SYNAPTICS INC
Form 4
May 13, 2014

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Bergman Rick

(Last) (First) (Middle)

1251 MCKAY DRIVE

(Street)

SAN JOSE, CA 95131

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SYNAPTICS INC [SYNA]

3. Date of Earliest Transaction (Month/Day/Year)
05/09/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
President and CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	05/09/2014		M		25,000	A	$ 23.25	54,162	D	
Common Stock	05/09/2014		S (1)		22,800	D	$ 58.6348 (2)	31,362	D	
Common Stock	05/09/2014		S (1)		2,200	D	$ 59.2968 (3)	29,162	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Option (Right to Buy)	$ 23.25	05/09/2014		M			25,000	(4)	09/28/2018	Common Stock	25,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Bergman Rick 1251 MCKAY DRIVE SAN JOSE, CA 95131	X		President and CEO	

Signatures

Rick Bergman	05/12/2014
**Signature of Reporting Person	Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- **(1)** The shares were sold pursuant to a 10b5-1 Sales Plan dated May 20, 2013.
- **(2)** The price reported in Column 4 is a weighted average price. These shares were sold in multiple transactions at prices ranging from $58.19 to $59.17 inclusive. The reporting person undertakes to provide to the Issuer, any security holder of the Issuer, or the staff of the Securities and Exchange Commission (the "SEC"), upon request, full information regarding the number of shares sold at each separate price within the ranges set forth in this footnote.
- **(3)** The price reported in Column 4 is a weighted average price. These shares were sold in multiple transactions at prices ranging from $59.21 to $59.40 inclusive. The reporting person undertakes to provide to the Issuer, any security holder of the Issuer, or the staff of the SEC, upon request, full information regarding the number of shares sold at each separate price within the ranges set forth in this footnote.
- **(4)**

25% of the total number of shares subject to the option vested and became exercisable on the twelve month anniversary of the September 28, 2011 grant date, and 1/48th of the total number of shares subject to the option vested or shall vest and became or shall become exercisable on the 28th day of each month thereafter, until fully vested on September 28, 2015.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of " and the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring 36 Events and Transactions", for the disposal of a segment of a business (as previously defined). The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, with early application encouraged and generally are to be applied prospectively. The adoption of SFAS No. 144 did not have a material impact on Newtek's financial position or results of operations. In April 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (FAS 145). This statement eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. However, an entity would not be prohibited from classifying such gains and losses as extraordinary items so long as they are both unusual in nature and infrequent in occurrence. This provision of FAS 145 will be effective for Newtek as of the beginning of fiscal year 2004. This statement also amends FAS 13, "Accounting for Leases" and certain other authoritative pronouncements to make technical corrections or clarifications. FAS 145 will be effective related to the amendment of FAS 13 for all transactions occurring after May 15, 2002. All other provisions of FAS 145 will be effective for financial statements issued after May 15, 2002. Newtek has determined that this Statement will have no significant impact on Newtek's financial condition and results of operations. In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. The provisions of SFAS No. 146 will be adopted for exit or disposal activities that are initiated after December 31, 2002. Newtek is currently evaluating the impact of implementing FAS 146. In October 2002, the FASB issued Statement No. 147 ("SFAS 147), "Acquisitions of Certain Financial Institutions." SFAS 147 addresses financial accounting and reporting for the acquisition of all or part of a financial institution, except for a transaction between two or more mutual enterprises. SFAS 147 also provides guidance on the accounting for the impairment or disposal of acquired long-term customer-relationship intangible assets of financial institutions, including those acquired in transactions between two or more mutual enterprises. The provisions of the statement will be effective for acquisitions on or after October 1, 2002. The adoption of SFAS No. 147 is not expected to have a material impact on Newtek's financial position or results of operations. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure--an amendment of SFAS No. 123." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure 37 requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of SFAS No. 148 did not have a material impact on Newtek's financial position or results of operations. In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others", an interpretation of FIN No. 5, 57 and 107, and rescission of FIN No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others". FIN 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of

the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while, the provisions of the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. In the normal course of business, Newtek enters into contracts that contain a variety of representations and warranties and provide general indemnifications. Newtek's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against Newtek that have not yet occurred. Based on Newtek's experience, Newtek expects the risk of loss to be remote. In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities", an interpretation of Accounting Research Bulletin No. 51. FIN No. 46 requires that variable interest entities be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. FIN No. 46 also requires disclosures about variable interest entities that companies are not required to consolidate but in which a company has a significant variable interest. The consolidation requirements of FIN No. 46 will apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements will apply to entities established prior to January 31, 2003 in the first fiscal year or interim period beginning after June 15, 2003. The disclosure requirements will apply in all financial statements issued after January 31, 2003. Newtek is currently evaluating the impact of implementing FIN No. 46. COMPARISON OF THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001 Revenues increased by approximately $10,824,000 to $34,624,000 for the year ended December 31, 2002, from $23,800,000 for the year ended December 31, 2001. Income from tax credits increased by approximately $9,105,000, from $21,498,000 for the year ended December 31, 2001, to $30,603,000 for the year ended December 31, 2002, due to Newtek's capcos achieving various additional investment thresholds mandated by the various state capco statutes in 2002 versus 2001. Interest and dividend income decreased by approximately $945,000 to $900,000 for the year ended December 31, 2002, from $1,845,000 for the year ended December 31, 2001. Interest and dividends are generated from excess cash balances that are invested in low risk, highly liquid securities (money market accounts, federal government backed mutual funds, etc.), non-cash accretions of structured insurance product, and on held to maturity investments. The income generated from the low risk, highly liquid securities decreased by approximately $680,000, from approximately $1,180,000 in 2001 to approximately $500,000 in 38 2002 and was due to lower bank interest rates and a decline in excess cash balances outstanding. The remaining decrease of $265,000 in interest earned on held to maturity investments was due to a decline in the average balance of loans outstanding to qualified businesses during 2002 as compared to the prior year. Consulting fee income increased by approximately $379,000 to $388,000 for the year ended December 31, 2002, from $9,000 for the year ended December 31, 2001, due to one of Newtek's partner companies experiencing a significant increase in consulting income. Other income increased by approximately $2,285,000 to $2,733,000 for the year ended December 31, 2002 from $448,000 for the year ended December 31, 2001. This increase was due to the consolidation of revenues with additional partner companies (mostly credit card processing entities, which increased by approximately $1,376,000 from approximately $249,000 in 2001 to approximately $1,625,000 in 2002) now consolidated into Newtek. Interest expense decreased by approximately $92,000 to $11,485,000 for the year ended December 31, 2002 from $11,577,000 for the year ended December 31, 2001. The decrease was due primarily to the reduction of interest payable due to delivery of tax credits to certified investors. Payroll and consulting fees increased by approximately $1,901,000 to $4,566,000 for the year ended December 31, 2002 from $2,665,000 for the year ended December 31, 2001. The increase was due to the consolidation of operating expenses with additional partner companies now consolidated into Newtek. Professional fees increased by approximately $1,084,000 to $3,145,000 for the year ended December 31, 2002 from $2,061,000 for the year ended December 31, 2001. This increase is due to the new capco and capco fund that were formed in the year. Insurance expense increased by approximately $421,000 to $1,951,000 for the year ended December 31, 2002 from $1,530,000 for the year ended December 31, 2001. This increase is due to the new prepaid insurance amortization on the newly formed capco and capco fund that were formed in the year. Other expenses increased by approximately $2,497,000 to $3,672,000 for the year ended December 31, 2002 from $1,175,000 for the year ended December 31, 2001. The increase was due primarily to the consolidation of operating expenses from additional partner companies now consolidated into Newtek. Newtek considers several factors in determining whether an impairment exists on the investment, such as the investee's net book value, cash flow, revenue and net income. Newtek recognizes that in developing new and small businesses, significant impairments in the value of the investments may occur. Newtek had $1,574,000 of other than temporary impairments in 2002, versus

approximately $372,000 in 2001. Approximately $464,000 of the 2002 impairment was attributable to the investment by a Newtek capco in Direct Creations, LLC, a direct response marketer. Approximately $728,000 of the 2002 impairment was attributable to Newtek's investment in Starphire Technologies, LLC, a software development company. The products of these two companies were not accepted by the market as we originally anticipated, and as such, Newtek recorded the appropriate impairment. Approximately $245,000 of the 2002 impairment was attributable to capco loans (debt investments) to companies in Louisiana. The results of some of these companies were also worse than anticipated, and as such, we recorded impairment based upon an assessment of their collectibility. 39 Newtek had a recovery of approximately $29,000 in its capco's debt investment in Merchant Data Systems, Inc. That investment had been restructured, and as such we have recorded a recovery for what is expected to be received. In 2001, Newtek made $12,560,000 of held to maturity investments, while during the same period in 2002, Newtek made only $2,335,000 held to maturity investments. In 2001, Newtek made $11,128,000 of consolidated investments, while during the same period in 2002, Newtek made $13,861,000 consolidated investments. This decrease in held to maturity investments is a reflection of the shift of Newtek's strategy to acquire predominately majority interests and is also due to $217,000 other than temporary decline in value of its investments in 2002 versus $372,000 in 2001. Net income increased by approximately $7,238,000, to net income of $8,168,000 for the year ended December 31, 2002, compared to net income of $930,000 for the year ended December 31, 2001, due to the increases in revenue and general and administrative expenses discussed above, offset by the increase in other than temporary decline in investments of approximately $1,202,000, decreased equity in losses of approximately $1,551,000 due to the consolidation of certain investments previously accounted for under the equity method, an increase in income taxes of approximately $2,122,000, and the extraordinary gains of $3,643,000 (of which $2,735,000 is attributable to Newtek's acquisition of Commercial Capital, and $908,000 to Newtek's acquisition of minority interests). PARTNER COMPANIES: At December 31, 2002, Newtek had fourteen majority-owned partner companies, most of which were as a result of investments through the capco programs. For the year ended December 31, 2002, these companies represented approximately $3,508,000 in losses that are consolidated in Newtek's results (net of inter-company eliminations of $1,012,000 in revenues and $1,008,000 in expenses). For the year ended December 31, 2002, revenues from consolidating partner companies, net of inter-company eliminations, amounted to $2,908,000 and were generated from the following sources: credit card processing ($1,626,000), consulting ($789,000), outsourced bookkeeping ($218,000), and other ($275,000). For the year ended December 31, 2002, expenses incurred by consolidating partner companies, net of inter-company eliminations, amounted to $6,416,000 and were incurred by the following sources: credit card processing ($2,885,000), consulting ($2,441,000), outsourced bookkeeping ($578,000), and other ($512,000). For the year ended December 31, 2001, these companies represented approximately $614,000 in losses that are consolidated in Newtek's results (net of inter-company eliminations of $96,000 in revenues and $385,000 in expenses). For the year ended December 31, 2001, revenues from consolidating partner companies, net of inter-company eliminations, amounted to $394,000 and were generated from the following sources: credit card processing ($249,000) and consulting ($146,000). For the year ended December 31, 2001, expenses incurred by consolidating partner companies, net of inter-company eliminations, amounted to $1,008,000 and were incurred by the following sources: credit card processing ($325,000) and consulting ($683,000). At December 31, 2002, Newtek had four companies accounted for under the equity method, all of which were as a result of investments through the capco programs. For the year ended December 31, 2002, these companies represented approximately $729,000 in losses that are shown on the consolidated statement of income as equity in net losses of affiliates. For the 40 year ended December 31, 2001, these companies represented approximately $2,280,000 in losses that are shown on the consolidated statement of income as equity in net losses of affiliates. LIQUIDITY AND CAPITAL RESOURCES Newtek has funded its operations primarily through the issuance of notes to insurance companies through the capco programs. Through December 31, 2002, Newtek has received approximately $166,700,000 in proceeds from the issuance of long-term debt, Capco warrants, and Newtek common stock through the capco programs. Newtek's principal capital requirements have been to fund the extinguishment of the notes issued to the insurance companies (approximately $94,081,000), the acquisition of capco insurance policies ($18,519,000), the acquisition of partner companies interests, finding other capco-qualified investments, and working capital needs resulting from operating and business development activities of its partner companies. Net cash used in operating activities for the twelve months ended December 31, 2002 of approximately $9,908,000 resulted primarily from net income of $8,168,000 adjusted for the non-cash interest expense of approximately $10,733,000 and non-cash income tax expense of

approximately $2,657,000. It was also affected by the approximately $729,000 in equity in net losses of affiliates and approximately $335,000 of minority interest. This was offset by the approximately $30,603,000 in non-cash income from tax credits and $3,643,000 in extraordinary gains. In addition, Newtek had an increase in components of working capital of approximately $118,000. Net cash provided by investing activities for the year ended December 31, 2002 of approximately $9,266,000 resulted primarily from approximately $16,196,000 in additional qualified investments made in the period offset by repayments on debt instruments of $8,743,000, cash from consolidation of entities of $14,173,000 and the $2,475,000 in cash received in connection with the acquisitions of Exponential and Commercial Capital. Net cash provided by financing activities for the year ended December 31, 2002 was approximately $10,642,000 primarily attributable to the approximately $30,000,000 in proceeds from the issuance of long term debt, net proceeds of approximately $720,000 from the issuance of common stock to certified investors, and net proceeds of approximately $1,371,000 from the net proceeds from issuance of stock during the twelve months ended December 31, 2002. This was offset by payments on a premium financing note payable-insurance of approximately $7,034,000, debt extinguishment of approximately $14,514,000 and the full repayment of a mortgage obligation of approximately $307,000. In November 2001, Newtek entered into a $1,500,000 one year revolving working capital loan agreement with JP Morgan Chase, bearing interest at the prime rate plus 0.25% per annum. The agreement expires in June 2003. At December 31, 2002 and December 31, 2001, Newtek had outstanding borrowings of $450,000 and $575,000, respectively, from the bank at an interest rate of 5.75%. All assets of Newtek, except for all assets in the capco entities, collateralize such outstanding borrowings. LIQUIDITY RISK. Newtek 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 41 availability of funds under its existing JP Morgan line of credit will provide it with sufficient liquidity to meet its short and long-term capital needs. The loss of any one or two of these liquidity sources would not present an impossible obstacle to Newtek's operations. However, the failure of the insurer, which is primarily liable for the repayment of the capco extinguished debt of $149,337,000 would require the capcos to assume this repayment obligation upon the maturity of the notes. Management has determined that the likelihood of the capcos becoming primarily liable for a material portion of this debt due to the failure of the insurers, which are subsidiaries of The American International Group, Inc., and are currently rated as "AAA" for financial strength by Standard & Poor's is remote. The parent company, AIG, has not agreed to guarantee the obligations of the subsidiary insurers. The following chart represents Newtek's obligations and commitments, as of December 31, 2002, other than capco debt repayment discussed above for future cash payments under debt, lease and employment agreements: EMPLOYMENT YEAR DEBT LEASES AGREEMENTS TOTAL ----- ----------- ----------- ----------- ----------- 2003 $ 3,860,588 $ 752,149 $ 855,000 $ 5,467,737 2004 2,197,013 735,503 855,000 3,787,516 2005 1,184,567 374,769 855,000 2,414,336 2006 -- 345,534 -- 345,534 2007 -- 258,867 -- 258,867 2008+ 3,810,161 1,562,121 -- 5,372,282 ----------- ----------- ----------- ----------- Total $11,052,329 $ 4,028,943 $ 2,565,000 $17,646,272 ----------- ----------- ----------- ----------- This chart excludes the taxes due to capco minority owners (which can not be anticipated). Commercial Capital Corp. ("CCC"), at the time of its acquisition by Newtek had a $10 Million line of credit with a bank. As of December 31, 2002, the amount outstanding under this line of credit was $3,998,630 and was assumed by Newtek in connection with its acquisition of CCC (included in Bank Notes Payable on the accompanying consolidated balance sheet). The line of credit is collateralized by loans made by CCC. The line of credit bears interest at the prime interest rate plus 1% with interest payable monthly. The average rate for the year ended December 31, 2002 was 5.76%. The rate at December 31, 2002 was 5.25%. There was no accrued interest payable under this line of credit as of December 31, 2002. In addition, this line of credit requires that a percentage of all advances made to CCC be deposited into an account in the name of the bank. The balance in this account as of December 31, 2002 was $198,467 and is included in receivable from bank on the accompanying consolidated balance sheet. 42 CCC also had a line of credit with another bank for $75,000,000. As of December 31, 2002, the amount outstanding under this line of credit was $51,325,862 and, less $1,500,000 which was converted into CCC Preferred Stock, was assumed by Newtek in connection with its acquisition of CCC (included in Bank Notes Payable on the accompanying consolidated balance sheet). The line of credit bears interest at the one-month LIBOR rate plus 2.50%, and was collateralized by the loans made by CCC. The average interest rate for the year ended December 31, 2002 was 4.3%. The interest rate at December 31, 2002 was 3.88%. Interest on the line is payable monthly in arrears. In addition, this line of credit required that a percentage of all advances made to CCC be deposited into an account in the name of the bank. This line of credit required CCC to meet certain administrative and financial covenants, including the maintenance of a

minimum net worth, ratio of total indebtedness to net worth, limitation on permitted subordinated debt and profitability covenants as defined in the agreement. Under the terms of an agreement between CCC and both of the banks with which CCC maintains lines of credit, all payments received from CCC's borrowers except for principal and interest on the guaranteed portion of the loans are transferred into a restricted bank account. CCC cannot use these funds until the end of a calendar month at which time the funds are used to pay required principal and interest to the banks and certain other required payments. Effective with Newtek's acquisition of Commercial Capital, a new line of credit was provided by Deutsche Bank to the successor to Commercial Capital, Newtek Small Business Finance. The aforementioned CCC credit lines were refinanced, with the aforementioned outstanding SBA loan balances aggregating, after accounting for the conversion of $1,500,000 to preferred stock, $53,824,492 at December 31, 2002. The new line of credit for $75 Million expires March 31, 2004 and is guaranteed by Newtek. Newtek Small Business Finance may request an increase in the line of credit, which Deutsche Bank, in its sole discretion, may increase in total up to $100 Million. The new Deutsche Bank line has terms and conditions similar to those contained in the Commercial Capital line, described above. During the year ended December 31, 2002 Newtek generated cash flow primarily from the following sources. o Common stock sales, netting $2,091,000; o Proceeds from issuance of a long-term debt and warrants of $30,000,000; o return of investments of approximately $14,045,000, which was held pending reinvestment; o interest and dividend income of approximately $900,000; o other income of approximately $2,733,000, which represents revenue from Newtek's consolidated partner company entities; and o cash received from acquired companies of approximately $2,475,000. The cash was primarily used to: o invest approximately $16,196,000 (including approximately $13,861,000 which was consolidated into Newtek's financial statements) in small or early stage businesses; o repayment of a "note payable-insurance" of approximately $7,034,000; and o purchase insurance coverage to extinguish the new capco and capco fund debt obligations for approximately $14,514,000. 43 During the year ended December 31, 2001 Newtek generated cash flow primarily from the following sources: o private placement of common stock, netting $726,000; o proceeds from issuance of note payable-insurance of $5,200,000; o proceeds from a JP Morgan Chase line of credit of $575,000, with a December 31, 2001 interest rate of 5%; o return of investments of $12,072,000; o investment income of approximately $1,845,000; and o other income of approximately $448,000. The cash was primarily used to: o fund distributions to owners of the predecessors of Newtek in lieu of compensation and related to passed-through tax liabilities of $608,000 o invest $24,588,000 (less $10,893,000 which was consolidated into Newtek's financial statements) in small or early stage businesses; and o repay to a finance company note payable insurance of approximately $1,596,000. As of December 31, 2002, Newtek had approximately $41,171,000 in cash of which substantially all was restricted for use for capco activities. Management of Newtek expects to have three basic working capital requirements in the near term. These are: o initial funding of new capcos; o working capital for operating its current businesses; and o funds for investment by the capcos in order to meet minimum investment requirements. Newtek expects to finance its participation in additional capcos and other ventures principally with externally generated funds, which may include: o borrowings under current or future bank facilities; and/or o the sale of equity, equity-related or debt securities on terms and conditions similar to those obtained for similar sales during 2002. Newtek funds its current operations almost exclusively through the receipt of annual management fees from the capcos equal to 2.5% of initial funding. However, this does not represent revenues to Newtek on a consolidated basis as this is a transfer of funds from Newtek's capcos to the management entity of Newtek, and all intercompany transactions and balances are eliminated in consolidation. These fees from current capcos are expected to decrease over the next few years as the capcos mature in their business cycle. In the absence of either new capcos or a material increase in the profitability of its partner companies, Newtek will experience a decrease in its liquidity. Management believes that numerous, realistic options are available to the company to compensate for this, such as borrowings or additional offerings in the capital markets. However, if new capcos are not created, and if the partner companies do not begin to produce significant cash flow surpluses, and if the capital markets should be inaccessible to Newtek and if other borrowings are unavailable, Newtek would be forced to diminish materially 44 its operations so as to conform its expenditures to the cash then available. Management cannot at this time foresee any realistic circumstance where such a contraction of business would be necessary. Management does not anticipate the need for additional funding in order for its capcos to meet the minimum investment requirements imposed under the capco programs. As detailed elsewhere, the record of Newtek's capcos in progressing towards the minimum required investment levels is good and management does not foresee any likely event which would preclude all of the capcos meeting their respective requirements ahead of schedule. INCOME FROM CAPCO

TAX CREDITS In general, the capcos issue debt and equity instruments, to insurance company investors. For a description of the debt and equity instruments and warrants issued by Newtek's capcos, see Newtek's Notes to the Consolidated Financial Statements. The capcos then make targeted investments, as defined under the respective state statutes, with the funds raised. Each capco, has a contractual arrangement with the particular state that 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 targeted investments in accordance with these requirements, which requirements are consistent with Newtek's overall business strategy of acquiring controlling positions in its partner companies. Each capco also has separate, contractual arrangements with the insurance company investors obligating the capco to pay interest on the aforementioned debt instruments. The capco may satisfy this interest obligation by delivering the tax credits or paying cash. The insurance company investors have the legal 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% of their investments in the capcos. The tax credits can be utilized over a ten-year period at a rate of, usually, 10% per year and in some instances are transferable and can be carried forward. Newtek's revenue from tax credits may be used solely for the purpose of satisfying the capcos' obligations to the insurance company investors. A description is set forth above of the manner in which Newtek and its capcos account for the tax credit income. See, --Critical Accounting Policies - Revenue Recognition. The amount earned and recorded as income is determined by multiplying the total amount of tax credits initially allocated to the capco by the percentage of tax credits immune from recapture (the earned income percentage) under the state statute. The total amount of tax credits allocated to each of the capcos, the required investment percentages, recapture percentages and related earned income percentages, and pertinent dates are summarized as follows: 45 THE FIRST TO OCCUR --- TOTAL TAX INVESTMENT EARNED CREDITS INVESTMENT BENCHMARK DECERTIFICATION RECAPTURE INCOME STATE CAPCO OR FUND ALLOCATED BENCHMARK DATE RECAPTURE THRESHOLDS PERCENTAGE PERCENTAGE --------------------------- --------------------------- ---------------- --------------------- -------------- -------------- FLORIDA $ 37,384,028 20% 12/31/00 Prior to 20% 100% 0% WILSHIRE 30% 12/31/01 After 20 before 30% 70% 30% PARTNERS (WP) 40% 12/31/02 After 30 before 40% 60% 40% 50% 12/31/03 After 40 before 50% 50% 50% After 50% 0% 100% NEW YORK $ 35,160,202 Prior to 25% 100% 0% WILSHIRE 25% 12/21/02 After 25 before 40% 85% 15% N.Y. PARTNERS III 40% 12/21/03 After 40 before 50% 70% 30% (WNY III) 50% 12/21/04 After 50% 0% 100% COLORADO $ 16,175,415 Prior to 30% 100% 0% STATEWIDE POOL 30% 4/22/05 After 30 before 50% 70% 30% WILSHIRE COLORADO 50% 10/25/07 After 50% 0% 100% PARTNERS (WC) Prior to 30% 100% 0% COLORADO $ 5,882,352 30% 4/22/05 After 30 before 50% 70% 30% RURAL POOL 50% 10/25/07 After 50% 0% 100% WILSHIRE COLORADO PARTNERS (WC) LOUISIANA $ 18,040,000 Prior to 30% 100% 0% WILSHIRE LA 30% 10/14/02 After 30 before 50% 70% 30% ADVISERS(WLA) 50% 10/14/04 After 50% 0% 100% 46 WISCONSIN $ 16,666,667 Prior to 30% 100% 0% WILSHIRE 30% 10/25/02 After 30 before 50% 70% 30% INVESTORS (WI) 50% 10/25/04 After 50% 0% 100% LOUISIANA $ 8,000,000 Prior to 30% 100% 0% WILSHIRE 30% 10/15/05 After 30 before 50% 70% 30% LA PARTNERS III 50% 10/13/07 After 50% 0% 100% (WLPIII) NEW YORK $ 6,807,866 Prior to 25% 100% 0% WILSHIRE 25% 4/7/02 After 25 before 40% 85% 15% N.Y. ADVISERS II 40% 4/7/03 After 40 before 50% 70% 30% (WLA II) 50% 4/7/04 After 50% 0% 100% NEW YORK $ 3,810,161 Prior to 25% 100% 0% WILSHIRE 25% 6/22/00 After 25 before 40% 85% 15% ADVISERS(WA) 40% 6/22/01 After 40 before 50% 70% 30% LOUISIANA $ 3,355,000 Prior to 30% 100 0% WILSHIRE After 30 before 50% 70% 30% LA ADVISERS II After 50% 0% 100% (WLA II) Under the various state capco provisions there is a difference in the amount of qualified investments made and the amount of income recognized by the respective capcos upon satisfaction of the various benchmarks. The table below relates the investments made, both as percentage of total funds and in dollar amounts, to the income recognized as each benchmark is achieved. In all of these programs, a majority of Newtek's income from the delivery of the tax credits will be recognized no later than five years into the ten-year programs. ALLOCATED INVESTMENT EARNED STATE TAX BENCHMARK INCOME CAPCO OR FUND CREDITS PERCENTAGE/DOLLARS PERCENTAGE/DOLLARS ------------------------ ------------ ------------------ ------------------ FLORIDA $ 37,384,028 20% $ 7,476,806 30% $ 11,215,208 WILSHIRE 30% $ 11,215,208 40% $ 14,953,611 PARTNERS (WP) 40% $ 14,953,611 50% $ 18,692,014 50% $ 18,692,014 100% $ 37,384,028 NEW YORK. $ 35,160,202 25% $ 8,790,051

15% $ 5,274,030 WILSHIRE N.Y 40% $ 14,064,080 30% $ 10,548,060 PARTNERS III (WNY III) 50% $ 17,580,101 100% $ 35,160,202 COLORADO $ 16,175,415 30% $ 4,852,625 20% $ 3,235,083 WILSHIRE COLORADO 50% $ 8,087,708 100% $ 16,175,415 PARTNERS (WC) STATEWIDE POOL 47 COLORADO $ 5,882,352 30% $ 1,764,706 20% $ 1,176,470 WILSHIRE COLORADO 50% $ 2,941,176 100% $ 5,882,352 PARTNERS (WC) RURAL POOL LOUISIANA $ 18,040,000 30% $ 4,920,000 30% $ 5,412,000 WILSHIRE LA 50% $ 8,200,000 100% $ 18,040,000 ADVISERS (WLA) WISCONSIN $ 16,666,667 30% $ 5,000,000 30% $ 5,000,000 WILSHIRE 50% $ 8,333,334 100% $ 16,666,667 INVESTORS (WI) LOUISIANA $ 8,000,000 30% $ 2,400,000 30% $ 2,400,000 WILSHIRE LA 50% $ 4,000,000 100% $ 8,000,000 PARTNERS III (WLPIII) NEW YORK. $ 6,807,866 25% $ 1,701,967 15% $ 1,021,180 WILSHIRE N.Y 40% $ 2,723,146 30% $ 2,042,360 ADVISERS II (WNY II) 50% $ 3,403,933 100% $ 6,807,866 NEW YORK $ 3,810,161 25% $ 952,540 15% $ 571,524 WILSHIRE 40% $ 1,524,064 30% $ 1,143,048 ADVISERS (WA) 50% $ 1,905,081 100% $ 3,810,161 LOUISIANA $ 3,355,000 30% $ 915,000 30% $ 1,006,500 WILSHIRE LA 50% $ 1,525,000 100% $ 3,355,000 ADVISERS II (WLA II) During the years ended December 31, 2002 and 2001, the capcos satisfied certain investment benchmarks and the related recapture percentage requirements and accordingly, earned a portion of the tax credits. In addition, in both 2002 and 2001 Newtek recognized income from tax credits in prior years resulting from the accretion of the discount attributable to tax credits earned in prior years. See Newtek's Notes to Consolidated Financial Statements. During 2002, Newtek established and received certification for two new capcos, Wilshire Colorado and Wilshire Louisiana Partners III. IMPACT OF INFLATION The impact of inflation on Newtek's results of operations is not material. 48 ITEM 7. FINANCIAL STATEMENTS INDEX TO NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES FINANCIAL STATEMENTS TABLE OF CONTENTS AGE NO. ------- Report of Independent Accountants 46 Consolidated Balance Sheets as of December 31, 2002 and 2001 47 Consolidated Statements of Income for the years ended December 31, 2002 and December 31, 2001 48 Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2002 and December 2001 49 Consolidated Statements of Cash Flows for the years ended December 31, 2002 and December 31, 2001 50 Notes to Consolidated Financial Statements 53 49 REPORT OF INDEPENDENT ACCOUNTANTS To the Board of Directors and Stockholders of Newtek Business Services, Inc.: In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Newtek Business Services, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for the years ended December 31, 2002 and 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. PRICEWATERHOUSECOOPERS LLP /s/ PricewaterhouseCoopers LLP --------------------------------- New York, New York February 28, 2003 50 NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2002 AND 2001 2002 2001 ------------ ------------ ASSETS Cash and Cash equivalents $ 41,171,358 $ 31,171,966 Credits in lieu of cash 41,580,950 21,810,776 Loans receivable 56,073,016 -- Accounts receivable, (net of allowance of $34,466 in 2002) 661,351 198,572 Receivable from bank 2,938,309 -- Accrued interest receivable 285,151 -- Investments in qualified businesses - held to maturity investments 3,962,353 12,173,884 Investments in qualified businesses - equity method investments 1,091,110 2,276,344 Structured insurance product 2,893,301 2,731,894 Prepaid insurance 14,056,196 10,820,841 Prepaid expenses and other assets 932,447 754,570 Furniture, fixtures and equipment, (net of accumulated depreciation of $190,590 and $18,957, respectively) 546,231 128,290 Goodwill 2,862,965 963,736 Asset held for sale -- 331,929 ------------ ------------ Total assets $169,054,738 $ 83,362,802 ------------ ------------ LIABILITIES AND STOCKHOLDERS' EQUITY Liabilities: Accounts payable and accrued expenses $ 4,218,367 $ 1,541,359 Notes payable - certified investors 3,844,181 3,858,389 Notes payable - insurance 5,369,896 9,404,032 Notes payable - other 480,500 -- Borrowings under line of credit 450,000 575,000 Bank notes payable 53,824,492 -- Notes payable in credits in lieu of cash 65,196,116

49,640,846 Mortgage payable -- 306,929 Deferred tax liability 3,726,151 1,563,018 ------------ ------------ Total liabilities 137,109,703 66,889,573 ------------ ------------ Minority interest 4,772,741 5,081,692 ------------ ------------ Commitments and contingencies -- -- Stockholders' equity: Common stock (par value $0.02 per share; authorized 39,000,000 shares, Issued and outstanding 25,341,428 and 22,212,517) 506,828 444,250 Additional paid-in capital 20,992,827 13,442,899 Retained earnings (accumulated deficit) 5,672,639 (2,495,612) ------------ ------------ Total stockholders' equity 27,172,294 11,391,537 ------------ ------------ Total liabilities and stockholders' equity $169,054,738 $ 83,362,802 ------------ ------------ See accompanying notes to these consolidated financial statements. 51 NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001 2002 2001 ------------ ------------ Revenue: Income from tax credits $ 30,603,046 $ 21,497,956 Consulting fee income 387,604 9,236 Interest and dividend income 900,127 1,845,238 Gain on sale of property 16,841 -- Other Income 2,733,374 447,756 ------------ ------------ Total revenue 34,640,992 23,800,186 ------------ ------------ Interest 11,485,367 11,577,169 Payroll and consulting fees 4,565,954 2,664,716 Professional fees 3,145,246 2,060,635 Insurance 1,951,248 1,529,688 Write-down of asset held for sale to net realizable value -- 168,071 Other than temporary decline in value of investments (net of $28,635 recovery in 2002) 1,573,730 371,645 Equity in net losses of affiliates 729,109 2,279,852 Other 3,672,362 1,175,451 ------------ ------------ Total expenses 27,123,016 21,827,227 ------------ ------------ Income before minority interest, provision for income taxes, extraordinary gain on acquisition of minority interest and extraordinary gain on acquisition of a business 7,517,976 1,972,959 ------------ ------------ Minority interest (335,324) (508,783) ------------ ------------ Income before provision for income taxes, extraordinary gain on acquisition of minority interest and extraordinary gain on acquisition of a business 7,182,652 1,464,176 Provision for income taxes (2,657,410) (534,616) ------------ ------------ Income before extraordinary gain on acquisition of minority interest and extraordinary gain on acquisition of a business 4,525,242 929,560 Extraordinary gain on acquisition of minority interests 907,766 -- Extraordinary gain on acquisition of a business 2,735,243 -- ------------ ------------ Net income $ 8,168,251 $ 929,560 ------------ ------------ Weighted average common shares outstanding Basic 24,183,501 21,889,958 Diluted 24,293,540 21,909,527 Income per share after extraordinary gain Basic $ .34 $ .04 Diluted $ .34 $ .04 Income per share before extraordinary gain Basic $ .19 $ .04 Diluted $ .19 $ .04 See accompanying notes to these consolidated financial statements. 52 NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001 (ACCUMULATED ADDITIONAL DEFICIT) COMMON PAID-IN RETAINED SHARES STOCK CAPITAL EARNINGS TOTAL ----------- ----------- ----------- ----------- ----------- Balance at December 31, 2000 21,373,460 $ 427,469 $12,267,052 $(3,425,172) $ 9,269,349 Issuance of Common Stock and Warrants 839,057 16,781 1,745,413 1,762,194 Distributions to Capco members (607,542) (607,542) Issuance of stock options to non-employees 37,976 37,976 Net Income 929,560 929,560 Balance at December 31, 2001 22,212,517 $ 444,250 $13,442,899 $(2,495,612) $11,391,537 Issuance of Common Stock 3,080,341 61,607 6,810,504 6,872,111 Issuance of stock options to non-employees 89,134 89,134 Issuance of common stock to employees and consultants 48,570 971 139,459 140,430 Issuance of warrants 510,831 510,831 Net income 8,168,251 8,168,251 Balance at December 31, 2002 25,341,428 $ 506,828 $20,992,827 $ 5,672,639 $27,172,294 See accompanying notes to these consolidated financial statements. 53 NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001 2002 2001 ------------ ------------ Cash flows from operating activities: Net income $ 8,168,251 $ 929,560 Adjustments to reconcile net income to net cash used in operating activities: Other than temporary decline in value of investments 1,573,730 371,645 Write-down of asset held for sale to net realizable value -- 168,071 Equity in losses of affiliates 729,109 2,279,852 Extraordinary gain on acquisition of minority interests (907,766) -- Extraordinary gain on acquisition of subsidiary (2,735,243) -- Gain on sale of asset held for sale (16,841) -- Loss on disposition of assets 39,725 -- Income from tax credits (30,603,046) (21,497,956) Deferred income taxes 2,657,410 534,616 Depreciation and amortization 147,681 74,054 Provision for doubtful accounts 34,466 -- Accretion of interest income (175,615) (161,407) Accretion of interest expense 10,732,980 10,676,928 Issuance of stock for services performed 140,430 58,800 Non cash compensation 89,134 37,976 Minority interest 335,324 508,783 Changes in assets and liabilities, net of the effect of business acquisitions: Prepaid insurance 506,227 1,366,535 Prepaid expenses, accounts receivable and other assets (247,975) (179,231) Accounts payable and accrued expenses (376,122) (1,005,441) ------------ ------------ Net cash used in operating

activities (9,908,141) (5,837,215) ------------ ------------ Cash flows from investing activities: Investments in qualified businesses (held to maturity investments) (2,334,724) (12,559,893) Investments in qualified businesses (equity method investments) -- (900,000) Investments in qualified businesses (consolidated entities) (13,860,832) (11,128,283) Other investments -- (489,500) Return of investments - held to maturity - investments 8,742,909 11,862,284 Return of investments - consolidated entities 5,302,583 210,000 Consolidation of majority owned entities 8,871,734 10,893,283 Cash received from Exponential acquisition 106,642 -- Cash received from Commercial Capital Corp. acquisition 2,367,870 -- Distributions from equity method investees -- 240,399 Purchase of furniture, fixtures and equipment (279,438) (107,361) Proceeds from sale of property 348,770 -- ------------ ------------ Net cash provided by (used in) investing activities 9,265,514 (1,979,071) ------------ ------------ See accompanying notes to these consolidated financial statements. 54 NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001 2002 2001 ------------ ------------ Cash flows from financing activities: Proceeds from issuance of long-term debt $ 29,999,543 $ -- Payments for extinguishment of long-term debt (14,513,665) -- Proceeds from issuance of note payable-insurance -- 5,200,000 Principal payments of note payable-insurance (7,034,136) (1,595,968) Proceeds from (payments of) note payable - bank (125,000) 575,000 Proceeds from issuance of notes - other 480,500 -- Purchase of minority interest from member -- (1,300) Principal payment of mortgage payable (306,929) (62,410) Contributions from minority members 50,500 57,000 Distributions to members -- (607,542) Net proceeds from issuance of common stock 1,371,249 726,391 Proceeds from issuance of common stock to certified investors 719,957 -- ------------ ------------ Net cash provided by financing activities 10,642,019 4,291,171 ------------ ------------ Net increase (decrease) in cash and cash equivalents 9,999,392 (3,525,115) Cash and cash equivalents - beginning of year 31,171,966 34,697,081 ------------ ------------ Cash and cash equivalents - end of year $ 41,171,358 $ 31,171,966 ------------ ------------ SUPPLEMENTAL DISCLOSURE OF CASH FLOW ACTIVITIES: Cash paid for interest $ 953,073 $ 399,285 ------------ ------------ Issuance of notes in partial payment for insurance $ 3,000,000 $ -- ------------ ------------ Fixed assets acquired under capital lease obligations $ 147,738 $ -- ------------ ------------ 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 $ 10,832,872 $ 17,183,989 ------------ ------------ Issuance of common stock in connection with acquisition of Commercial Capital Corp. $ 900,194 $ -- ------------ ------------ Issuance of common stock in connection with acquisition of Exponential $ 988,750 $ -- ------------ ------------ Issuance of warrant in connection with purchase of Coverage A Insurance $ 510,831 $ -- ------------ ------------ Consolidation of investments previously accounted for under the equity or cost method $ 537,083 $ -- ------------ ------------ See accompanying notes to these consolidated financial statements. 55 NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001 2002 2001 ---------- ---------- Acquisition of Capcos minority interests resulting in goodwill: Newtek Business Services common stock issued $1,951,168 $ 978,303 Less: Deferred tax benefit acquired 14,873 -- Less: Minority interests acquired 887,652 -- ---------- ---------- Goodwill recognized $1,048,643 $ 978,303 ---------- ---------- Acquisition of Capcos minority interests resulting in extraordinary gain: Minority interests acquired $1,369,156 $ -- Add: Deferred tax benefit acquired 479,404 -- Less: Newtek Business Services common stock issued 940,794 -- ---------- ---------- Extraordinary gain recognized $ 907,766 $ -- ---------- ---------- See accompanying notes to these consolidated financial statements. 56 NEWTEK BUSINESS SERVICES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS Newtek Business Services, Inc. (Newtek), formerly named Newtek Capital, Inc., is a holding company for the entities listed below and accordingly consolidates the financial statements of these entities with its own: Newtek Small Business Finance, Inc. ("NSBF"), DC Media, Inc., Exponential Business Development Corp., BJB Holdings, Inc. ("BJB"), Wilshire Holdings I, Inc., Wilshire Holdings II, Inc., REXX Environmental Corp. ("REXX"), Whitestone Capital Markets, Inc., The Whitestone Group, LLC ("TWG"); Wilshire Advisers, LLC ("WA"), Wilshire NY Advisers II ("WAII"), and Wilshire New York Partners III ("WNY III"), certified capital companies ("Capcos") in New York, Wilshire Partners, LLC ("WP"), a capco in Florida, Wilshire Investors, LLC ("WI"), a capco in Wisconsin, Wilshire Colorado Partners LLC ("WC"), a capco in Colorado, and Wilshire Louisiana Advisers, LLC ("WLA"), a capco 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. The Capcos pay TWG an annual management fee of 2.5% of Certified Capital, as defined, however, this fee is paid out of Capco cash on hand and is not set aside or reserved for payment out of the funds raised by the Capcos. These inter-company transactions, as are all significant inter-company balances and transactions, eliminated in consolidation. The following is a summary of each Capco or Capco fund, 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 WA II New York April 2000 WNY III New York December 2000 WC Colorado October 2001 The State of Louisiana has three "capco funds" which are all a part of and consolidated with the WLA Capco (the first fund). The second, Wilshire Louisiana Partners II, LLC (WLPII), and the third, Wilshire Louisiana Partners III, LLC (WLPIII), were formed in October 2001, and October 2002, respectively. 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 57 NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED): state statutes, or, "Qualified Businesses"), with the Certified Capital raised. Such investments may be accounted for as either consolidated subsidiaries, under the equity method or cost method of accounting, 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. Participation in each Capco program 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. These state requirements are mirrored in the limitations agreed to by each Capco in its written agreements with its Certified Investors and limit the activities of the Capcos to conducting the business of a capco. Each Capco also has separate, legal contractual arrangements with the Certified Investors obligating the Capco to refrain from unauthorized activities, to use the proceeds from the notes only for Capco-authorized (i.e., "qualified") investments, to limit fees for professional services related to making, buying or selling investments to $200,000 per Capco annually; and 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% (WLA and WLPII - 110%) of their certified investment. The tax credits can be utilized over a ten-year period at a rate of 10% (WLA and WLPII - 11%) per year and in some instances are transferable and can be carried forward. On December 31, 2002, the Company acquired a majority stake in a US Small Business Administration ("SBA") lender and therefore the acquired assets and liabilities are included in the Company's accounts (see Note 18). As a nonbank SBA lender, the company (originally named Commercial Capital Corp., now named Newtek Small Business Finance ("NSBF")) originates, sells (in whole or in part) and services loans for qualifying small businesses, which are partially guaranteed by the SBA. NSBF sells the SBA guaranteed portion of such loans to third-party investors, retains the unguaranteed portion and continues to service the loans. NSBF has the ability to originate loans throughout the United States. Presently, the loans originated are primarily to customers in the Northeast United States. The lender's competition for originating SBA loans comes primarily from banking organizations and the other nonbank entities holding an SBA license. CASH AND CASH EQUIVALENTS All highly liquid investments purchased with original maturities of three months or less are considered to be cash equivalents. The Company has bank balances in excess of the $100,000 of depository insurance provided by the Federal Deposit Insurance Corporation. Substantially all of the cash and cash equivalents as of December 31, 2002 and 2001, respectively, were restricted for use in managing and operating the Capcos and qualified investments. 58 NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED): In the Company's Statement of Cash Flows, cash invested in consolidated entities is presented as a cash outflow, and cash in those entities is presented as an inflow, "Consolidation of majority owned entities". REVENUE RECOGNITION The Company recognizes consulting revenues as earned. Consulting revenues are earned at the time the related services are provided and when the right to receive payment is assured. Realized gains on investments are recognized only at the time the investments are sold.

The Company also earns revenues from its consolidated entities (partner companies). Income from tax credits: Following an application process, a state will notify a company that it has been certified as a Capco. The state 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. As described in "Basis of presentation and description of business," earlier in this note, the Capco is legally entitled to earn tax credits upon satisfying defined investment percentage thresholds within specified time requirements and corresponding non-recapture percentages. At December 31, 2002, as summarized earlier in this note, the Company had Capcos in five states. Each statute requires that the Capco invest a threshold percentage of Certified Capital in Qualified Businesses 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 recapture of all or a portion of the allocated tax credits; the proportion of the 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) under the state statute. 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 available to the Certified Investors. If the tax credits are earned before the state is required to make delivery (i.e., investment requirements are met ahead of schedule, but credits can only be used at a rate of 10% per year), then the present value of the tax credits earned are recorded upon completion of the requirements, in accordance with Accounting Principles Board Opinion No. 21. The receivable (called "credits in lieu of cash") is accreted to the annual deliverable amount which can then be delivered to the insurance company investors in lieu of cash interest. The allocation and utilization of Capco tax credits is controlled by the state law. In general, the Capco applies for tax credits from the state and is allocated a specific dollar amount of credits which are available to be earned. The Capco provides the state with a list of the 59 NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED): Certified Investors, who have contractually agreed to accept the tax credits in lieu of cash interest payments on their notes. The tax credits are claimed by Certified Investors on their state premium tax return as provided under each state Capco and tax law. State regulations specify the amount of tax credits a Certified Investor can claim and the period in which they can claim them. Each state periodically reviews the Capco's operations to verify the amount of tax credits earned. In addition, the state maintains a list of Certified Investors and therefore has the ability to determine whether the Certified Investor is allowed to claim this deduction. The total amount of tax credits allocated to each of the aforementioned Capcos, the required investment percentages, recapture percentages and related earned income percentages, and pertinent dates are summarized as follows: THE FIRST TO OCCUR
--- TOTAL EARNED STATE CAPCO OR TAX CREDIT INVESTMENT INVESTMENT DECERTIFICATION RECAPTURE INCOME FUND ALLOCATED BENCHMARK BENCHMARK DATE RECAPTURE THRESHOLDS PERCENTAGE PERCENTAGE FLORIDA $ 37,384,028 20% 12/31/00 Prior to 20% 100% 0% WILSHIRE 30% 12/31/01 After 20 before 30% 70% 30% PARTNERS (WP) 40% 12/31/02 After 30 before 40% 60% 40% 50% 12/31/03 After 40 before 50% 50% 50% After 50% 0% 100% NEW YORK $ 35,160,202 Prior to 25% 100% 0% WILSHIRE 25% 12/21/02 After 25 before 40% 85% 15% N.Y. PARTNERS III 40% 12/21/03 After 40 before 50% 70% 30% (WNY III) 50% 12/21/04 After 50% 0% 100% COLORADO $ 16,175,415 Prior to 30% 100% 0% STATEWIDE POOL 30% 4/22/05 After 30 before 50% 70% 30% WILSHIRE COLORADO 50% 10/25/07 After 50% 0% 100% PARTNERS (WC) Prior to 30% 100% 0% 60 NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED): COLORADO $ 5,882,352 30% 4/22/05 After 30 before 50% 70% 30% RURAL POOL 50% 10/25/07 After 50% 0% 100% WILSHIRE COLORADO PARTNERS (WC) LOUISIANA $ 18,040,000 Prior to 30% 100% 0% WILSHIRE LA 30% 10/14/02 After 30 before 50% 70% 30% ADVISERS(WLA) 50% 10/14/04 After 50% 0% 100% WISCONSIN $ 16,666,667 Prior to 30% 100% 0% WILSHIRE 30% 10/25/02 After 30 before 50% 70% 30% INVESTORS (WI) 50% 10/25/04 After 50% 0% 100% LOUISIANA $ 8,000,000 Prior to 30% 100% 0% WILSHIRE 30% 10/15/05

After 30 before 50% 70% 30% LA PARTNERS III 50% 10/13/07 After 50% 0% 100% (WLPIII) NEW YORK $ 6,807,866 Prior to 25% 100% 0% WILSHIRE 25% 4/7/02 After 25 before 40% 85% 15% N.Y. ADVISERS II 40% 4/7/03 After 40 before 50% 70% 30% (WLA II) 50% 4/7/04 After 50% 0% 100% NEW YORK $ 3,810,161 Prior to 25% 100% 0% WILSHIRE 25% 6/22/00 After 25 before 40% 85% 15% ADVISERS(WA) 40% 6/22/01 After 40 before 50% 70% 30% 50% 6/22/02 After 50% 0% 100% LOUISIANA $ 3,355,000 Prior to 30% 100% 0% WILSHIRE 30% 10/13/03 After 30 before 50% 70% 30% LA ADVISERS II 50% 10/13/05 After 50% 0% 100% (WLA II) Under the various state Capco provisions, there is a difference in the amount of qualified investments made and the amount of income recognized by the respective Capcos upon satisfaction of the various benchmarks. The table below relates the investments made, as a percentage of total funds and in Dollar amounts, to the income recognized as each benchmark is achieved. In all of these programs, a majority of the Company's income from the delivery of the tax credits will be recognized no later than five years into the ten year programs. 61 NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED): ALLOCATED INVESTMENT EARNED STATE TAX BENCHMARK INCOME CAPCO OR FUND CREDITS PERCENTAGE/DOLLARS PERCENTAGE/DOLLARS --------------------- ------------ ------------------ ------------------ FLORIDA $ 37,384,028 20% $ 7,476,806 30%$ 11,215,208 WILSHIRE 30% $ 11,215,208 40%$ 14,953,611 PARTNERS (WP) 40% $ 14,953,611 50%$ 18,692,014 50% $ 18,692,014 100%$ 37,384,028 NEW YORK. $ 35,160,202 25% $ 8,790,051 15%$ 5,274,030 WILSHIRE N.Y 40% $ 14,064,080 30%$ 10,548,060 PARTNERS III (WNY III) 50% $ 17,580,101 100%$ 35,160,202 COLORADO $ 16,175,415 30% $ 4,852,625 20%$ 3,235,083 WILSHIRE COLORADO 50% $ 8,087,708 100%$ 16,175,415 PARTNERS (WC) STATEWIDE POOL COLORADO $ 5,882,352 30% $ 1,764,706 20%$ 1,176,470 WILSHIRE COLORADO 50% $ 2,941,176 100%$ 5,882,352 PARTNERS (WC) RURAL POOL LOUISIANA $ 18,040,000 30% $ 4,920,000 30%$ 5,412,000 WILSHIRE LA 50% $ 8,200,000 100%$ 18,040,000 ADVISERS (WLA) WISCONSIN $ 16,666,667 30% $ 5,000,000 30%$ 5,000,000 WILSHIRE 50% $ 8,333,334 100%$ 16,666,667 INVESTORS (WI) LOUISIANA $ 8,000,000 30% $ 2,400,000 30%$ 2,400,000 WILSHIRE LA 50% $ 4,000,000 100%$ 8,000,000 PARTNERS III (WLPIII) NEW YORK. $ 6,807,866 25% $ 1,701,967 15%$ 1,021,180 WILSHIRE N.Y 40% $ 2,723,146 30%$ 2,042,360 ADVISERS II (WNY II) 50% $ 3,403,933 100%$ 6,807,866 NEW YORK $ 3,810,161 25% $ 952,540 15%$ 571,524 WILSHIRE 40% $ 1,524,064 30%$ 1,143,048 ADVISERS (WA) 50% $ 1,905,081 100%$ 3,810,161 LOUISIANA $ 3,355,000 30% $ 915,000 30%$ 1,006,500 WILSHIRE LA 50% $ 1,525,000 100%$ 3,355,000 ADVISERS II (WLA II) 62 NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED): During each of the years ended December 31, 2002 and 2001, certain Capcos satisfied the required investment benchmarks and the related recapture percentages requirements and, accordingly, earned a portion of the tax credits. INTEREST AND SBA LOAN FEES - SBA LOANS Interest income on loans is recognized as earned. When a SBA loan is 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 collectibility of such principal or interest is unlikely, the accrual of interest is discontinued and all accrued but uncollected interest income is reversed. Cash payments subsequently received on nonaccrual loans are recognized as income only where the future collection of the recorded value of the SBA loan is considered by management to be probable. Certain related direct costs to originate loans (including fees paid to SBA loan brokers) are deferred and amortized over the contractual life of the SBA loan using a method that approximates the effective interest method. ALLOWANCE FOR POSSIBLE SBA LOAN LOSSES An allowance for possible SBA loan losses is established by a provision for possible SBA loan losses charged to operations. Actual SBA loan losses or recoveries are charged or credited directly to this allowance. The provision for possible SBA loan losses is management's estimate of the amount required to maintain an allowance adequate to reflect the risks in the SBA loan portfolio; however, ultimate losses may vary from the current estimates. This estimate is reviewed periodically and any necessary adjustments are made in the period in which they become known. On an individual basis, Newtek evaluates all non-performing loans for possible impairment. The amount of impairment is determined by comparing the carrying value of the SBA loan to the estimated fair market value of the collateral Newtek holds and the difference is added to the Allowance for Possible Losses. Newtek will have a new appraisal done on the collateral if management feels it may have changed in value. If the carrying amount of the SBA loan (net of the allowance for possible loss) is different than the actual net recovery amount after liquidation of the collateral, then the company will record a gain/loss in its Consolidated Statement of Income at the time of disposition. Additionally, all loans are also evaluated as a group, and Newtek uses industry wide statistics of SBA loan losses and management's experience in the industry to record reserves on its SBA

loan portfolio. SALES AND SERVICING OF SBA LOANS NSBF originates loans to customers under the SBA program that generally provides for SBA guarantees of 75% to 80% (85% for loans received by the SBA on or after December 22, 2001) of each SBA loan, subject to a maximum guarantee amount. NSBF sells the guaranteed portion of each SBA loan to a third party and retains the unguaranteed principal portion in its own portfolio. A gain is recognized on these loans through collection on sale of a premium over the adjusted carrying value. Gain on sale of the guaranteed portion of the loans is recognized at 63 NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED): the date of the sales agreement when control of the future economic benefits of the SBA loan is surrendered. At December 31, 2002 NSBF had no outstanding receivables from the sale of the guaranteed portion of loans sold. NSBF accounts for its capitalized servicing rights and sales of finance receivables in accordance with Statement of Financial Accounting Standards No. 140 (SFAS No. 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" a replacement of FASB Statement No. 125, which became effective on April 1, 2001. In accordance with SFAS No. 140, upon sale of the loans to third parties, NSBF's investment in an SBA loan is allocated among the retained portion of the SBA loan (unguaranteed), the sold portion of the SBA loan (guaranteed) and the value of SBA loan servicing retained, based on the relative estimated fair market values of each at the sale date. The difference between the proceeds received and the allocated carrying value of the SBA loan sold is recognized as a gain on sale of loans. In each SBA loan sale, NSBF retains servicing responsibilities and receives servicing fees of 1% of the outstanding SBA loan balance. The purchasers of the loans sold have no recourse to NSBF for failure of customers to pay amounts contractually due. The servicing fees are reflected as an asset which is amortized over an estimated life using a method approximating the effective interest method; in the event future prepayments are significant or impairments are incurred and future expected cash flows are inadequate to cover the unamortized servicing asset, additional amortization or impairment charges would be recognized. In the calculation of its servicing asset, NSBF is required to estimate its adequate servicing compensation. At December 31, 2002, the balance of the servicing asset was zero. Capitalized servicing rights are recorded at the date of sale based on the allocated carrying value (discussed above) and amortized into other revenue in proportion to, and over the period of, the estimated future net servicing income on the underlying financial assets. Impairment is recognized through a valuation allowance, to the extent the fair value is less than the capitalized amount. 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. STOCK - BASED COMPENSATION The Company has elected to continue using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for employee stock options. No stock-based employee compensation cost is reflected in net income, as all options granted under this plans had an exercise price equal to the market value of the underlying common stock at the date of grant. The following table summarizes the pro forma consolidated results of operations of the Company as though the fair value based accounting method in SFAS 123 "Accounting for Stock-based Compensation" had been used in accounting for stock options. 64 NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED): STOCK COMPENSATION 2002 2001 ------------ ------------ As reported Net income $ 8,168,251 $ 929,560 Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects (1,007,371) (554,266) ------------ ------------ Pro forma net income $ 7,160,880 $ 375,294 ------------ ------------ Earnings per share: Basic - as reported $ .34 $ .04 ------------ ------------ Basic - pro forma $ .30 $ .02 ------------ ------------ Diluted - as reported $ .34 $ .04 ------------ ------------ Diluted net income per share $ .29 $ .02 ------------ ------------ For 2002 and 2001, the weighted average fair value of each option granted is estimated on the date of grant using the Black Scholes model with the following assumptions: expected volatility of 85%, risk-free interest rate of 3.53% to 6.15%, expected dividends of $0 and expected terms of 1-6 years. GOODWILL Goodwill represents the excess of purchase price over the fair value of identifiable net assets of companies acquired. The Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Intangible Assets" ("SFAS 142") as of January 1, 2002. This statement requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. Based upon the Company's performance of the transitional impairment tests using the fair value approach required by the standard, the Company has determined that no impairment existed as of December 31, 2002 and December 31, 2001. FURNITURE, FIXTURES AND EQUIPMENT Furniture, fixtures and equipment which is comprised primarily of office equipment, are stated at cost, less accumulated depreciation. Depreciation of furniture, fixtures and equipment is provided on a straight-line basis

using estimated useful lives of the related assets (five years). 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 65 NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED): 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. USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenue and expense during the reporting period. The most significant estimates are with respect to valuation of investments in qualified businesses and loans receivable. Actual results could differ from those estimates. FAIR VALUE OF FINANCIAL INSTRUMENTS The carrying values of accounts payable and accrued expenses approximate fair value because of the short term maturity of these instruments. The carrying value of investments in qualified businesses, loans receivable, structured insurance product, notes and loans payable, credits in lieu of cash, interest payable in credits in lieu of cash, bank notes payable, and warrants approximate fair value based on management's estimates. NEW ACCOUNTING PRONOUNCEMENTS In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for business combinations and is effective for all business combinations after June 30, 2001. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and is effective for fiscal years beginning after December 15, 2001. The adoption of these standards did not have a material impact on the Company's financial position or results of operations. In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of " and the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined). The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, with early application encouraged and generally are to be applied prospectively. The adoption of SFAS No. 144 did not have a material impact on the Company's financial position or results of operations. In April 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (FAS 145). This statement eliminates the requirement that gains and losses from the extinguishments of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. However, an entity would not be prohibited from classifying such gains and losses as 66 NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED): extraordinary items so long as they are both unusual in nature and infrequent in occurrence. This provision of FAS 145 will be effective for the Company as of the beginning of fiscal year 2004. This statement also amends FAS 13, "Accounting for Leases" and certain other authoritative pronouncements to make technical corrections or clarifications. FAS 145 will be effective related to the amendment of FAS 13 for all transactions occurring after May 15, 2002. All other provisions of FAS 145 will be effective for financial statements issued after May 15, 2002. The Company has determined that this statement will not have a significant impact on its financial condition and results of operations. In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. The provisions of SFAS No. 146 will be adopted for exit or disposal activities that are initiated after December 31, 2002. The Company is currently evaluating the impact of implementing FAS 146. In October 2002, the FASB issued Statement No. 147 ("SFAS 147), "Acquisitions of Certain Financial Institutions."

SFAS 147 addresses financial accounting and reporting for the acquisition of all or part of a financial institution, except for a transaction between two or more mutual enterprises. SFAS 147 also provides guidance on the accounting for the impairment or disposal of acquired long-term customer-relationship intangible assets of financial institutions, including those acquired in transactions between two or more mutual enterprises. The provisions of the statement will be effective for acquisitions on or after October 1, 2002. The adoption of SFAS No. 147 did not have a material impact on the Company's financial position or results of operations. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure--an amendment of SFAS No. 123." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of SFAS No. 148 did not have a material impact on the Company's financial position or results of operations. In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others", an interpretation of FIN No. 5, 57 and 107, and rescission of FIN No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others". FIN 45 elaborates on the 67 NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED): disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while, the provisions of the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties and provide general indemnifications. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. Based on the Company's experience, the Company expects the risk of loss to be remote. In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities", an interpretation of Accounting Research Bulletin No. 51. FIN No. 46 requires that variable interest entities be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. FIN No. 46 also requires disclosures about variable interest entities that companies are not required to consolidate but in which a company has a significant variable interest. The consolidation requirements of FIN No. 46 will apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements will apply to entities established prior to January 31, 2003 in the first fiscal year or interim period beginning after June 15, 2003. The disclosure requirements will apply in all financial statements issued after January 31, 2003. The Company is currently evaluating the impact of implementing FIN No. 46. RECLASSIFICATIONS Certain prior year amounts have been reclassified to conform to current year presentation. NOTE 2 - INSURANCE: On November 19, 1998, WA purchased a structured insurance product covering a ten-year period (the "Capco Policy") from an AAA rated international insurance company (the "Insurer"). This insurance provides for (i) the repayment, on the maturity date, of the note payable issued by WA to the Certified Investors in connection with the capitalization of WA ("Note") ("Coverage A") and (ii) the loss or recapture of the state tax credits delivered to the Certified Investors ("Coverage B"). Notwithstanding the Insurer's obligation, WA (alone among Newtek's Capcos) remains primarily liable for repayment of the Note. Premiums for the Capco Policy have been paid in full at inception and the Capco Policy is non-cancelable. The Capco paid a total of $1,805,599 for the Capco Policy. The costs of Coverage's A and B were $1,647,905 and $157,694, respectively. Under Coverage A, the Insurer is required to pay the principal amount of the Note (Note 4), $2,673,797, on the maturity date in June 2008. Accordingly, the Company has recorded the Coverage A payment as an asset, called structured insurance product, and has been increasing the recorded amount via an accretion to interest 68 NOTE 2 - INSURANCE: income. For the years ended December 31, 2002 and December 31, 2001 the Company recorded $102,938 for each year, as interest income. At the June 2008 Note maturity date, the asset balance will be $2,673,797, the Insurer will pay the Certified Investors, and the Company will reverse this asset balance in full with a corresponding reversal of the Note balance. On May 10, 2000, WA purchased another structured insurance product, or Capco Policy, covering an eight-year period from an AAA rated international insurance

company. This insurance provides for the same terms and conditions as the aforementioned initial insurance product as described above. The Company paid a total of $821,500 for this additional Capco Policy. The costs of Coverage's A and B were $661,432 and $160,068, respectively. Under Coverage A, the Insurer is required to pay the principal amount of the Note (Note 4), $1,136,364, on the maturity date in June 2008. Accordingly, the Company has recorded the Coverage A payment as an asset, called structured insurance product, and has been increasing the recorded amount via an accretion to interest income. For each of the years ended December 31, 2002 and December 31, 2001, the Company recorded $58,469 as interest income. At the June 2008 Note maturity date, the asset balance will be $1,136,364, the Insurer will pay the Certified Investors, and the Company will reverse this asset balance in fall with a corresponding reversal of the Note balance. For all other Capcos, at the time the Capcos obtained the proceeds from the issuance of the debt instruments, Capco warrants or Company common stock to the Certified Investors, the Capcos purchased insurance contracts from the Insurer. These insurance contracts are similar to those described above, however, the Coverage A portion of these contracts extinguishes all or, in some cases, substantially all of the Capco's liability for the full amount of proceeds obtained from the Certified Investors and, as such shifts such liability to the Insurer. The structure of the Capco insurance is, with respect to Coverage A (return of principal), that the insurer assumes the primary obligation to make the repayment of principal of the Capco notes upon the maturity dates (other than our first Capco, WA). The Insurer is primarily liable to the Certified Investors for such amounts. The Capcos, however, are secondarily, or contingently, liable for such payment. For all Capcos (including WA), the Company has also purchased (as well as financed) Coverage B insurance which 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 tax credits representing the interest obligation on the notes payable to certified investors. The amount paid for Coverage B has been recorded as prepaid insurance and is being amortized to expense over the life of the Capco Policy. The prepaid insurance balance of $14,056,196 at December 31, 2002 and $10,820,841 at December 31, 2001 is comprised solely of the unamortized cost of Coverage B insurance. We are primarily liable for only the Wilshire Advisers note payable. 69 NOTE 2 - INSURANCE (CONTINUED): The Company's Coverage A and B purchases are summarized as follows (there were no such purchases in the year ended December 31, 2001): PREMIUM PAID PREMIUM PAID DATE OF FOR FOR CAPCO OR CAPCO FUND PURCHASE COVERAGE A(3) COVERAGE B(3) ------------------- ------------- --------------- ------------- WA November 1998 $ 1,647,905(1) $ 157,694 TOTAL - 1998 $ 1,647,905 $ 157,694 --------------- ------------ WP April 1999 $ 23,127,927(2) $ 3,998,948 WLA October 1999 $ 9,175,844(2) $ 2,193,741 WI October 1999 $ 9,086,227(2) $ 2,352,786 TOTAL - 1999 $ 41,389,998 $ 8,545,475 --------------- ------------ WNYII April 2000 $ 5,019,803(2) $ 504,745 WA May 2000 $ 661,432(1) $ 160,068 WLPII October 2000 $ 2,456,565(2) $ 319,958 WNYIII December 2000 $ 29,052,790(2) $ 4,137,438 TOTAL - 2000 $ 37,190,590 $ 5,122,209 --------------- ------------ WCOP April 2002 $ 11,654,021(2) $ 3,604,978 WLPIII October 2002 $ 2,859,644(2) $ 1,089,134 TOTAL 2002 $ 14,513,665 $ 4,694,112 --------------- ------------ (1) Coverage A has been accounted for as a structured insurance product as described previously in this Note. (2) Coverage A has been accounted for as described in Note 8. (3) Coverage B has been accounted for as described previously in this Note. Additionally, a portion of the premiums paid for Coverage's A and B were financed by notes and the issuance of warrants. The Company's Coverage B purchases and related amortization are summarized as follows: Prepaid Insurance as of 12/31/00 $ 12,187,376 Prepaid Insurance purchased for the year ended 12/31/01 0 Amortization of Prepaid Insurance for the year ended 12/31/01 (1,366,535) ---------- Prepaid Insurance as of 12/31/01 10,820,841 Prepaid Insurance purchased for the year ended 12/31/02 4,694,112 Additional Prepaid Insurance adjustment 169,284 Amortization of Prepaid Insurance for the year ended 12/31/02 (1,628,041) ------------- Prepaid Insurance as of 12/31/02 $ 14,056,196 All Capcos receive funding from the Certified Investors for the sales of notes, warrants or Company stock regardless of the accounting treatment of the Capco insurance. 70 NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES: The following table is a summary of such investments as of December 31, 2002, shown separately between their debt and equity components, and all terms of each are summarized. There are no expiration dates on any of the financial instruments, unless disclosed. The various interests that the Company acquires in its qualified investments are accounted for under three methods: consolidation, equity method and cost method. The applicable accounting method is generally determined based on the Company's voting interest in an investee. Consolidation Method. Investments in which the Company directly or indirectly owns more than 50% of the outstanding voting securities or those the Company has effective control over are generally accounted for under the consolidation method of accounting. Under this method, an investment's financial position and results of operations

are reflected within the Company's Balance Sheet and Consolidated Statements of Income. All significant inter-company accounts and transactions, including returns of principal, dividends, interest received and investment redemptions have been eliminated. The results of operations and cash flows of a consolidated Partner Company are included through the latest interim period in which the Company owned a greater than 50% direct or indirect voting interest for the entire interim period or otherwise exercised control over the Partner Company. Upon dilution of control below 50%, the accounting method is adjusted to the equity or cost method of accounting, as appropriate, for subsequent periods. Equity Method. Investees that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the Company's Board of Directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the Company, including voting rights associated with the Company's holdings in common, preferred and other convertible instruments in the investee. Under the equity method of accounting, an investee's accounts are not reflected within the Company's Consolidated Balance Sheet and Consolidated Statements of Income; however, the Company's share of the earnings or losses of the investee is reflected in the caption "Equity income (loss)" in the Consolidated Statements of Income. Cost Method. Investees not accounted for under the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Under this method, the Company's share of the earnings or losses of such companies is not included in the Consolidated Balance Sheet and Consolidated Statements of Income. However, cost method impairment charges are recognized, as necessary, in the Consolidated Statement of Income. If circumstances suggest that the value of the investee has subsequently recovered, such recovery is not recorded until realized. In some of the entities which we account for under the cost or equity method, the Company may own warrants that if exercised, would cause the Company to use either the equity or consolidation method. As of December 31, 2002, the Company does not expect these warrants to be exercised in the near future. 71 NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES (CONTINUED): The Company's debt and equity investments have in virtually all cases been made with funds available to Newtek through the Capco programs. These programs generally require that each Capco meet a minimum investment benchmark within 5 years of initial funding. The investments listed below qualify for this purpose. 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 this will be counted towards the Capcos' minimum investment benchmarks. In accordance with the provisions of Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investment in Debt and Equity Securities", the Company classifies its debt investments as held-to-maturity and such investments are initially recorded at amortized cost. On a monthly basis, Newtek's Investment Committee meets to evaluate the Company's investments. The Company considers several factors in determining whether an impairment exists on the investment, such as the investee's net book value, cash flow, revenue growth and net income. In addition, the Investment Committee considers other factors, such as the economy and the investee company's industry, to determine if an other than temporary decline in value exists in the Company's investment. 72 NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES (CONTINUED): DEBT INVESTMENTS NEWTEK IT DIRECT MERCHANT SERVICES, CREATIONS, 1-800 GIFT STARPHIRE DATA DISTRIBUTION 4G's TRUCK LLC LLC CERTIFICATES TECHNOLOGIES, SYSTEMS, VIDEO AND RENTING INVESTEE MAR-01 SEP-01, JUL-99, LLC INC. AUDIO CORP. NOV99,DEC 00 INVESTMENT DATE(S) MAR-02 NOV-01 JUL-01 JUN-01 AUG-00 JUNE-00 JUN-02 MATURITY DATE 5.75% JUN-04, JUL-02 JUN-02 MAY-04 JUNE02 AUG-03 INTEREST RATE LIBOR VARIOUS 5.75% 0.00% 10.00% 7.40% ------------------ ------------ ----------- ------------ ------------ ------------ ------------ ------------ Principal outstanding at December 31, 2000 $ 100,000 $ 750,000 $ 244,928 $ 1,698,950 $ 1,000,000 $ 900,000 Debt investments made in 2001 3,500,000 1,358,333 950,000 $ 1,000,000 400,000 100,000 Return of principal - 2001 (750,000) (135,731) (1,998,950) (175,000) (525,000) Other than temporary decline in value of its investments-2001 (86,044) Converted from debt to equity (100,000) Converted from equity to debt 900,000 Principal outstanding at 475,000 December 31, 2001 3,500,000 1,358,333 1,059,197 1,000,000 913,956 825,000 Debt investments made in 2002 100,000 Return of principal - 2002 (3,500,000) (559,197) (1,000,000) (825,000) (475,000) Other than temporary decline in Value of its investments-2002 (C) 28,635 Converted from debt to equity (735,100) (500,000) Converted from Direct Creations to DC Media equity (86,723) Converted from Direct Creations to DC Media sub debt (163,277) Principal outstanding at December 31, 2002 $ 373,233 $ 942,591 $ 100,000 73 NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES (CONTINUED) DEBT INVESTMENTS NEWTEK

TRANSWORLD FINANCIAL DOWN TO BUSINESS BUY HYPER- INFO EARTH, BROKERS, SEASONS, COSM SERVICES CB REAL INC. AUTOTASK INVESTEE LLC INC. APR-01 OF FL NET, LLC DEC-99 GROUP INVESTMENT DATE (S) JUN-01 JUN-01 APR-06 NOV-99 FEB-00 AUG-00 OCT-02 MATURITY DATE(S) JUN-04 JUN-06 (ORIGINAL) NOV-01 DEC-01 AUG-01 SEP-03 INTEREST RATE 5.00% 11.00% 10.00% 5.25% 8.00% 9.00% 7.75% ----------- ----------- ----------- ----------- ----------- ----------- ----------- Principal outstanding at December 31, 2000 $ 3,104,201 $ 2,500,000 $ 80,000 Debt investments made in 2001 $ 240,000 $ 200,000 $ 250,000 Return of principal - 2001 (20,000) (2,966,95) (2,500,000) (80,00) Other than temporary decline in value of its investments-2001 (250,000) (35,601) Principal outstanding at December 31, 2001 240,000 180,000 101,641 Debt investments made in 2002 200,000 Investment consolidated with parent (101,641) Return of principal - 2002 (100,000) (180,000) Other than temporary decline in value of its investments-2002 (C) Principal outstanding at December 31, 2002 $ 140,000 -- -- -- -- -- $ 200,000 LOUISIANA GULF BIDCO COAST INVESTEE LOANS BIDCO INVESTMENT DATE (S) VARIOUS DEC-02 MATURITY DATE(S) VARIOUS VARIOUS INTEREST RATE PRIME +1% VARIOUS ------------ ----------- Principal outstanding at December 31, 2000 $ 669,841 Debt investments made in 2001 4,561,560 Return of principal - 2001 (2,710,644) Other than temporary decline in value of its investments-2001 Principal outstanding at December 31, 2001 2,520,757 Debt investments made in 2002 1,062,224 972,500 Investment consolidated with parent Return of principal - 2002 (2,103,712) Other than temporary decline in value of its investments-2002 (C) (245,240) Principal outstanding at December 31, 2002 $ 1,234,029 $ 972,500 74 NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES (CONTINUED) DEBT INVESTMENTS - SUMMARY TOTAL -- Principal outstanding at December 31, 2000 $ 11,047,920 Debt investments made in 2001 12,559,893 Return of principal - 2001 (11,862,284) Other than temporary decline in value of its investments-2001 (371,645) Converted from debt to equity (100,000) Converted from equity to debt 900,000 Principal outstanding at December 31, 2001 12,173,884 Debt investments made in 2002 2,334,724 Investment restructured and consolidated with parent (101,641) Return of principal - 2002 (8,742,909) Other than temporary decline in value of its investments-2002 (C) (216,605) Converted from debt to equity (1,235,100) Converted from Direct Creations to DC Media equity (86,723) Converted from Direct Creations to DC Media sub debt (163,277) Principal Outstanding at December 31, 2002 3,962,353 75 NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES (CONTINUED): EQUITY INVESTMENT DISTRIBUTION DIRECT 1-800 GIFT STARPHIRE VIDEO AND NICHE CREATIONS, CERTIFICATES TECHNOLOGIES MERCHANT AUDIO DIRECTORIES INVESTEE LLC JUL-99 ,LLC DATA CORP. SEP-00, INVESTMENT DATE(S) VARIOUS, COMMON AUG-00 SYSTEMS, JUN-00 DEC-00 TYPE OF INVESTMENT AUG-02 STOCK/ PREFERRED INC. COMMON PREFERRED OWNERSHIP INTEREST AS OF WARRANTS WARRANTS MEMBERSHIP SEP-00 STOCK MEMBERSHIP DECEMBER 31, 2002 163,277 Total $685,000 $1,505,000 $1,000,000 -- $325,000 $150,000 $163,277 INVESTEE INVESTMENT DATE(S) MATURITY DATE INTEREST RATE TOTAL ------------------- ------------ Total consolidated debt investments made in 2001 $8,300,000 Return of principal - 2001 (235,000) Total consolidated debt investments as of December 31, 2001 8,065,000 Total consolidated debt investments made in 2002 385,000 Investment restructured and consolidated with parent 150,000 Return of principal - 2002 (4,160,000) Converted to equity from Debt - 2002 (850,000) Converted to debt from Equity - 2002 238,277 Total $3,828,277 78 NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES (CONTINUED): CONSOLIDATED EQUITY INVESTMENTS NEWTEK NEWTEK MERCHANT NEWTEK BUSINESS SOLUTIONS MERCHANT NEWTEK PPM NEWTEK EXCHANGE OF NY, SOLUTIONS MERCHANT LINK, STRATEGIES, OF NY, LLC OF LA, SOLUTIONS LLC LLC LLC INVESTEE-INVESTMENT MAR-01 LLC AUG-01 OF CO, MAR-01 AUG-01 MAR-02 DATE(S) PREFERRED PREFERRED LLC PREFERRED PREFERRED PREFERRED TYPE OF INVESTMENT MEMBER MEMBER JUN 01 MEMBER MEMBER MEMBER OWNERSHIP INTEREST 90.00% 95.00% 95.00% 67.00% 70.00% 94.14% --------------------------- -------------- ---------------- --------------- -------------- -------------- --------------- Total consolidated equity investments -2001 $ 200,000 $ 1,350,000 $ 253,333 $ 999,950 Total consolidated equity investment made in 2002 3,308,665 3,175,667 Investment consolidated with parent Converted from debt to equity -2002 850,000 Converted from equity to debt -2002 (75,000) Preferred return-dividends (73,471) Total consolidated equity Investments - 2002 $ 125,000 $ 1,350,000 $ 3,308,665 $ 1,103,333 $ 999,950 $ 3,102,196 NEWTEK NEWTEK FINANCIAL FINANCIAL WILSHIRE SBA INFO INFO NEWTEK LOUISIANA HOLDINGS, SERVICES SERVICES CLIENT CAPITAL NEWTEK IT INC. OF LA, OF FL, SERVICES, MANAGEMENT SERVICES, SEP-02 LLC LLC LLC FUND LLC

INVESTEE SERVICES DEC-03 JUN-01 JUN -03 DEC-02 OCT-00 INVESTMENT DATE(S) PREFERRED PREFERRED PREFERRED PREFERRED PREFERRED PREFERRED TYPE OF INVESTMENT STOCK MEMBER MEMBERSHIP MEMBER MEMBERSHIP STOCK OWNERSHIP INTEREST 90.00% 80.00% 87.48% 95.00% 100.00% 90.00% -------------------------- ------------- --------------- -------------- ------------- ------------- -------------- Converted from equity method to consolidation $ 430,545 Total consolidated equity investments - 2001 430,545 Total consolidated equity investments - 2002 $ 284,000 $ 185,000 $ 3,550,000 $ 972,500 Investment consolidated with parent $ 2,000,000 (57,212) Preferred return-dividends (27,405) (27,273) Preferred return-redemption (1,081,271) Total consolidated equity Investments - 2002 $ 2,000,000 $ 284,000 $ 100,383 $ 2,441,456 $ 972,500 $ 430,545 79 NOTE 3 - INVESTMENTS IN QUALIFIED BUSINESSES (CONTINUED): Investee Investment Date Type of Investment Ownership Interest Total ----------------------------- ------------- Converted from equity method to consolidation $ 430,545 Total consolidated equity investments 2001 2,803,283 Total consolidated equity investment 2002 11,475,832 Investment consolidated with Parent 1,942,788 Converted from debt to equity 2002 850,000 Converted from equity to debt - 2002 (75,000) Preferred return - dividends (128,149) Preferred returns - redemption (1,081,271) Total consolidated equity Investments 2002 $ 16,648,573 The following analysis demonstrates the relationship of total consolidated investment, funds returned by consolidated entities and results in the net investments in consolidated entities. -- SUMMARY OF CONSOLIDATING INVESTMENT ACTIVITY --- ------------------- Consolidating Investments made in 2002 (Equity and Debt) $13,860,832 --- ------------------- --- ------------------- Less: Repayments from Consolidated Entities (5,302,583) --- ------------------- --- ------------------- Plus: Cash Received from Consolidation of Entities Formerly Accounted for Under the Equity Method 313,485 --- ------------------- --- ------------------- Consolidation of Majority Owned Subsidiaries $ 8,871,734 --- ------------------- The Company recognizes income from tax credits as it's capcos make qualified investments and satisfy statutory investment percentage thresholds within specified time requirements. Newtek believes that the presentation in the statement of cash flows of gross investments made is appropriate since it provides disclosure of the aggregate amount of investment activity during the reporting period, thus providing the information relative to achieving the Company's investment thresholds and the corresponding recognition of income from tax credits. 80 NOTE 4 - OTHER INVESTMENTS: In the year 2000, the Company invested $195,000 in five different internet startup companies, for minority stakes (the cost method was used since the percentage owned by Newtek was less than 20% it did not exercise significant influence over these entities). These investments were made from Newtek's "non-Capco" funds (Capco funds have restrictions on where the business must be located, the type of business that can be invested in, etc.). In 2001, the Company made a follow on investment of $78,000 in one of the companies. These investments were recorded as Other Assets on the Balance Sheet. All the non-qualified investments have been written down in full at December 31, 2002 due to charges recorded in 2001 ($75,000) and 2002 ($162,000). These write-offs were recorded as an Other Than Temporary Decline in Value of Investments on the Statement of Income. NOTE 5 - NOTES PAYABLE - CERTIFIED INVESTORS: In June 1998 WA issued a note and a warrant to a Certified Investor for a total amount of $2,673,797. The Capco's interest obligations under the note are as described in Notes 1 and 8. The warrant entitles the Certified Investor to purchase 13% of WA's member units at a purchase price of $.01 per unit. The warrant can be exercised at any time after the fifth year of the 10 year term of the note. In 2002, the warrant was purchased by the Company for stock. Of the total proceeds, the Company allocated $2,608,797 to the note and $65,000 to the warrant. The Company initially recorded the note at $2,608,797 and has been increasing such amount via an accretion to interest expense. For the year ended December 31, 2002 and 2001, the Company recorded $6,500 of interest expense for such accretion. At the maturity date in June 2008, the note balance will be $2,673,797 and the Insurer will pay such amount to the Certified Investor. In May 2000, WA issued an additional note to a Certified Investor for total proceeds of $1,251,630. This note has been recorded at its face amount of $1,136,364, which is the amount payable at maturity in 2008. The interest rate on this note is 10%. The excess of the proceeds over the face amount, or $115,266, will be amortized to income over the term of the note. Under the terms of the notes, WA is required to maintain minimum levels of working capital and tangible net worth, as defined. At December 31, 2002 and 2001 WA was in compliance with such requirements.

As discussed in Note 2, although WA purchased Coverage A, the note purchase agreements were structured such that, for accounting purposes, WA remained primarily liable for the repayment of principal on the notes payable to the certified investors. As such, WA was unable to extinguish its liability under the provisions of SFAS 140, Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities. All of Newtek's other capcos effectively extinguished their notes payable to the certified investors as more fully described in 81 NOTE 5 - NOTES PAYABLE - CERTIFIED INVESTORS (CONTINUED): Note 10. Despite these accounting considerations, as both a legal and practical matter, Newtek continues to rely on the provisions of the Capco insurance policy for WA that requires the insurer to make the payment of the principal amount of the certified investor notes at maturity. Following is a summary of the Note Payable Certified Investor balance: -- Balance -December 31, 2000 $3,861,220 -- Less: Amortization of premium to income (2,831) -- Balance - December 31, 2001 3,858,389 -- Less: Amortization of premium to income (14,208) -- Balance - December 31, 2002 $3,844,181 -- Set forth below is the total amount of principal repayments due to Certified Investors for which the Company's capcos are secondarily liable: Year Ending December 31 ------ ------------------ 2004 $3,695,940 2005 41,312,861 2006 3,102,659 2007 10,503,806 2008 4,337,136 2009 70,450,695 ------------------ Total $133,403,096 NOTE 6 - NOTES PAYABLE - INSURANCE AND OTHER: In October 1999, WI and WLA each borrowed $2,000,000 ($4,000,000 in total), from a financing company, AI Credit, to finance a portion of the total premiums due to an insurance company upon the creation of the two Capcos. The notes bear interest at 8.5%, and were payable in three installments beginning on April 1, 2001, with the final payment due on October 24, 2002. WI and WLA made the April 1, 2001 payments in accordance with the terms of the agreements. Accrued interest included in accounts payable and accrued expenses at December 31, 2001 amounted to $162,025. The entire balance was paid in its entirety (including any accrued interest) in October 2002. 82 NOTE 6 - NOTES PAYABLE - INSURANCE AND OTHER (CONTINUED): In April 2000, WNYII borrowed $1,500,000 from a financing company, AI Credit, to finance a portion of the total premiums due to an insurance company upon the creation of this Capco. The note bears interest at 9.5%, and is payable in three installments beginning on October 13, 2001, with the final payment due on April 13, 2003. WNYII made the October 13, 2001 payment in accordance with the terms of the agreement. Accrued interest included in accounts payable and accrued expenses at December 31, 2002 and December 31, 2001 amounted to approximately $86,000 and $100,000, respectively. In October 2000, WLPII borrowed $300,000 from a financing company, AI Credit, to finance a portion of the total premiums due to an insurance company upon the creation of this Capco. The note bears interest at 9.92%, and is payable in three installments beginning on April 13, 2002, with the final payment due on October 13, 2003. Accrued interest included in accounts payable and accrued expenses at December 31, 2002 and December 31, 2001 amounted to approximately $22,000 and $37,000, respectively. In January 2001, WNYPIII borrowed $5,200,000 from a financing company, AI Credit, to finance a portion of the total premiums due to an insurance company upon the creation of this Capco. The notes bear interest at 9.4%, and are payable in three installments beginning on July 31, 2002, with the final payment due on January 31, 2004. Accrued interest included in accounts payable and accrued expenses at December 31, 2002 and December 31, 2001amounted to approximately $49,000 and $449,000, respectively. In April 2002, WC borrowed $2,000,000 from a financing company, AI Credit, to finance a portion of the total premiums due to an insurance company upon the creation of this Capco. The notes bear interest at 7.9%, and are payable in three installments beginning on October 22, 2003, with the final payment due on April 22, 2005. Accrued interest included in accounts payable and accrued expenses at December 31, 2002 amounted to approximately $115,000. In October 2002, WLPIII borrowed $1,000,000 from a financing company, AI Credit, to finance a portion of the total premiums due to an insurance company upon the creation of this Capco. The notes bear interest at 7.4%, and are payable in three installments beginning on April 15, 2003, with the final payment due on October 15, 2005. Accrued interest included in accounts payable and accrued expenses at December 31, 2002 amounted to approximately $16,000. These notes are collateralized by the assets of the respective Capcos. The aggregate amounts of principal payments on existing notes payable - insurance maturing in each of the next three years are as follows (all are as of December 31st): 2003 $ 2,080,608 2004 1,806,818 2005 1,482,470 ----------- $ 5,369,896 ----------- 83 NOTE 6 - NOTES PAYABLE - INSURANCE AND OTHER (CONTINUED): Following is a summary of the Notes Payable - Insurance balance: -- Balance -December 31, 2000 $ 5,800,000

--- Less: Repayments made in 2001 (1,595,968)
--- Add: Borrowings by Capcos in 2001 5,200,000
--- Balance - December 31, 2001 9,404,032
--- Less: Repayments made in 2002 (7,034,136)
--- Add: Borrowings by Capcos in 2002 3,000,000
--- Balance - December 31, 2002 $ 5,369,896
--- In addition, during 2002, one of the Company's consolidated partner companies issued approximately $481,000 in notes (12% interest per annum) which are due in full in 2003. The Capcos borrowed these funds to assist in paying the premiums for the Capco insurance which included both Coverage A and Coverage B and thus providing greater liquidity in the Capco. This additional borrowing enabled the Capco to have more cash available to make more qualified investments. The borrowings can be repaid from the proceeds of returns to the capcos through principal and interest on debt investments and returns of or on equity from investments made or cash flows from operations. AI Credit, as well as the insurer for the Capco insurance policy, are subsidiaries of AIG. NOTE 7 - LINES OF CREDIT: In November 2001, the Company entered into a $1,500,000 one year revolving working capital loan agreement with JP Morgan Chase, bearing interest at the prime rate plus 0.25% per annum. The agreement expires in June 2003. At December 31, 2002 and December 31, 2001, the Company had outstanding borrowings of $450,000 and $575,000, respectively, from the bank at an interest rate of 5.75%. All assets of the Company, except for all assets in the Capco entities, collateralize such outstanding borrowings. Commercial Capital Corp. ("CCC") at the time of its acquisition by the Company had a $10 Million line of credit with a bank. As of December 31, 2002, the amounts outstanding under this line of credit were $3,998,630 and were assumed by the Company in connection with its acquisition of CCC (included in Bank Notes Payable on the accompanying consolidated balance sheet the aggregate such amount reduced by $1,500,000 due to the conversion of such borrowings into CCC preferred stock immediately prior to the acquisition). The line of credit is collateralized by loans made by CCC. The line of credit bears interest at the prime interest rate plus 1% with interest payable monthly. The average rate for the year ended December 31, 2002 was 5.76%. The rate at December 31, 2002 was 5.25%. There was no accrued interest payable under this line of credit as of December 31, 2002. In addition, this line of credit requires that a percentage of all advances made to CCC be deposited into an account in the name of the bank. The balance in this account as of December 31, 2002 was $198,467 and is included in receivable from bank on the accompanying consolidated balance sheet. 84 NOTE 7 - LINES OF CREDIT (CONTINUED): CCC also had a line of credit with another bank for $75,000,000. As of December 31, 2002, the amount outstanding under this line of credit was $51,325,862 and was assumed by the Company in connection with its acquisition of CCC (included in Bank Notes Payable on the accompanying consolidated balance sheet the aggregate such amount reduced by the aforementioned $1,500,000 preferred stock). The line of credit bears interest at the one-month LIBOR rate plus 2.50%, and was collateralized by the loans made by CCC. The average interest rate for the year ended December 31, 2002 was 4.3%. The interest rate at December 31, 2002 was 3.88%. Interest on the line is payable monthly in arrears. In addition, this line of credit required that a percentage of all advances made to CCC be deposited into an account in the name of the bank. This line of credit required CCC to meet certain administrative and financial covenants, including the maintenance of a minimum net worth, ratio of total indebtedness to net worth, limitation on permitted subordinated debt and profitability covenants as defined in the agreement. Under the terms of an agreement between CCC and both of the banks with which CCC maintains lines of credit, all payments received from CCC's borrowers except for principal and interest on the guaranteed portion of the loans are transferred into a restricted bank account. CCC cannot use these funds until the end of a calendar month at which time the funds are used to pay required principal and interest to the banks and certain other required payments. Effective with the Company's acquisition of Commercial Capital, a new line of credit was provided by Deutsche Bank to the successor to Commercial Capital, Newtek Small Business Finance. The aforementioned CCC credit lines were refinanced, with the aforementioned outstanding SBA loan balances aggregating, after accounting for the $1,500,000 conversion to preferred stock, $53,824,492 at December 31, 2002. The new line of credit for $75 Million expires March 31, 2004 and is guaranteed by the Company. Newtek Small Business Finance may request an increase in the line of credit, for which Deutsche Bank, in its sole discretion, may increase in total up to $100 Million. The new Deutsche Bank line has terms and conditions similar to those contained in the Commercial Capital line, described above. NOTE 8 - LOANS RECEIVABLE (NON-CAPCO): Loans receivable were generated by CCC prior to its acquisition by the Company. Such loans are

primarily related to entities in the Northeast region of the United States with concentrations in the restaurant, manufacturing, hotel and motel industries. The unpaid principal amount of loans serviced for others is not included in the accompanying consolidated balance sheet. The unpaid principal of loans serviced for others was approximately $141,505,000 at December 31, 2002. The following is a summary of Loans Receivable at December 31, 2002: Due in one year or less $ 177,528 Due between one and five years 1,431,585 Due after five years 57,021,527 Less : Allowance as of December 31, 2002 (2,557,624) ----------- Balance - December 31, 2002 $ 56,073,016 ============ 85 NOTE 8 - LOANS RECEIVABLE (NON-CAPCO) (CONTINUED): As of December 31, 2002, SBA loans due after one year that have adjustable interest rates amount to $54,329,608, SBA loans that are on a non-accrual basis amount to $2,914,767, and SBA loans that are past due more than 90 days, but are still performing (accruing interest), amount to $293,800. NOTE 9 - CREDITS IN LIEU OF CASH: Following an application process, a state will notify a company that it has been certified as a Capco. The state 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. 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 interest payable. 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 interest payable. Following is a summary of the Credits in Lieu of Cash balance: -- Balance - at December 31, 2000 $17,497,169 -- Less: Deliveries made in 2001 (17,183,989) -- Add: Credits earned in 2001 21,497,596 -- Balance - December 31, 2001 21,810,776 -- Less: Deliveries made in 2002 (10,832,872) -- Add: Credits earned in 2002 30,603,046 -- Balance - December 31, 2002 $41,580,950 -- 86 NOTE 10 - NOTES PAYABLE AND EXTINGUISHMENT OF DEBT: As described in Note 1, each Capco has separate contractual arrangements with the Certified Investors obligating the Capco to pay interest on the aforementioned debt instruments. At the time the Capcos obtained the proceeds from the issuance of the debt instruments, Capco warrants or Company common stock to the Certified Investors, the Capcos also purchased insurance contracts from the Insurer. These insurance contracts are similar to the coverage purchase by Wilshire Advisers described in Note 2; however, the Coverage A portion of these contracts extinguishes a substantial portion of the Capcos' liability for the repayment of the funds obtained from the Certified Investors and, as such shifts such liability to the Insurer. The structure of the Capco insurance is, with respect to Coverage A (return of principal), that the insurer assumes the primary obligation to make the repayment of principal of the Capco notes upon the maturity dates. The Capcos, however, are secondarily, or contingently, liable for such payment. The Company believes that the likelihood of one or more of the Capcos becoming primarily liable for the payments required to be made by the Insurer under Coverage A is remote, because the insurer, a subsidiary of a major multi-national insurance company, has a claims paying ability having the rating "AAA," the highest available. The Capcos remain primarily liable for the interest obligation. The Coverage B portion of these contracts is similar to such

coverage described in Notes 2 and 4. Based upon these events and facts, each Capco has met the requirements under SFAS 140 to extinguish the principal portion of the debt issued to the insurance company investors. The Capco, as a secondary obligor, must assess whether it has a SFAS 5 contingency to record on the date of extinguishment and at every reporting date thereafter until the notes are repaid by the Insurer. At December 31, 2002, management has concluded that the likelihood of the Capcos becoming primarily liable for the payments required to be made by the Insurer under Coverage A on the Notes is remote (i.e., the Insurer failing to make payment). SFAS 140 requires, however, that the secondary obligation (the portion extinguished by the purchase of the insurance) be recorded at fair value, which the Company has currently assessed at zero at December 31, 2002. The Company has allocated the initial proceeds received in 2002 from the Certified Investors as follows: Notes payable, including premiums $ 29,999,543 Company common stock 719,957 ------------ $ 30,719,500 ------------ The Company purchased Coverage A to extinguish a principal portion of the Notes payable. The resulting difference, less the note premiums, represents the excess of the initial liability under the debt instruments over the Coverage A payments, and 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 10-year period the Capcos are obligated to pay interest, and will decrease as the Capcos pay interest by delivering the tax credits, or paying cash. The following is a summary of the extinguishment transactions and reconciliation of notes payable in credits in lieu of cash balances at December 31, 2002 (exclusive of proceeds allocated to warrants as noted above): 87 NOTE 10 - NOTES PAYABLE AND EXTINGUISHMENT OF DEBT (CONTINUED): --- CAPCO, DUE DATE AND A IMPUTED PAYMENT IN ACCRUED OBLIGATION DISCOUNT INTEREST RATE ORIGINAL EXTINGUISHED REMAINING CREDIT IN INTEREST (@ AT REMAINING AMORTIZED OF NOTE PRINCIPAL OBLIGATION OBLIGATION LIEU OF CASH STATED RATE) 12/31/02 OBLIGATION DISCOUNT WI, due 2008, 21.9% $16,666,667 $(5,939,649) $10,727,018 $(5,000,000) $3,211,911 $8,938,929 $(3,146,579) $1,211,155 WLA, due 2008, 22.3% $16,400,000 $(4,810,015) $11,589,985 $(5,412,000) $3,454,292 $9,632,277 $(4,365,829) $1,870,427 WLA II, due 2009, 18.0%) $3,050,000 $(765,908) $2,284,092 $(922,595) $401,102 $1,762,599 $(699,097) $281,356 WP, due 2010 19.2%) $37,384,028 $(15,266,802) $22,117,226 $(10,280,607) $7,847,562 $19,684,181 $(7,861,123) $2,832,880 WNY II, due 2010, 27.9%) $6,807,866 $(2,929,053) $3,878,813 $(1,361,573) $1,132,496 $3,649,736 $(2,001,756) $510,455 WNY III, due 2011, 16.6%) $35,160,202 $(14,079,476) $21,080,726 $(3,516,020) $3,991,370 $21,556,076 $(6,608,240) $1,358,216 WLA III, due 2012, 8.7%) $8,000,000 $(2,000,921) $5,999,079 -- $66,679 $6,065,758 $(968,824) $24,452 WCOL, DUE 2013, 13.60%) $22,057,767 $(9,349,608) $12,708,159 -- $900,183 $13,608,342 $(2,234,795) $95,523 ---
===
TOTALS $145,526,530 $(55,141,432) $90,385,098 $(26,492,795) $21,005,595 $84,897,898 $(27,886,234) $8,184,464
===
-- CAPCO, DUE DATE AND B (A+B)= IMPUTED DISCOUNT BALANCE OF INTEREST RATE AT OBLIGATION OF NOTE 12/31/02 @ 12/31/02 WI, due 2008, 21.9% $(1,935,424) $7,003,505 WLA, due 2008, 22.3% $(2,495,402) $7,136,875 WLA II, due 2009, 18.0%) $(417,741) $1,344,858 WP, due 2010 19.2%) $(5,028,243) $14,655,938 WNY II, due 2010, 27.9%) $(1,491,301) $2,158,435 WNY III, due 2011, 16.6%) $(5,250,024) $16,306,052 WLA III, due 2012, 8.7%) $(944,372) $5,121,386 WCOL, DUE 2013, 13.60%) $(2,139,272) $11,469,070 -- ============================ TOTALS $(19,701,779) $65,196,119 ============================ 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 that the Insurer is primarily responsible for the repayment of the original proceeds on the maturity dates. NOTE 11 - WARRANTS: The warrants entitle the holders to purchase, for a $.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 minority interests. In addition, certain minority interests have already been acquired by minority shareholders. 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 minority shareholders in each respective Capco or Capco fund as of December 31, 2002: 88 NOTE 11 - WARRANTS

(CONTINUED): CAPCO OR CAPCO FUND % INTEREST WP, Florida 9.8% WI, Wisconsin 2.8% WLA, Louisiana 14.4% WNYII, New York 24% WLPII, Louisiana (a Capco fund) 4.5% NYIII, New York 8.9% WC, Colorado 15% NOTE 12 - INCOME FROM TAX CREDITS: As described in Note 1, each Capco has a contractual arrangement with a particular state that legally entities the Capco to earn and deliver tax credits (ranging from 10% to 11% per year) from the state upon satisfying certain criteria. During the years ended December 31, 2002 and 2001, certain of the Company's Capcos satisfied certain investment benchmarks and the related recapture avoidance percentage requirements and accordingly, earned a portion of the tax credits. In addition, in both 2002 and 2001, 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 interest payable in credits in lieu of cash (Note 10). Below is a summary of Newtek's Income from tax credits, by Capco and by year. TAX CREDIT AMOUNT AMOUNT TO BE TOTAL AMOUNT OF REVENUE RECOGNIZED RECOGNIZED IN TAX CREDITS RECOGNIZED: SINCE INCEPTION FUTURE PERIODS (c) ALLOCATED -------------- --------------- ----------------- -------------- Wilshire Advisers, LLC 1999 371,228 2000 2,749,268 2001 94,742 2002 220,803 3,436,041 374,120 (a) 3,810,161 Wilshire Partners, LLC 1999 10,592,326 2000 3,783,949 2001 3,713,360 2002 15,246,878 33,336,513 4,047,515 (a) 37,384,028 Wilshire Investors, LLC 1999 2000 2001 5,000,000 2002 5,000,000 11,666,667 (a) 16,666,667 89 NOTE 12 - INCOME FROM TAX CREDITS (CONTINUED): Wilshire Advisers, LLC 1999 2000 2001 5,412,000 2002 5,412,000 12,628,000 (a) 18,040,000 Wilshire LA Partners 2, LLC 1999 2000 2001 2002 2,879,389 2,879,389 475,611 (a) 3,355,000 Wilshire LA Partners 3, LLC 1999 2000 2001 2002 8,000,000 (b) 8,000,000 Wilshire NY Advisers II, LLC 1999 2000 2001 2,003,824 2002 3,838,946 5,842,770 965,096 (a) 6,807,866 Wilshire NY Partners III, LLC 1999 2000 2001 5,274,030 2002 5,274,030 10,548,060 24,612,142 (b) 35,160,202 Wilshire Colorado Partners 1999 2000 2001 2002 3,143,000 3,143,000 18,914,767 (b) 22,057,767 Total 1999 10,963,592 2000 6,533,217 2001 21,497,956 2002 30,603,046 69,597,773 81,683,918 151,281,691 (a) These Capcos have met the final state mandated investment threshold hurdle, which means all of the tax credits have been earned. If the tax credits are "earned" before the state is required to make delivery, then the present value of the tax credit earned is recorded upon completion of the requirements. The balance shown represents the discounted portion of the tax credits which will be recognized in future periods. (b) The respective Capco has NOT met the final state mandated investment threshold hurdle, which means these tax credits have NOT been earned. (c) Amounts will be recognized to the extent the related minimum investment requirements are met. 90 NOTE 13 - INCOME TAXES: Provision for income taxes for the years ended December 31, 2002 and 2001 is as follows (there was no current provision): DEFERRED PROVISION: 2002 2001 ----------- ----------- Federal $ 2,442,102 $ 497,998 State and local 287,306 58,588 Other (71,998) (21,970) Provision for income taxes $ 2,657,410 $ 534,616 A reconciliation of income taxes computed at the U.S. federal statutory income tax rate (34%) to the provision for income taxes for the years ended December 31, 2002 and 2001 is as follows: 2002 2001 ----------- ----------- (BENEFIT) (BENEFIT) PROVISION PROVISION ----------- ----------- Provision for income taxes at U.S. federal statutory rate of 34% $ 2,442,102 $ 497,998 State and local taxes, net of federal benefit 287,306 58,588 Other (71,998) (21,970) ----------- ----------- $ 2,657,410 $ 534,616 Deferred tax assets and liabilities consisted of the following at December 31, 2002 and 2001: Deferred tax assets: 2002 2001 ------------ ------------ Net operating losses $ 10,397,582 $ 3,911,545 Interest payable in credits in lieu of cash 436,063 72,350 Investment losses 56,696 730,772 ------------ ------------ Total deferred tax assets 10,890,341 4,714,667 ------------ ------------ Deferred tax liabilities: Credits in lieu of cash (14,616,492) (6,277,685) Total deferred tax liabilities (14,616,492) (6,277,685) ------------ ------------ Net deferred tax liability $ (3,726,151) $ (1,563,018) At December 31, 2002, the Company has net operating losses aggregating approximately $27,552,000 which expire beginning in 2020. Realization of the deferred tax assets is dependent on generating sufficient taxable income in future years. Management has determined that a valuation allowance is not required at December 31, 2002 and 2001 as it believes that it is more 91 NOTE 13 - INCOME TAXES (CONTINUED): likely than not that the deferred tax assets will be realized. In addition, at December 31, 2002, in connection with its acquisition of CCC, the Company acquired net operating loss carryforwards of approximately $9,000,000 which begin expiring at the end of 2020. In connection with the related purchase accounting, the Company established a valuation allowance for the full amount of the related net deferred tax asset acquired from CCC as management has determined that it its uncertain as to whether such asset will be utilized in the future. NOTE 14 - COMMITMENTS AND CONTINGENCIES: Capco or Capco fund is required to make Investments in Qualified Businesses under a qualified investment schedule, as defined, in order to remain certified as

a Capco. If the Company does not make such qualified investments within the statutorily provided time frame, the Capco is subject to Decertification and Revocation, as defined in the respective Capco agreements, of its certificate and, accordingly, the Certified Investor could be subject to forfeiture or recapture of its previously granted respective state tax credits. This risk has been insured under Coverage B (Notes 2 and 8). Generally, a Capco or Capco fund must invest at least 50% of its Certified Capital in qualified businesses within five years after the certification date. At December 31, 2002 and 2001, the Company had invested the percent of its Certified Capital as follows: DECEMBER DECEMBER CAPCO OR CAPCO FUND 31, 2002 31, 2001 --- WA, New York 59% 59% WP, Florida 50% 40% WI, Wisconsin 31% 31% WLA, Louisiana 46% 35% WNYII, New York 50% 40% WLAPII, Louisiana 50% 24% WNYIII, New York 49% 34% WC, Colorado (statewide) 30% 0% WC, Colorado (rural) 15% 0% WLPIII, Louisiana 0% 0% The Company has entered into employment agreements with three officers. At December 31, 2002 the future minimum commitments are $855,000 for each of the years ended December 31, 2003, 2004 and 2005. 92 NOTE 14 - COMMITMENTS AND CONTINGENCIES (CONTINUED): The following summarizes the Company's obligations and commitments, as of December 31, 2002, for future minimum cash payments required under lease and employment agreements: OPERATING EMPLOYMENT YEAR LEASES AGREEMENTS TOTAL --------------------- ---------------- ---------------- ---------------- 2003 $ 689,669 $ 855,000 $ 1,544,669 2004 684,642 855,000 1,539,642 2005 335,529 855,000 1,190,529 2006 345,534 -- 345,534 2007 258,867 -- 258,867 Thereafter 1,562,121 -- 1,562,121 ---------------- ---------------- ---------------- Total $ 3,876,362 $ 2,565,000 $ 6,441,362 ---------------- ---------------- ---------------- Rent expense for 2002 and 2001 was approximately $278,000 and $227,000, respectively. For certain Capcos, when 100% of the Certified Capital is invested in qualified businesses as defined, the respective state is entitled to a percentage of all appreciation of assets in excess of the amount required to produce a specific internal rate of return. From time to time the Company and its subsidiaries are parties to various legal proceedings in the normal course of business. At December 31, 2002, there were no legal proceedings which management anticipates would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. NOTE 15 - ASSETS HELD FOR SALE : The Company owned a building and land in Mississippi which was held for sale. The note was held by the Bank of Mississippi, and collateralized by the property. At December 31, 2001, the Company determined there was a permanent impairment on the property, and took an approximately $168,000 charge to earnings. In March, 2002, the property was sold for an approximately $16,000 gain as compared to its book value at December 31, 2001. The Company received payment on this asset held for sale, and the proceeds were used to fully pay the outstanding mortgage. NOTE 16 - RELATED PARTY TRANSACTIONS: For the year ended December 31, 2001, the Company rented office space at $3,000 per month on a month-to-month basis from a related party. In addition, for the years ended December 31, 2002 and December 31, 2001, the Company incurred financial consulting expenses of approximately $180,000 and approximately $157,000 respectively, from a related party. 93 NOTE 17 - CONVERSION OF CAPCO MEMBERSHIP INTERESTS INTO NEWTEK STOCK: In 2001, the Company issued 534,592 shares of its common stock to the minority members of WI in exchange for substantially all of such members' minority interests. This has been accounted for as a purchase transaction. The fair value of the Company's common stock was determined based upon the quoted market price of the Company's common stock, less a 45% discount due to certain restrictions on the sale of the stock. Such value exceeded the book value of the minority interest by approximately $978,000 and the Company has recorded such amount as goodwill. In 2002, the Company issued 1,505,338 shares of its common stock to the minority members or warrant holders in various of its Capcos in exchange for all of such minority interests. This has been accounted for as a purchase transaction. The fair value of the Company's common stock was determined based upon the quoted market price of the Company's common stock, less a 45% discount due to certain restrictions on the sale of the stock. Such value exceeded the book value of the minority interests by approximately $1,063,515 and the Company has recorded such amount as goodwill. In selling common stock in privately negotiated transactions, the Company will generally apply a discount to current market value to reflect the length and nature of resale restrictions. Where the only restrictions are those resulting from the federal and state securities laws, the Company will discount the issue price by 30 percent. In some cases, where the Company negotiates additional contractual restrictions on the shares sold, restricting any transfers from one to up to three years, an additional discount to current market value of between 30% and 45% is used to determine the price paid for the shares. NOTE 18 - STOCK OPTIONS GRANTED TO DIRECTORS AND EMPLOYEES: As of December 31, 2002, there were vested options outstanding to purchase an aggregate of 801,329 shares of common stock at exercise

prices ranging from $3.05 to $10.00 per share, expiring through 2011. As of December 31, 2002 the Company has granted a total of 2,456,837 options (included in this number are options of 224,500 issued to non-employees and net of cancellations) to purchase shares of common stock to certain members of management, employees and directors. The details of option activity since adoption of the plan is as follows: WEIGHTED NUMBER AVERAGE OF EXERCISE SHARES PRICE -------------- ------------ Outstanding at December 31, 2000 993,000 $ 7.08 Granted during 2001 701,000 $ 3.30 Exercised during year -- -- Cancelled during year (345,667) $ 7.00 -------------- ------------ Outstanding at December 31, 2001 1,348,333 $ 5.13 Granted during 2002 1,262,671 $ 3.61 94 NOTE 18 - STOCK OPTIONS GRANTED TO DIRECTORS AND EMPLOYEES (CONTINUED): Exercised during year -- -- Cancelled during year (154,167) $ 5.65 ----------- Outstanding, December 31, 2002 2,456,837 $ 4.30 ----------- ------------ Exercisable at December 31, 2002 801,329 $ 5.37 ----------- The following table summarizes information about stock options exercisable at December 31, 2002: OPTIONS OPTIONS OUTSTANDING EXERCISABLE --- ---------------------------- WEIGHTED AVERAGE REMAINING WEIGHTED WEIGHTED CONTRACTUAL AVERAGE AVERAGE RANGE OF EXERCISES SHARES REMAINING EXERCISE SHARES EXERCISE PRICES OUTSTANDING LIFE PRICE EXERCISABLE PRICE ------------ ----------- ----------- ----------- $3.05 - $4.30 1,831,003 9.06 years $ 3.34 406,174 $ 3.31 $7.00 - $10.00 625,834 7.48 years $ 7.12 395,155 $ 7.12 NOTE 19 - 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 calculations of Net Income Per Share were: YEAR ENDED DECEMBER 31, ------------------------ 2002 2001 ----------- ----------- Numerator: Numerator for Basic and Diluted EPS - income available to common stock holders $ 8,168,251 $ 929,560 Numerator for basic and diluted EPS - extraordinary item $ 3,643,009 $ -- Numerator for basic and diluted EPS-income before extraordinary item $ 4,525,242 $ 929,560 Denominator: denominator for basic EPS - weighted average shares 24,183,501 21,889,958 Effect of dilutive securities (stock options) 110,039 19,569 Denominator for diluted EPS - weighted average shares 24,293,540 21,909,527 Net EPS: Basic $ .34 $ .04 Net EPS: Diluted $ .34 $ .04 Net EPS: Basic and Diluted before extraordinary gain $ .19 $ .04 95 NOTE 20 - ACQUISITIONS: In January 2002, the Company acquired 100% of the outstanding common stock of Exponential Business Development Company, Inc. (Exponential), of Syracuse, NY. Exponential's primary business was to make non-controlling investments in small and start-up companies. The purchase price consisted of 500,000 shares of Company common stock issued to the sellers. Under the terms of the acquisition, an additional 500,000 shares will be issued over a seven year period if acquired assets result in gains of $2 Million in excess of an initial $1 Million recovery by the Company. The fair value of the 500,000 common shares issued, $989,000, was determined based on the quoted market price of the Company's common stock on the closing date, less a 35% discount due to certain restrictions on the stock. Since Company management has determined that the issuance of the additional 500,000 shares is currently unlikely due to management's estimation that the payout provision will not be met, the Company has not included the additional shares in the determination of the purchase price. On a quarterly basis, management will assess the payout provision to determine if it is likely it will be met in the future, and if so, the Company will record the additional 500,000 shares as additional purchase price when issued. Exponential directors and officers remain with that entity and received a total of 365,000 options pursuant to the Company's stock option plan to acquire Company common stock in exchange for future services. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Current assets (including cash of $106,642) $ 138,013 Other Assets 10,001 ------------- Total assets acquired 148,014 ------------- Current liabilities 52,350 ------------- Total liabilities assumed 52,350 ------------- Net assets acquired $ 95,664 ------------- The excess of the purchase consideration of $989,000 over the net assets acquired amounts to approximately $893,000; such amount has been recorded as goodwill. On December 31, 2002, the Company and one of its Capcos acquired 94% of the outstanding common stock of the holding company of Commercial Capital Corp. (CCC). CCC was one of only 14 lenders licensed by the Small Business Administration with authority to make SBA guaranteed loans nationwide. The purchase price consisted of 380,471 shares of Company common stock issued to the sellers. The Company's ownership was subsequently reduced in January 2003 due the effect of the investment by an affiliate of CS First Boston of $2 Million. Under the terms of the acquisition, an additional 82,980 shares will be issued in the future if certain hurdles are met. The per share fair value of the 380,471 common shares issued, $3.38, was determined based on the five day average of the quoted market price of the Company's common stock on the announcement date, less a

30% discount due to certain restrictions on the stock. Since Company management has determined that the issuance of the additional shares is currently unlikely due to management's estimation that the payout provision 96 NOTE 20 - ACQUISITIONS (CONTINUED): will not be met, the Company has not included the additional shares in the determination of the purchase price, and instead recognized a liability for contingent consideration, amounting to approximately $196,000 and included in accounts payable and accrued expenses on the balance sheet. On a quarterly basis, management will assess the payout provision to determine if it is likely it will be met in the future, and if so, the Company will record the additional shares as additional purchase price when issued. The transfer from CCC to the Company's subsidiary of CCC's license to make SBA guaranteed small business loans in all jurisdictions nationwide was approved by SBA on December 19, 2002. As a result of this transaction, all future operations will be conducted under the name of Newtek Small Business Finance, Inc., which is majority owned by the Company. 97 NOTE 20 - ACQUISITIONS (CONTINUED): The allocation of the purchase price to the fair values of assets and liabilities assumed is summarized below. The resulting excess of net assets acquired over the consideration was allocated to non-financial assets and the remaining excess was recorded as an extraordinary gain in accordance with SFAS 141. FAIR VALUE OF ASSETS ACQUIRED --- Cash $ 2,367,870 Loans Receivable, net 56,073,016 Receivable from Bank 2,938,309 Accrued Interest Receivable 285,151 Servicing Asset 4,496,774 (c) SBA License, net 159,917 (c) Property & Equipment, net 272,925 (c) Other Assets 515,805 (c) ------------------- Total Assets $ 67,109,767 ------------------- FAIR VALUE OF LIABILITIES ASSUMED: --- Accounts payable and accrual $ 2,508,086 Line of credit 53,824,492 ----------------- Total liabilities 56,332,578 ----------------- Preferred Stock 1,500,000 ----------------- Net assets acquired 9,277,189 Less purchase price: Company common stock issued as (900,194) consideration (see (a) below) ----------------- Excess of net assets acquired over purchase price 8,376,995 Less, allocation of negative goodwill to non-financial (5,445,421) assets (sum of (c) above) Less, recognition of liability for contingent consideration (196,331) (see (b) below) ------------------- Extraordinary gain on acquisition of business $ 2,735,243 ------------------- --- (a) Average share price five days before and five days after the acquisition is announced (August 8, 2002) $ 3.38 Less, discount factor applied to above share price, based upon restrictions on registration rights and resale rights (30%) 70% Value per share (rounded) used to compute purchase consideration 2.37 Number of shares issued 380,471 Company common stock issued as consideration $ 900,194 ------------------- (b) Average share price five days before and five days after the acquisition is announced (August 8, 2002) $ 3.38 98 NOTE 20: ACQUISITIONS (CONTINUED): Less, discount factor applied to above share price, based upon restrictions on registration rights and resale rights (30%) 70% Value per share (rounded) used to compute purchase consideration 2.37 Number of contingent shares 82,980 Company common stock issued as consideration $ 196,331 -------------- The accompanying consolidated statement of income for the year ended December 31, 2002 includes the results of operations of Exponential from January 2002 through December 31, 2002 (since CCC was acquired on December 31, 2002, the accompany consolidated statement of income include no activity for that entity). The unaudited pro forma financial information set below is based upon the Company's historical consolidated statement of income for the years ended December 31, 2002 and December 31, 2001, adjusted to give effect to the acquisition of Exponential and CCC as of the beginning of each period presented. The unaudited pro forma financial information is presented for informational purposes only and may not be indicative of what actual results of operations would have been had the acquisition occurred on the dates indicated, nor does it purport to represent the results of operations for future periods. Pro forma (unaudited) for the years ended December 31: 2002 2001 -------------- -------------- Total revenues $ 40,521,000 $ 34,043,000 Income (loss) from continuing operations 2,811,000 (1,800,000) -------------- -------------- Income (loss) per share - basic $ .11 $ (.08) -------------- -------------- Income (loss) per share - diluted $ .11 $ (.08) -------------- -------------- The fair value of securities traded in the market is normally more clearly evident than the fair value of an acquired company. As a result, the Company believes that the quoted market price of its stock issued to effect a business combination is the best way to approximate the fair value of an acquired company. The Company then applied a variable discount factor for each transaction based upon the effects of legal restrictions and, in some cases, contractual restrictions on resale. The greater the time the shareholders would be required to hold the shares, the greater the discount utilized. NOTE 21 - GOODWILL Effective January 1, 2002, the Company adopted SFAS No.142. There was no goodwill amortization expense for the year ended December 31, 2002. At December 31, 2002, management determined that no write-down was needed based on an evaluation for impairment under SFAS No. 142. Additions to goodwill in 2002 consist of approximately $893,000 related to the

Exponential acquisition, and approximately $1,049,000 from acquisitions of minority interests. 99 NOTE 21 - GOODWILL (CONTINUED): The Company's net income for the year ended December 31, 2001 would have increased from approximately $930,000 to $987,000, and basic and diluted income per share would have increased from $.04 to $.05, if SFAS No. 142 had been in effect. NOTE 22 - SUBSEQUENT EVENTS: In January, 2003, the Company sold in a private placement 55,718 shares of stock, for net proceeds of approximately $216,000. In January, 2003, the Company completed the sale of $2 Million of preferred stock of NSBF to Credit Suisse First Boston Management Corporation (CSFB). In addition, CSFB has a right to purchase all of the common stock in NSBF at a significantly higher multiple as compared to the book value of NSBF at December 31, 2002. NOTE 23 - QUARTERLY INFORMATION (UNAUDITED): THREE MONTHS ENDED --- 2001 3/31 6/30 9/30 12/31 FULL YEAR ------------------------- --------------- --------------- ---------------- ---------------- ----------------- Total Revenue $ 6,721,551 $ 9,276,593 $ 6,317,486 $ 1,484,556 $ 23,800,186 Operating Income(Loss) $ 1,535,317 $ 4,507,990 $ 1,235,071 $ (2,485,851) $ 4,792,527 Income (Loss) Before Extraordinary Gains $ 760,471 $ 1,224,424 $ 460,591 $ (1,515,926) $ 929,560 Net Income $ 760,471 $ 1,224,424 $ 460,591 $ (1,515,926) $ 929,560 EPS - Basic $ 0.04 $ 0.06 $ 0.02 $ (.08) $ 0.04 EPS - Diluted $ 0.04 $ 0.06 $ 0.02 $ (.08) $ 0.04 THREE MONTHS ENDED --- 2002 3/31 6/30 9/30 12/31 FULL YEAR ------------------------- --------------- --------------- ---------------- ---------------- ------------------ Total Revenue $ 6,071,701 $ 5,350,857 $ 16,903,531 $ 6,298,062 $ 34,624,151 Operating Income (Loss) $ (260,637) $ (281,525) $ 8,827,290 $ 1,518,846 $ 9,803,974 Income (Loss) Before Extraordinary Gains $ (159,605) $ (545,436) $ 5,453,038 $ (222,755) $ 4,525,242 Net Income $ 105,979 $ (545,436) $ 5,453,038 $ 3,154,670 $ 8,168,251 EPS - Basic $ .00 $ (.02) $ .22 $ .14 $ .34 EPS - Diluted $ .00 $ (.02) $ .22 $ .14 $ .34 100 NOTE 24 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS (UNAUDITED): PRINCIPLES OF ACCOUNTING FOR OWNERSHIP INTERESTS IN QUALIFIED INVESTMENTS The various interests that the Company acquires in its qualified investments are accounted for under three methods: consolidation, equity method and cost method. The applicable accounting method is generally determined based on the Company's voting interest in a Partner Company. Consolidation Method. Investments in which the Company directly or indirectly owns more than 50% of the outstanding voting securities or those the Company has effective control over are generally accounted for under the consolidation method of accounting. Under this method, an investment's financial position and results of operations are reflected within the Company's Balance Sheet and Consolidated Statements of Income. All significant inter-company accounts and transactions, including returns of principal, dividends, interest received and investment redemptions have been eliminated. The results of operations and cash flows of a consolidated Partner Company are included through the latest interim period in which the Company owned a greater than 50% direct or indirect voting interest for the entire interim period or otherwise exercised control over the Partner Company. Upon dilution of control below 50%, the accounting method is adjusted to the equity or cost method of accounting, as appropriate, for subsequent periods. Because the minority ownership of the capcos is so small, and in almost all cases the minority ownership of the partner companies is similarly small, no amounts have been attributed to minority interests. Equity Method. Investees that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the Company's Board of Directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the Company, including voting rights associated with the Company's holdings in common, preferred and other convertible instruments in the investee. Under the equity method of accounting, an investee's accounts are not reflected within the Company's Consolidated Balance Sheet and Consolidated Statements of Income; however, the Company's share of the earnings or losses of the investee is reflected in the caption "Equity income (loss)" in the Consolidated Statements of Income. Cost Method. Investees not accounted for under the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Under this method, the Company's share of the earnings or losses of such companies is not included in the Consolidated Balance Sheet and Consolidated Statements of Income. However, cost method impairment charges are recognized, as necessary, in the Consolidated Statement of Operations. If circumstances suggest that the value of the investee has subsequently recovered, such recovery is not recorded until realized. 101 NOTE 24 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS (UNAUDITED) (CONTINUED): On a monthly basis, the Company's Investment Committee meets to evaluate the

Company's investments. The Company considers several factors in determining whether an impairment exists on the investment, such as the investee's net book value, cash flow, revenue growth and net income. In addition, the Investment Committee looks at larger variables, such as the economy and the investee company's industry, to determine if an other than temporary decline in value exists in the Company's investments. The following table is an unaudited summary of the investments which the Company accounts for under either the equity method or by consolidation. These financial statements also reflect the degree to which the Company's partner companies interact with each other to provide and market needed goods or, particularly, services to each other. Such activity has been quantified within the accompanying summary within the caption "intercompany items included in above". 102 NOTE 24 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS (UNAUDITED) (CONTINUED): CONSOLIDATED ENTITIES (C) NEWTEK NEWTEK MERCHANT NEWTEK MERCHANT STRATEGIES SOLUTIONS - CO SOLUTIONS - NY (HARVEST) (UPS-CO) (UPS) --------------------------------- ---------------------------------- ---------------------------------- 2002 2001 2002 2001 2002 2001 ---------------- ---------------- ---------------- ---------------- ---------------- ---------------- Cash $ 256,233 $ 1,638,703 $ 3,248,403 (a) $ 18,611 $ 2,969,784 Other Assets $ 207,801 $ 117,588 $ 2,662 (a) $ 417,956 $ 486,632 TOTAL ASSETS $ 464,034 $ 1,756,291 $ 3,251,065 (A) $ 436,567 $ 3,456,416 Current Liabilities $ 33,006 $ 53,026 $ 14,433 (a) $ 108,554 $ 51,630 TOTAL LIABILITIES $ 33,006 $ 1,002,978 $ 14,433 (a) $ 584,112 $ 3,451,640 TOTAL EQUITY (DEFICIT) $ 431,028 $ 753,313 $ 3,236,632 (a) $ (147,545) $ 4,776 NEWTEK MERCHANT NEWTEK MERCHANT SOLUTIONS - LA SOLUTIONS - W I (UPS-LA) (UPS-WI) ---------------------------------- ---------------------------------- 2002 2001 2002 2001 ---------------- ----------------- ----------------- ----------------- Cash $ 705,617 $ 1,259,089 $ 445,686 $ 1,798,864 Other Assets $ 26,485 $ 19,251 $ 254,444 $ 46,722 TOTAL ASSETS $ 732,102 $ 1,278,340 $ 700,130 $ 1,845,586 Current Liabilities $ 29,729 $ 7,251 $ 118,670 $ 19,174 TOTAL LIABILITIES $ 29,729 $ 7,251 $ 1,588,670 $ 1,909,074 TOTAL EQUITY (DEFICIT) $ 702,373 $ 1,271,089 $ (888,540) $ (63,488) PPM EXPONENTIAL BUSINESS NEWTEK SMALL BUSINESS LINK DEVELOPMENT CO., INC. FINANCE (NSBF) --------------------------------- --------------------------------- ---------------------------------- 2002 2001 2002 2001 2002 2001 ---------------- --------------- ---------------- ---------------- ----------------- ----------------- Cash $ 1,254,506 $ 1,700,109 $ 41,973 $ 106,642 $ 4,367,870 (a) Other Assets $ 61,686 $ 130,558 $ 25,551 $ 41,372 $ 59,296,476 (a) TOTAL ASSETS $ 1,316,192 $ 1,830,667 $ 67,524 $ 148,014 $ 63,664,346 (a) Current Liabilities $ 1,069,144 $ 46,553 $ 59,996 $ 57,350 $ 2,704,417 (a) TOTAL LIABILITIES $ 1,919,144 $ 1,896,553 $ 59,996 $ 57,350 $ 58,028,909 (a) TOTAL EQUITY (DEFICIT) $ (602,952) $ (65,886) $ 7,528 $ 90,664 $ 5,635,437 (a) NEWTEK NEWTEK IT FINANCIAL INFORMATION SERVICES SYSTEMS - FL --(GMT) ---------------------------------- ---------------------------------- 2002 2001 2002 2001 --------------- --------------- --------------- --------------- Cash $ 2,372 3,835,404 $ 70,034 17,799 Other Assets $ 64,910 170,464 $ 131,985 113,438 Total Assets $ 67,282 4,005,868 $ 202,019 131,237 Current Liabilities $ 103,655 60,673 $ 44,809 13,795 Total Liabilities $ 158,260 3,575,323 $ 194,809 188,449 Total Equity (Deficit) $ (90,978) 430,545 $ 7,210 (57,212) 103 NOTE 24 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS (UNAUDITED) (CONTINUED): CONSOLIDATED ENTITIES (CONTINUED) NEWTEK NEWTEK NEWTEK CLIENT FINANCIAL INFORMATION BUSINESS EXCHANGE OF NY SERVICES SYSTEMS - LA (GMT-LA) (TRANSWORLD - NY) (GLOBAL) --------------------------------- --------------------------------- ---------------------------------- 2002 2001 2002 2001 2002 2001 -------------- -------------- -------------- -------------- -------------- --------------- Cash $ 284,000 (a) $ 3,186,239 (a) $ 2,377,662 (a) Other Assets $ 500 (a) $ 55,005 (a) $ 1,415 (a) TOTAL ASSETS $ 284,500 (a) $ 3,241,244 (a) $ 2,379,077 (a) Current Liabilities $ 11,373 (a) $ 21,089 (a) $ 0 (a) TOTAL LIABILITIES $ 11,373 (a) $ 346,089 (a) $ 0 (a) TOTAL EQUITY (DEFICIT) $ 273,127 (a) $ 2,895,155 (a) $ 2,379,077 (a) DC MEDIA TOTALS --------------------------------- --------------------------------- 2002 2001 2002 2001 --------------- --------------- Cash $ 344,293 (a) $ 16,603,499 $ 13,326,394 Other Assets $ 385,063 (a) $ 60,931,939 $ 1,126,025 TOTAL ASSETS $ 729,356 (a) $ 77,535,438 $ 14,452,419 Current Liabilities $ 92,226 (a) $ 4,411,101 $ 309,452 TOTAL LIABILITIES $ 736,003 (a) $ 63,704,533 $ 12,088,618 TOTAL EQUITY (DEFICIT) $ (6,647) (a) $ 13,830,905 $ 2,363,801 NEWTEK NEWTEK MERCHANT NEWTEK MERCHANT STRATEGIES SOLUTIONS - CO SOLUTIONS -- NY --------------------------------- -------------------------------- --------------------------------- 2002 2001 2002 2001 2002 2001 ---------------- ---------------- ---------------- --------------- --------------- ---------------- Revenue $ 558,119 $ 167,256 $ 215 (a) $ 417,826 $ 219,809 SG&A 835,247 393,976 72,258 (a) 631,432 259,092 Depreciation and Amortization 8,886 488 0 (a) 43,564 1,818 Interest expense 35,624 19,479 0 (a) 30,188 154,123 Income/Loss

(321,638) (246,687) (72,043) (a) (287,358) (195,224) INTERCOMPANY ITEMS INCLUDED IN ABOVE Revenue 404,612 78,179 15 -- 42,129 2,394 SG&A 45,842 12,649 95 -- 138,180 54,054 Interest Expense 35,625 19,479 0 -- 30,188 154,123 NEWTEK NEWTEK MERCHANT MERCHANT SOLUTIONS -- LA SOLUTIONS -- WI --------------------------------- --------------------------------- 2002 2001 2002 2001 ---------------- ---------------- ---------------- ---------------- Revenue $ 67,967 1,765 $ 1,180,648 $ 29,407 SG&A 547,589 80,676 1,903,475 39,340 Depreciation and Amortization 2,974 0 11,761 11,761 104 NOTE 24 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS (UNAUDITED) (CONTINUED): Interest expense 0 0 84,875 41,854 Income/Loss (482,596) (78,911) (819,463) (63,548) INTERCOMPANY ITEMS INCLUDED IN ABOVE Revenue 11,984 0 31,964 -- SG&A 92,399 12,522 149,422 1,574 Interest Expense -- (a) 84,875 41,854 CONSOLIDATED ENTITIES (CONTINUED) PPM EXPONENTIAL BUSINESS NEWTEK SMALL BUSINESS LINK DEVELOPMENT CO., INC. FINANCE --------------------------------- --------------------------------- ---------------------------------- 2002 2001 2002 2001 2002 2001 ---------------- ---------------- ---------------- ---------------- ---------------- ----------------- Revenue $ 367,604 $ 35,000 $ 223,160 $ 253,160 $ 0 (a) SG&A 677,601 361,449 305,496 200,973 0 (a) Depreciation and Amortization 875 159 800 800 0 (a) Interest expense 97,510 80,367 0 0 0 (a) Income/Loss (408,382) $ (406,975) (83,136) 51,387 0 (a) INTERCOMPANY ITEMS INCLUDED IN ABOVE Revenue 175,218 15,000 -- -- (a) SG&A 36,923 8,690 -- -- (a) Interest Expense 97,510 80,367 -- -- (a) NEWTEK IT NEWTEK FINANCIAL INFORMATION SERVICES SYSTEMS - FL -------------------------------- -------------------------------- 2002 2001 2002 2001 --------------- -------------- -------------- --------------- Revenue $ 393,679 $ 257,437 $ 521,154 $ 281,319 SG&A 818,988 541,941 577,609 722,649 Depreciation and Amortization 10,152 7,440 22,194 9,977 Interest expense 53,237 151,537 8,076 54,712 Income/Loss (488,698) (443,481) (86,725) (506,019) INTERCOMPANY ITEMS INCLUDED IN ABOVE Revenue 41,401 41,045 304,872 53,704 SG&A 102,741 42,565 34,352 28,154 Interest Expense 53,050 150,937 8,076 54,712 105 NOTE 24 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS (UNAUDITED) (CONTINUED): CONSOLIDATED ENTITIES (CONTINUED) NEWTEK NEWTEK NEWTEK FINANCIAL INFORMATION BUSINESS EXCHANGE CLIENT SYSTEMS - LA OF NY SERVICES --------------------------------- --------------------------------- --------------------------------- 2002 2001 2002 2001 2002 2001 ---------------- ---------------- --------------- --------------- --------------- ---------------- Revenue $ 0 (a) $ 0 (a) $ 0 (a) SG&A 11,373 (a) 195,996 (a) 62,236 (a) Depreciation and Amortization 0 (a) 6,630 (a) 133 (a) Interest expense 0 (a) 6,649 (a) 0 (a) Income/Loss (11,373) (a) (209,275) (a) (62,369) (a) INTERCOMPANY ITEMS INCLUDED IN ABOVE Revenue 0 (a) -- (a) -- (a) SG&A 0 (a) 37,900 (a) 37,900 (a) Interest Expense 0 (a) 6,094 (a) 6,094 (a) DC MEDIA FINANCE TOTALS --------------------------------- --------------------------------- 2002 2001 2002 2001 ---------------- ---------------- ---------------- ---------------- Revenue $ 46,668 (a) $ 3,777,040 $ 1,245,153 SG&A 102,893 (a) 6,742,193 2,600,096 Depreciation and Amortization 14,166 (a) 122,135 32,443 Interest expense 18,350 (a) 334,509 502,072 Income/Loss (88,741) (a) (3,421,797) (1,889,458) INTERCOMPANY ITEMS INCLUDED IN ABOVE Revenue -- (a) 1,012,195 190,322 SG&A 7,717 (a) 683,111 160,299 Interest Expense 3,573 (a) 325,085 501,472 ENTITIES UNDER THE EQUITY METHOD (b) TRANSWORLD BUSINESS STARPHIRE NICHEDIRECTORIES(d) BROKERS - FL (d) -------------------------- -------------------------- -------------------------- 2002 2001 2002 2001 2002 2001 ------------ ------------ ------------ ------------ ------------ ------------ Cash $ 14,653 $ 1,352,823 $ 212,409 $ 556,741 $ 153,087 $ 245,515 Other Assets 402,874 460,508 288,093 273,328 328,261 334,854 TOTAL ASSETS $ 417,527 $ 1,813,331 $ 500,502 $ 830,069 $ 481,348 $ 580,369 Current Liabilities $ 34,330 $ 85,652 $ 438,915 $ 354,861 $ 53,990 $ 22,457 Total Liabilities $ 34,330 $ 1,085,652 $ 484,850 $ 354,861 $ 168,990 $ 262,457 TOTAL EQUITY (DEFICIT) $ 383,197 $ 727,679 $ 15,652 $ 475,208 $ 312,358 $ 317,912 TOTALS --------------------------- 2002 2001 ------------ ------------- Cash $ 380,149 $ 2,155,079 Other Assets $ 1,019,228 $ 1,068,690 TOTAL ASSETS $ 1,399,377 $ 3,223,769 Current Liabilities $ 527,235 $ 462,970 Total Liabilities $ 688,170 $ 1,702,970 TOTAL EQUITY (DEFICIT) $ 711,207 $ 1,520,799 106 NOTE 24 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS (UNAUDITED) (CONTINUED): ENTITIES UNDER THE EQUITY METHOD (CONTINUED) TRANSWORLD BUSINESS 7STARPHIRE NICHEDIRECTORIES(d) BROKERS - FL(d) -------------------------- -------------------------- -------------------------- 2002 2001 2002 2001 2002 2001 ------------ ------------ ------------ ------------ ------------ ------------ Revenue $ 122,782 $ 359,675 $ 754,043 $ 614,701 $ 2,237,869 $ 1,066,495 SG&A 426,476 1,073,104 1,123,519 1,194,716 2,220,955 1,092,394 Depreciation and Amortization 28,252 30,863 20,214 16,453 2,445 505 Interest expense 12,451 28,156 1,194 -- 10,125 6,000 Income/Loss (344,397) (772,448) (390,884) (596,468) 4,344 (32,404) INTERCOMPANY ITEMS INCLUDED IN ABOVE Revenue (17,127) 73,397 -- -- -- --

SG&A 28,578 46,107 66,908 1,014 21,740 8,028 Interest Expense 12,451 28,750 -- -- 10,125 6,000 TOTALS --------------------------- 2002 2001 ------------- -------------- Revenue $ 3,114,694 $ 2,040,871 SG&A 3,770,950 3,360,214 Depreciation and Amortization 50,911 47,821 Interest expense 23,770 34,156 Income/Loss (730,937) (1,401,320) INTERCOMPANY ITEMS INCLUDED IN ABOVE Revenue (17,127) 73,397 SG&A 117,226 55,149 Interest Expense 22,576 34,750 (a) No activity under the Company's ownership during this time period. (b) The Company also owns 20% of Copia Technology, which had no operating activity and no assets. (c) Consolidated entities are classified as such as of December 31, 2002. The results of operations for consolidated entities are shown for the entire year regardless of changes in Newtek's ownership percentages during the periods, and this results in minor discrepancies between the amounts shown here and those included in the consolidated financial statements. (d) The Company recorded an additional equity loss of $107,508 for Nichedirectories and $270,104 for Transworld Business Brokers - FL during the year ended December 31, 2002. RECONCILIATION OF CONSOLIDATED ENTITIES --- --------------------- PER CONSOLIDATED FINANCIAL STATEMENT PER PARTNER COMPANY SUMMARY RESULTS --- --------------------- 2002 2001 2002 2001 --- --------------------- Net revenues $2,764,845 a $489,962 c $2,764,645 a $1,054,831 c --- --------------------- Net expenses 6,190,641 b 1,393,589 d 6,190,641 b 2,472,840 d --- --------------------- Net loss (3,425,796) ($903,627) ($3,425,796) ($1,418,009) --- --------------------- a. Of the total partner company revenues of $2.8 million (net of intercompany eliminations), approximately $2.2 million is included in other income, $400,000 is included in consulting fee and $163,000 is included in interest and dividend income line items in Newtek's consolidated statement of operations. b. Of the total partner company expenses of $6.2 million (net of intercompany eliminations), approximately $2.4 million is included in other expenses, $2.2 million is included in payroll and consulting expenses, $1.5 million is included in professional fees, and approximately $16,000 is included in interest expense line items in Newtek's consolidated statement of operations. c. $489,962 of partner company revenues were recorded in the Company's consolidated statement of operations due to the fact that the $1,054,831 reflects a full year activity, regardless of the ownership percentage and when the entities were converted from the equity method to the consolidation method. 107 NOTE 24 - SUMMARY RESULTS OF QUALIFIED INVESTMENTS (UNAUDITED) (CONTINUED): Approximately $447,000 of the consolidated revenue is included in other income, and approximately $43,000 is included in interest and dividend line items in Newtek's consolidated statement of operations. d. $1,393,589 of partner company expenses were recorded in the Company's consolidated statement of operations due to the fact that the $2,472,840 reflects a full year activity, regardless of the ownership percentage and when the entities were converted from the equity method to the consolidation method. Approximately $582,000 of the consolidated expenses is included in other expenses, and approximately $812,000 is included in payroll and consulting fee expense line items in Newtek's consolidated statement of operations. RECONCILIATION OF EQUITY IN LOSSES TOTAL LOSSES LOSSES RECORDED 2002 OF ENTITY BY NEWTEK Starphire (344,397) -- (a) Niche (390,884) (431,484) (b) TWBB 4,344 (297,625) (c) ----------- ----------- TOTAL EQUITY IN LOSSES RECOGNIZED IN 2002 (729,109) ========= 2001 Starphire (772,448) (757,322) Niche (596,468) (842,149) TWBB (32,404) (32,088) Newtek IT (443,481) (462,499) NFIS-FL (506,019) (507,212) ------------ ----------- TOTAL (2,350,820) (2,601,270) Less Intercompany Eliminations (321,418) ----------- TOTAL EQUITY IN LOSSES RECOGNIZED IN 2001 (2,279,852) ============ No intercompany eliminations in 2002 (a) Remaining balance was written off as an other than temporary decline in investments. (b) Approximately $80,000 of the losses recorded by Newtek reflect addition liabilities (accounting and legal) not booked by the investee. (c) Approximately $300,000 of the losses recorded by Newtek reflect addition liabilities (deferred taxes) not booked by the investee. 108 PART III ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS Effective September 30, 2002, the Company issued options for the purchase of 211, 753 shares of the Company's common stock to Mr. Jeffrey M. Schottenstein, a director of the Company, in exchange for his interest in one of the Company's subsidiary certified capital companies. Mr. Schottenstein was a participant in the organization and capitalization of the Capco and participates in its operations, without compensation other than as a director of the Company. The options are exercisable for $0.01 for ten years but may not be exercised fully for the first three years.

Due to the restrictions attached to the options and the unregistered underlying securities, the parties negotiated a valuation on the interest exchanged equal to the market price of the Company's common stock at the time ($3.30), reduced by a 45% discount due to lack of liquidity, times the number of shares. The price paid was, thus, $384,332. This exchange is a part of the Company's program to reduce or eliminate minority interests in its subsidiary companies. Mr. Schottenstein was throughout 2002 a director of the Company but did not take part in the consideration or approval of the foregoing transaction, which was negotiated by management and approved unanimously by the remaining members of the board. During the years ended December 31, 2002 and 2001, the Company obtained financial consulting services from the firm of Janover Rubinroit, in the amounts of $176,508 and $157,000, respectively. Two partners of Janover Rubinroit, Michael Goodman and Mark Goodman, are related to Mr. Wasserman, one of the Company's directors, as father-in-law and brother-in-law, respectively, and they collectively hold approximately 49 percent of the ownership of Janover Rubinroit. During 2001 and part of 2002, the Company leased approximately 2,400 square feet of office space for its principal administrative office in East Meadow, NY, from a company controlled by Mr. Robert Cohen, father-in-law to Jeffrey G. Rubin, a director of the Company. The aggregate cost of the rental was approximately $1,211 and $45,200 for 2002 and 2001 respectively. 109 SIGNATURES In accordance with Section 13 of 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. NEWTEK BUSINESS SERVICES, INC. Date: February 11, 2004 By: -- BARRY SLOANE (CHAIRMAN AND CHIEF EXECUTIVE OFFICER) 110 CERTIFICATION I, Barry Sloane, Chief Executive Officer of Newtek Business Services, Inc., certify that: 1. I have reviewed this annual report on Form 10-KSB/A of Newtek Business Services, Inc. 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; 3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report; 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have: a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; 5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and 6. Registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. Date: February 11, 2004 By: /s/ BARRY SLOANE ------------------------------------ Barry Sloane Chief Executive Officer CERTIFICATION I, Brian A. Wasserman, Chief Financial Officer of Newtek Business Services, Inc., certify that: 1. I have reviewed this annual report on Form 10-KSB/A of Newtek Business Services, Inc. 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; 3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report; 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have: a. designed such disclosure controls

and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; 5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions): 6. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and a. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and b. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. Date: February 11, 2004 By: /s/ BRIAN A. WASSERMAN -------------------------------- Brian A. Wasserman Chief Financial Officer CERTIFICATION The undersigned hereby certifies that, to his knowledge, (i) the Form 10-KSB/A filed by Newtek Business Services, Inc. (the "Issuer") for the year ended December 31, 2002, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein. NEWTEK BUSINESS SERVICES, INC. Date: February 11, 2004 By: /s/ BARRY SLOANE --------------------------------- Barry Sloane, Chairman and Chief Executive Officer By: /s/ BRIAN WASSERMAN --------------------------------- Brian Wasserman Chief Financial Officer