companies with a fiscal year beginning after March 15, 2001, provided their first quarter financial statements have not been previously issued.

The Company has determined that the adoption of SFAS 141 and SFAS 142 is not expected to have a material impact on the Company's consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Three Months Ended September 30, 2001 compared to Three Months Ended September 30, 2000

Revenues increased by approximately $2,346,000 to $6,317,000 for the three months ended September 30, 2001, from $3,971,000 for the three months ended September 30, 2000. Income from tax credits increased by approximately $2,176,000 attributable to the tax credits recognized in 2001, due to the Company's meeting the next investment thresholds mandated by the various state capco statutes.

General and administrative expenses increased by approximately $876,000, to $2,155,000 for the three months ended September 30, 2001, from $1,279,000 for the three months ended September 30, 2000, due to increased staffing and professional fees (legal and accounting) attributable to the increased size and number of capcos. Interest expense increased by approximately $130,000 to $2,928,000 for the three months ended September 30, 2001, from $2,798,000 for the three months ended September 30, 2000, which was attributable to the issuance of notes to Certified Investors relating to the formation of capcos during the prior 12 months.

Equity in net losses of affiliates increased by $857,000 for the three months ended September 30, 2001, from $0 for the three months ended September 30, 2000 due to the increased number of partner companies and the nature of the Company's investments in them (more equity investments versus debt). Other than temporary decline in investments decreased by approximately $341,000, to a $5,000 gain for the three months ended September 30, 2001, from $336,050 for the three months ended September 30, 2000, due partially to a recovery of $5,000 in cash in 2001 related to an investment written down in 2000.

Nine Months Ended September 30, 2001 compared to Nine Months Ended September 30, 2000

Revenues increased by approximately $17,077,000 to $22,316,000 for the nine months ended September 30, 2001, from $5,239,000 for the nine months ended September 30, 2000. Income from tax credits increased by approximately $16,611,000 attributable to the tax credits recognized in 2001, due to the Company's meeting the next investment thresholds mandated by the various state

Capco statutes.

General and administrative expenses increased by approximately $2,551,000, to $5,924,000 for the nine months ended September 30, 2001, from $3,373,000 for the nine months ended September 30, 2000, due to increased staffing and professional fees (legal and accounting) attributable to the increased size and number of Capcos. Interest expense increased by approximately $3,814,000 to $9,113,000 for the nine months ended September 30, 2001, from $5,299,000 for the nine months ended September 30, 2000, which was attributable to the issuance of notes to Certified Investors relating to the formation of capcos during the prior 12 months.

Equity in net losses of affiliates increased by $1,817,000 for the nine months ended September 30, 2001, from $0 for the nine months ended September 30, 2000 due to the increased number of partner companies and the nature of the Company's investments in them (more equity investments versus debt). Other than temporary decline in investments decreased by approximately $716,000, to $220,000 for the nine months ended September 30, 2001, from $936,000 for the nine months ended September 30, 2000, due partially to a recovery of $105,000 in cash in 2001 related to an investment written down in 2000. Extraordinary gain decreased by approximately $432,000, to $0 for the nine months ended September 30, 2001, from $432,000 for the nine months ended September 30, 2000, due to the $432,000 gain recognized on

the defeasance of the liability of the Company's Wilshire New York Advisers II Capco in the second quarter of 2000 versus no such activity in 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company has funded its operations primarily through the issuance of notes and warrants to Certified Investors through the Capco program. To date, the Company has received approximately $136,000,000 in proceeds from the issuance of long-term debt through the Capco programs. The Company's principal capital requirements have been to fund the defeasance of the principal amount of notes issued to the Certified Investors, the acquisition of Capco insurance policies, the acquisition of partner companies interests, acquisitions funding of other investments, and working capital needs resulting from increased operating and business managing development activities of its partner companies.

Net cash used in operating activities for the nine months ended September 30, 2001 of approximately $4,235,000 resulted primarily from net income of $2,445,000, offset by the non-cash interest expense of approximately $8,272,000 and non-cash income tax expense of approximately $1,891,000. It was also partially affected by the approximately $1,817,000 in non-cash equity in net losses of affiliates, approximately $699,000 of minority interest and the approximately $20,263,000 in non-cash income from tax credits. In addition, the Company had a decrease in components of working capital of approximately $694,000.

Net cash used in investing activities for the nine months ended September 30, 2001 of approximately $2,199,000 resulted primarily from approximately $20,662,000 in additional qualified investments (inclusive of $11,103,000 of investments consolidated in the financial statements) made in the period and offset by repayments on the debt instruments of $7,827,000, offset by approximately $10,631,000 in additional qualified investments made in the period.

Net cash provided by financing activities for the nine months ended

September 30, 2001 was approximately $4,152,000, primarily attributable to approximately $5,200,000 from the issuance of notes payable and approximately $726,000 from the private placement of common stock during the three months ended March 31, 2001, which was offset by approximately $1,333,000 in payments on notes payable. In addition, the Company paid approximately $402,000 in distributions to CAPCO members for taxes.

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

FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements.

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

PART II - OTHER INFORMATION

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

(a) On August 3, 2001 the Company held its annual meeting of shareholders.

(b) All five of the incumbent directors were reelected for one year terms:

John Cox
Jeffrey G. Rubin
Steven A. Shenfeld
Barry Sloane
Brian A. Wasserman

In addition, Jeffrey M. Schottenstein was elected for a one year term to fill a vacancy on the Board.

(c) Only the election of directors was voted upon at the meeting, at which a total of 16,136,766, or 72.65 percent, were present in person or by proxy, with the vote for each of the nominees the same:

For: 16,131,541 votes, or 72.62 percent

Withheld: 5,225 votes, 0.02 percent.

There were no abstentions or non-voting broker votes.

ITEM 5-OTHER INFORMATION

Beginning in the third quarter of 2001 and continuing to the present, the Company has been working on two particular acquisitions which, if consummated, are expected to have a material positive effect upon the Company's business. The smaller of these acquisitions involves a closely held business development company in an area and with a business plan similar to the Company. If ultimately agreed to, the consideration is expected to be an exchange for Company stock. The larger of the acquisitions is a company in a related field of business to that of the Company and which now operates on a nationwide basis. This transaction is in initial stages, with no agreement on terms, conditions or structure at present.

Attached hereto as Exhibits are four press releases issued by the Company with respect to various corporate developments, which are incorporated herein by reference.

ITEM 6-EXHIBITS AND REPORTS ON FORM 8-K

Exhibit 99.1 NEWTEK ANNOUNCES RESEARCH COVERAGE BY STIFEL NICHOLAUS AND 12 MONTH PRICE TARGET

Exhibit 99.2 NEWTEK ANNOUNCES JEFF SCHOTTENSTEIN JOINS BOARD OF DIRECTORS

Exhibit 99.3 NEWTEK REAFFIRMS WALL STREET EARNINGS ESTIMATES FOR 2001

Exhibit 99.4 NEWTEK INVESTS IN UNIVERSAL PROCESSING SERVICES OF LOUISIANA - ACQUIRES MAJORITY INTEREST

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEWTEK CAPITAL, INC.

Date: November 7, 2001 /s/ Barry Sloane

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

Date: November 7, 2001 /s/ Brian A. Wasserman

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

Date: November 7, 2001 /s/ Giuseppe Soccodato

Giuseppe Soccodato
Controller and Chief Accounting Officer

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