VisualMED Clinical Solutions Corp.
Form 10QSB
May 14, 2007

United States Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31st, 2007

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
For the transition period from _______________ to _______________

Commission file number: 000-33191

VISUALMED CLINICAL SOLUTIONS CORP.
(Exact name of small business issuer as specified in its charter)

NEVADA	**88-0436055**
(State of other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

1035 Laurier Street West
Montreal, Quebec
Canada H2V 2L1
(Address of principal executive offices)

(514) 274-1115
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 14, 2007 the issuer had 49,673,345 outstanding shares of common stock.

Transitional Small Business Disclosure Format (Check one): Yes o No x

PART I.

ITEM 1. - Financial Statements

VisualMED Clinical Solutions Corp.
(A Development Stage Company)
(Unaudited)

VisualMED Clinical Solutions Corp.
(A Development Stage Company)
Consolidated Balance Sheets
(expressed in U.S. dollars)
(unaudited)

	March 31, 2007 $	June 30, 2006 $
Assets		
Current Assets		
Cash	—	10,976
Accounts receivable	—	2,550
Advances to related parties (Note 3)	23,633	30,175
Prepaid expenses (Note 4)	30,196	249,517
Inventory	13,587	13,587
Other assets	7,938	16,319
Total Current Assets	75,354	323,124
Property and Equipment (Note 5)	56,020	69,754
Total Assets	131,374	392,878
Liabilities and Stockholders’ Deficit		
Current Liabilities		
Bank indebtedness	161	—
Accounts payable	1,124,392	220,785
Accrued liabilities (Note 7)	133,933	155,526
Advances from related parties (Note 8)	26,022	—
Current portion of capital lease obligation	4,113	3,951
Deferred revenue	276,750	17,291
Total Current Liabilities	1,565,371	397,553
Capital Lease Obligation	—	3,232
Total Liabilities	1,565,371	400,785
Contingencies and Commitments (Notes 1 and 14)		
Stockholders’ Deficit		
Preferred Stock, (Note 9)		
Authorized: 15,000,000 shares, Series A 10% Cumulative; par value $0.00001; No shares issued and outstanding	—	—
Authorized:10,000,000 shares, Undesignated; par value $0.00001; No shares issued and outstanding	—	—
Common Stock,		
Authorized: 100,000,000 shares, par value $0.00001; Issued and outstanding: 48,948,345 shares (2006 - 46,028,345 shares)	489	460

Additional Paid-in Capital	27,144,388	13,887,221
Stock Subscriptions Receivable	(2,450)	—
Accumulated Other Comprehensive Loss	(49,639)	(113,753)
Deficit Accumulated During the Development Stage	(28,526,785)	(13,781,835)
Total Stockholders’ Equity (Deficit)	(1,433,997)	(7,907)
Total Liabilities and Stockholders’ Equity (Deficit)	131,374	392,878

(The accompanying notes are an integral part of these consolidated financial statements)

VisualMED Clinical Solutions Corp.
(A Development Stage Company)
Consolidated Statements of Operations
(expressed in U.S. dollars)
(Unaudited)

	Accumulated from September 7, 1999 (Date of Inception) to March 31,	For the Three Months Ended March 31,		
	2007	2007	2006	2007
	$	$	$	$
Revenue	336,508	9,418	145,361	27,5
Cost of sales	183,526	—	80,141	8,2
Gross Profit	152,982	9,418	65,220	19,2
Expenses				
Acquired in-process research and development (Note 6)	7,920,730	7,920,730	—	7,920,7
Customer service	1,627,373	138,887	194,742	580,2
Amortization	52,257	8,269	6,857	24,7
Development costs	2,080,645	139,651	356,271	426,1
General and administration	4,659,318	341,375	2,172,743	1,913,5
Sales and marketing	7,473,896	2,112,453	2,044,291	3,830,4
Total Expenses	23,814,219	10,661,365	4,774,904	14,695,8
Net Loss From Operations	(23,661,237)	(10,651,947)	(4,709,684)	(14,676,56
Other Income (Expenses)				
Interest	(43,731)	(5,131)	(681)	(5,65
Financing costs	(4,514,285)	—	—	
Foreign exchange gain (loss)	74,545	26,872	(37,579)	(62,73
Gain on forgiveness of interest	7,655	—	—	
Gain on forgiveness of debt	12,689	—	—	
Net Loss Before Discontinued Operations	(28,124,364)	(10,630,206)	(4,747,944)	(14,744,95
Discontinued Operations	(402,421)	—	—	
Net Loss	(28,526,785)	(10,630,206)	(4,747,944)	(14,744,95
Other Comprehensive Income (Loss)				
Foreign currency translation adjustments	(49,639)	(24,514)	29,953	64,1
Comprehensive Loss	(28,576,424)	(10,654,720)	(4,717,991)	(14,680,83
Net Loss Per Share — Basic and Diluted		(0.23)	(0.11)	(0.3

Weighted Average Shares Outstanding	47,164,000	44,287,000	46,852,0

(The accompanying notes are an integral part of these consolidated financial statements)

F-2

VisualMED Clincial Solutions Corp.
(A Development Stage Company)
Consolidated Statements of Cash Flows
(expressed in U.S. dollars)
(Unaudited)

	For the Nine Months Ended March 31, 2007 $	For the Nine Months Ended March 31, 2006 $
Operating Activities		
Net loss	(14,744,950)	(5,863,923)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization	24,743	15,473
Warrants issued for acquired in-process research and development	7,920,730	
Stock-based compensation	5,329,106	4,054,303
Changes in operating assets and liabilities		
Accounts receivable	2,550	36,031
Advances to related parties	7,145	(38,074)
Prepaid expenses	218,939	(345,351)
Inventory	—	(13,587)
Other assets	7,831	(10,392)
Deferred revenue	259,458	(40,958)
Due to related parties	26,022	—
Accounts payable and accrued liabilities	884,633	205,298
Net Cash Used In Operating Activities	(63,793)	(2,001,180)
Investing Activities		
Purchase of property and equipment	(13,180)	(51,818)
Net Cash Used In Investing Activities	(13,180)	(51,818)
Financing Activities		
Bank indebtedness	161	—
Proceeds from short term loans	—	514,094
Proceeds from the sale of common stock	4,910	1,350,848
Repayment of capital lease obligation	(2,850)	(2,507)
Net Cash Provided By Financing Activities	2,221	1,862,435
Effect of Exchange Rate Changes on Cash	63,776	(7,585)
Increase (Decrease) in Cash	(10,976)	(198,148)
Cash — Beginning of Period	10,976	348,409
Cash — End of Period	—	150,261
Non-Cash Financing Activities		
Common stock issued for settlement of notes payable and accrued interest	—	1,165,959
Supplemental Disclosures		
Interest paid	—	—
Income taxes paid	—	—

(The accompanying notes are an integral part of these consolidated financial statements)

F-3

VisualMED Clinical Solutions Corp.
(A Development Stage Company)
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)
(Unaudited)

1. Development Stage Company

The Company was incorporated in the State of Nevada on September 7, 1999. The Company changed its name to VisualMed Clinical Solutions Corporation on November 30, 2004. The Companys majority shareholder is Visual Healthcare Corporation which is a Nevada corporation, based in Montreal, Canada.

The Companys business plan involves the distribution of medical software. The Company is primarily involved in activities related to the distribution of medical software and is considered to be a development stage company. At March 31, 2007, the Company had a working capital deficiency of $1,490,017 and has incurred losses of $28,526,785 since inception. The ability of the Company to emerge from the development stage with respect to any planned principal business activity is dependent upon its successful efforts to raise additional equity financing and then attain profitable operations. Management has plans to seek additional capital through equity and/or debt offerings. There is no guarantee that the Company will be able to complete any of the above objectives. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern. These factors raise substantial doubt regarding the Companys ability to continue as a going concern.

2. Summary of Significant Accounting Principles

a) Basis of Presentation and Fiscal Year

These consolidated financials statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in US dollars. The Company has not produced any revenues from its principal business and is a development stage company as defined by Statement of Financial Accounting Standard (SFAS) No. 7 *Accounting and Reporting by Development Stage Enterprises*. These financial statements include the accounts of the Company and its wholly-owned subsidiary, VisualMed Clinical Systems Marketing Inc., a company incorporated and based in Quebec, Canada. All intercompany transactions and balances have been eliminated. The Companys fiscal year-end is June 30.

b) Interim Financial Statements

These interim unaudited financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Companys financial position, results of operations and cash flows for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for a full year or for any future period. The financial statements and related notes should be read in conjunction with the audited financial statements and notes thereto included in Form 10-KSB for the year ended June 30, 2006.

c) Use of Estimates

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses in the reporting period. The Company regularly evaluates estimates and assumptions related to allowances for doubtful accounts, sales returns and allowances, inventory reserves, stock-based compensation expense, deferred income tax asset valuations and loss contingencies. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

VisualMED Clinical Solutions Corp.
(A Development Stage Company)
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)
(Unaudited)

2. Summary of Significant Accounting Principles (continued)

d) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents.

e) Property and Equipment

Property and equipment is stated at cost, less accumulated amortization, and consists of office furniture, computer hardware and software, leasehold improvements and assets under capital lease. Amortization of office furniture is computed using the straight-line method over five years. Amortization of computer hardware and software is computed using the straight-line method over three years. Amortization of leasehold improvements is computed using the straight-line method over five years. Amortization of assets under capital lease is computed using the straight-line method over the term of the lease.

f) Long-Lived Assets

In accordance with SFAS No. 144, “*Accounting for the Impairment or Disposal of Long-Lived Assets*”, the Company tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and current expectation that the asset will more likely than not be sold or disposed significantly before the end of its estimated useful life.

Recoverability is assessed based on the carrying amount of the asset and its fair value which is generally determined based on the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset, as well as specific appraisal in certain instances. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.

g) Foreign Currency Transactions

The Company's functional and reporting currency is the United States dollar. The functional currency of the Company’s subsidiary is the Canadian dollar. The financial statements of the subsidiary are translated to United States dollars in accordance with SFAS No. 52 “*Foreign Currency Translation*” using period-end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues and expenses. Translation gains (losses) are recorded in accumulated other comprehensive income (loss) as a component of stockholders’ equity. Foreign currency transaction gains and losses are included in current operations.

h) Development Costs

Costs related to the enhancement of existing medical software modules are expensed as incurred until technological feasibility in the form of a working model has been established. The time period between the establishment of technological feasibility and completion of product development is expected to be short, therefore the Company has not capitalized any product development costs during the period.

VisualMED Clinical Solutions Corp.
(A Development Stage Company)
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)
(Unaudited)

2. Summary of Significant Accounting Principles (continued)

i) Basic and Diluted Net Income (Loss) Per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, "*Earnings per Share*" which requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including stock options, using the treasury stock method, and convertible preferred stock, using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS and the weighted average number of common shares exclude all dilutive potential shares since their effect is anti dilutive. Shares underlying these securities totaled approximately 11,840,000 as of March 31, 2007.

j) Financial Instruments and Concentrations

The carrying value of cash, accounts receivable, advances to related parties, other assets, accounts payable, accrued liabilities and capital lease obligation approximate fair value due to the relatively short maturity of these instruments. Financial instruments which potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company deposits cash with a high quality financial institution. For the nine month period ended March 31, 2007, revenue from one customer represented 57% (2006 53%) of total revenue and from a second customer represented 43% (2006 47%) of total revenue.

k) Inventory

Inventory consists of computer hardware and software acquired for specific revenue contracts and also includes related support and implementation costs. Inventory is stated at the lower of cost or net realizable value.

l) Revenue Recognition

The Company recognizes revenue related to sales and licensing of medical software in accordance with Statement of Position No. 97-2, *Software Revenue Recognition* (SOP 97-2), as amended by Statement of Position No. 98-9, *Software Revenue Recognition with Respect to Certain Arrangements*. Pursuant to SOP 97-2 and Staff Accounting Bulletin No. 104 *Revenue Recognition*, revenue will only be recognized when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectibility is reasonably assured. The Companys revenue contracts are accounted for in conformity with Accounting Research Bulletin No. 45 *Long-Term Construction-Type Contracts*, using the relevant guidance in SOP 81-1 *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, unless specified criteria for separate accounting for any service element are met. The Company also follows the guidance in Emerging Issues Task Force (EITF) Issue No. 00-21 *Revenue Arrangements with Multiple Deliverables* relating to the separability of deliverables included in an arrangement into different units of accounting and the allocation of an arrangements consideration to those units of accounting. It does not address when revenue should be recognized for the units of accounting. The Company received $39,000 during the nine month period ended March 31, 2007 for annual license renewal fees. At March 31, 2007, the balance of deferred revenue, which relates to the unearned portion received of annual license fees, is $28,750. During the period ended March 31, 2007, the Company also received an advance of $248,000 pursuant to an agreement to provide planning and information systems. This amount is recorded in deferred revenue. Incremental direct costs related to contract acquisition and origination, which result in deferred revenue, are expensed as incurred. Any allowance for doubtful accounts is based on the Companys detailed assessment of the collectibility of specific customer accounts. Any significant customer accounts that are not expected to be collected are excluded from revenues. To date, the Company has not experienced any significant losses from uncollectible accounts. All revenues recorded during the nine-month periods ended March 31, 2007 and 2006 were earned from customers domiciled in the United States.

VisualMED Clinical Solutions Corp.
(A Development Stage Company)
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)
(Unaudited)

2. Summary of Significant Accounting Principles (continued)

m) Comprehensive Loss

SFAS No. 130, *Reporting Comprehensive Income,* establishes standards for the reporting and display of comprehensive loss and its components in the financial statements. For the nine month periods ended March 31, 2007 and 2006, the Companys only component of comprehensive loss was foreign currency translation adjustments.

n) Reclassifications

Certain reclassifications have been made to the prior periods financial statements to conform to the current periods presentation.

o) Income Taxes

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted SFAS No. 109 *Accounting for Income Taxes* as of its inception. Pursuant to SFAS No. 109 the Company is required to compute tax asset benefits for net operating losses carried forward. The potential benefit of net operating losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

p) Stock-based Compensation

The Company records stock-based compensation in accordance with SFAS No. 123R *Share Based Payments*, using the fair value method. The Company had not issued any stock options and had no unvested share based payments prior to January 1, 2006. Accordingly, there was no effect on the Companys reported loss from operations, cash flows or loss per share as a result of adopting SFAS No 123R.

q) Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities* applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entitys first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, Fair Value Measurements. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.* SAB No. 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative a qualitative factors. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The Company is currently evaluating the impact of adopting SAB No. 108 but does not expect that it will have a material effect on its financial statements.

VisualMED Clinical Solutions Corp.
(A Development Stage Company)
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)
(Unaudited)

2. Summary of Significant Accounting Principles (continued)

p) Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*". This statement requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not- for-profit organization. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The provisions of SFAS No. 158 are effective for employers with publicly traded equity securities as of the end of the fiscal year ending after December 15, 2006. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*". The objective of SFAS No. 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statements No. 109*". FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a two-step method of first evaluating whether a tax position has met a more likely than not recognition threshold and second, measuring that tax position to determine the amount of benefit to be recognized in the financial statements. FIN 48 provides guidance on the presentation of such positions within a classified statement of financial position as well as on derecognition, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "*Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*". This statement requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable, and permits for subsequent measurement using either fair value measurement with changes in fair value reflected in earnings or the amortization and impairment requirements of Statement No. 140. The subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value eliminates the necessity for entities that manage the risks inherent in servicing assets and servicing liabilities with derivatives to qualify for hedge accounting treatment and eliminates the characterization of declines in fair value as impairments or direct write-downs. SFAS No. 156 is effective for an entity's first fiscal year beginning after September 15, 2006. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, "*Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140*", to simplify and make more consistent the accounting for certain financial instruments. SFAS No. 155 amends SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*", to permit fair value re-measurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair value basis. SFAS No. 155 amends SFAS No. 140, "*Accounting for the Impairment or Disposal of Long-Lived Assets*", to allow a qualifying special-purpose entity to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 applies to all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, with earlier application allowed. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

VisualMED Clinical Solutions Corp.
(A Development Stage Company)
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)
(Unaudited)

3. Advances to Related Parties

	March 31, 2007 $	June 30, 2006 $
Advances to employees	23,633	30,175

Advances to employees of $23,633 represent amounts advanced towards travel expenses to be incurred. These amounts are non-interest bearing and unsecured.

4. Prepaid expenses

As at March 31, 2007 and June 30, 2006, the following comprises prepaid expenses:

	March 31, 2007 $	June 30, 2006 $
Directors and officers insurance	22,361	33,640
Prepaid expenses related to Medicool contract	–	204,587
Security deposit	3,903	–
Other	3,932	11,290
	30,196	249,517

5. Property and Equipment

	Cost $	Accumulated Amortization $	March 31, 2007 Net carrying value $	June 30, 2006 Net carrying value $
Computer hardware	59,775	28,933	30,842	38,023
Computer software	27,339	14,263	13,076	15,873
Office furniture	12,134	5,133	7,001	9,128
Leasehold improvements	9,344	4,243	5,101	6,730
	108,592	52,572	56,020	69,754

Assets under capital lease are included in office furniture with a cost of $10,939. During the period ended March 31, 2007, the Company recognized amortization of assets under capital lease of $2,503 (June 30, 2006 – $3,133).

6. Acquisition of Technology

On March 30, 2007, the Company issued 10,000,000 warrants to acquire the rights to certain technologies from its parent company, Visual Healthcare Corp. Each warrant is exercisable to acquire a share of common stock at an exercise price of $0.01 per share for a period of five years. The fair value for the warrants issued was estimated using the Black-Scholes option-pricing model assuming an expected life of 5 years, a risk-free rate of 4.36% and an expected volatility of 78%. During the period ended March 31, 2007, the Company recognized the fair value of the warrants of $7,920,730 as a charge to operations as acquired in-process research and development costs.

VisualMED Clinical Solutions Corp.
(A Development Stage Company)
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)
(Unaudited)

7. Accrued Liabilities

As at March 31, 2007 and June 30, 2006, the following comprises accrued liabilities:

	March 31, 2007 $	June 30, 2006 $
Salaries, wages and vacation pay	122,455	112,276
Professional fees	11,000	35,000
Other	478	8,250
	133,933	155,526

8. Advances from Related Parties

	March 31, 2007 $	June 30, 2006 $
Advances from officers	26,022	–
	26,022	–

Advances from officers bear interest at 15% per annum, are unsecured and have no fixed terms of repayment.

9. Preferred Stock

On January 12, 2006, the Company amended its Articles of Incorporation to increase the authorized share capital to 125,000,000 shares consisting of 100,000,000 shares of common stock, and 25,000,000 shares of preferred stock, of which 15,000,000 have been designated as Series A 10% Cumulative Preferred Stock.

The Series A 10% Cumulative Preferred Stock has a par value of $0.00001 per share, a stated value of $1.00 per share and are non-voting. The holders of the Series A Preferred Stock will be entitled to receive an annual dividend equal to 10% per annum of the stated value of $1.00 per share payable, at the option of the Board of Directors, in either cash or in shares of Series A Preferred Stock.

10. Common Stock

a) In March 2007, the Company issued 1,190,000 shares of common stock upon the exercise of 1,190,000 stock options at an exercise price of $0.00001 per share.

b) In February 2007, the Company issued 200,000 shares of common stock upon the exercise of 200,000 stock options at an exercise price of $0.00001 per share.

c) In February 2007, the Company issued 5,000 shares of common stock upon the exercise of 5,000 stock options at an exercise price of $0.49 per share for proceeds of $2,450. The proceeds are receivable at March 31, 2007 and are recorded as stock subscriptions receivable.

d) In January 2007, the Company issued 389,000 shares of common stock upon the exercise of 389,000 stock options at an exercise price of $0.00001 per share.

e) In November 2006, the Company issued 101,000 shares of common stock upon the exercise of 101,000 options at an exercise price of $0.00001 per share.

VisualMED Clinical Solutions Corp.
(A Development Stage Company)
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)
(Unaudited)

10. Common Stock (continued)

f) On November 13, 2006, the Company issued 200,000 shares of common stock at a fair value of $360,000 in exchange for services pursuant to an investor relations agreement. Refer to Note 14(d).

g) In October 2006, the Company issued 825,000 shares of common stock upon the exercise of 825,000 options at an exercise price of $0.00001 per share.

h) In July 2006, the Company issued 10,000 shares of common stock upon the exercise of 10,000 options at an exercise price of $0.49 per share for proceeds of $4,900.

11. Share Purchase Warrants

On March 30, 2007, the Company issued 10,000,000 warrants to acquire 10,000,000 shares of common stock at an exercise price of $0.01 per share for a period of five years. Refer to Note 6. During the period ended March 31, 2007, the Company recognized the fair value of the warrants of $7,920,730 as a charge to operations as acquired in-process research and development costs.

The following table summarizes the continuity of the Company's warrants:

	Number of Warrants	Weighted average exercise price $
Balance, June 30, 2006	262,122	1.25
Issued	10,000,000	0.01
Expired	(262,122)	1.25
Outstanding, March 31, 2007	10,000,000	0.01

At March 31, 2007, the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
10,000,000	$0.01	March 30, 2012

12. Stock Options

Effective March 2, 2006, the Company filed a Form S-8 Registration Statement in connection with its 2006 Non-Qualified Stock Option Plan (the "2006 Plan") allowing for the direct award of stock or granting of stock options to directors, officers, employees and consultants to acquire up to a total of 2,500,000 shares of common stock. At March 31, 2007 and June 30, 2006, the Company had no shares of common stock unissued pursuant to the plan.

Effective October 4, 2006, the Company filed a Form S-8 Registration Statement in connection with its October 2006 Non- Qualified Stock Option Plan (the "October 2006 Plan") allowing for the direct award of stock or granting of stock options to directors, officers, employees and consultants to acquire up to a total of 2,000,000 shares of common stock. At March 31, 2007, the Company had 44,500 shares of common stock unissued pursuant to the plan.

Effective March 22, 2007, the Company filed a Form S-8 Registration Statement in connection with its March 2007 Non- Qualified Stock Option Plan (the March 2007 Plan) allowing for the direct award of stock or granting of stock options to directors, officers, employees and consultants to acquire up to a total of 2,000,000 shares of common stock. At March 31, 2007, the Company had 280,000 shares of common stock unissued pursuant to the plan

VisualMED Clinical Solutions Corp.
(A Development Stage Company)
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)
(Unaudited)

12. Stock Options (continued)

The weighted average grant date fair value of stock options granted during the nine month periods ended March 31, 2007 and 2006 was $1.21 and $1.65, respectively. During the nine month period ended March 31, 2007, the Company recorded stock-based compensation relating to the granting of options of $4,429,089 as follows: development costs - $115,345; customer service - $162,128; general and administrative - $489,572; sales and marketing - $3,662,044. During the nine month period ended March 31, 2006, the Company recorded stock-cased compensation relating to the granting of options of $4,054,303 as follows: development costs - $90,091; customer service - $81,200; general and administrative -$1,834,972; sales and marketing - $2,048,040.

A summary of the Company's stock option activity is as follows:

	Number of Shares	Weighted Average Exercise Price $	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, June 30, 2006	884,500	1.08		
Granted	3,675,500	0.21		
Exercised	(2,720,000)	0.00001		
Cancelled	—	—		
Outstanding, March 31, 2007	1,840,000	0.94	4.39	$622,500
Exercisable, March 31, 2007	1,840,000	0.94	4.39	$622,500

During the nine-month period ended March 31, 2007, the Company granted 3,237,000 stock options to purchase shares of common stock at a price below market of $0.00001 per share with an intrinsic value of $3,874,068. During the nine-month period ended March 31, 2007, the Company issued 2,720,000 shares of common stock with an intrinsic value of $1,827,450 upon the exercise of options.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine Month Period Ended March 31, 2007	Nine Month Period Ended March 31, 2006
Expected dividend yield	0%	0%
Expected volatility	82%	67%
Expected life (in years)	5.0	2.5
Risk-free interest rate	4.39%	4.62%

A summary of the status of the Company's nonvested shares as of March 31, 2007, and changes during the nine month period ended March 31, 2007, is presented below:

Weighted Average
Grant Date Fair

Nonvested Shares	Number of Shares	Value $
Nonvested at July 1, 2006	—	—
Granted	3,237,000	1.21
Forfeited	—	—
Vested	(3,237,000)	1.21
Nonvested at March 31, 2007	—	—

VisualMED Clinical Solutions Corp.
(A Development Stage Company)
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)
(Unaudited)

13. Segment Disclosures

The Company operates as one operating segment which is the sale of its suite of clinical software modules. The Chief Executive Officer is the Company's Chief Operating Decision Maker (CODM) as defined by SFAS 131, "*Disclosure about Segments of an Enterprise and Related Information.*" The CODM allocates resources and assesses the performance of the Company based on the results of operations.

14. Commitments

a) In November 2004, the Company entered into a lease agreement for office premises at a rate of $68,264 (CDN$78,700) per annum including property taxes, insurance and other operating expenses, for a five year term expiring on September 30, 2009, with an option to renew for an additional five years. During the nine month period ended March 31, 2007, the Company incurred rent expense of $38,902. Future payments for the next five fiscal years are as follows:

2007	$ 17,065
2008	$ 67,532
2009	$ 67,532
2010	$ 16,883
2011	$ -
	$169,012

b) On June 5, 2006, the Company entered into an automobile lease for a term of 48 months. The monthly payments are $557 (CAD$642) ending May 5, 2010.

c) On November 13, 2006, the Company entered into an investor relations agreement with a consultant and issued 200,000 shares of common stock with a fair value of $360,000 which is included in general and administrative expense. The Company has also agreed to issue the following: 100,000 shares of common stock when the Company's stock trades at $2.50 per share, 100,000 shares of common stock when the Company's stock trades at $3.25 per share, and 100,000 shares of common stock when the Company's stock trades at $3.75 per share. The contingently issuable shares have been recorded at a fair value of $540,000 in additional paid-in capital in accordance with EITF 96-18, "*Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling, Goods or Services*" and EITF 00-19 "*Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*".

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS AND PLAN OF OPERATIONS

We incurred losses of $14,744,950 for the nine months ending March 31, 2007. This compares to $5,863,923 in the comparable prior year period. The principal components of the loss involved the following:

- Maintenance and continuing development of our expanding marketing and customer support facilities;
- operating and maintaining our world-wide state-of-the-art service center capable of supporting client hospitals by remote support technology;
- newly hired employees and consultants, and increased travel expenses as our business grows in the United States and overseas, and as we continue to pursue contracts and attend industry conferences;
- software licenses;
- Stock-based compensation
- travel and presentation expenses
- costs related to direct sales approach and first contact with potential client hospitals, from a steadily growing sales funnel comprising over 120 hospitals worldwide.
- Purchase of technology
- Finally, a small amount was devoted to professional expenses, depreciation, and filing fees.

Operating expenses for the nine months ending March 31, 2007 were $14,695,813.

During the nine month period ended March 31st, 2007, the company has successfully met its main challenges and strategic objectives, which were to continue to diversify revenue sources from new markets other than acute care hospitals, and to continue signing strategic agreements that will generate future revenues.

We continue to pursue opportunities in order to build our base of client hospitals and healthcare facilities. The Company’s target is to pass a threshold of 12 installed sites over the next twelve months. This will open the way to a subsequent acceleration in the rate of customer acquisitions. Another notable achievement has been the release of three new modules. We continue to face the challenge of funding our operations.

In the past quarter, we have been implementing our system at the Colorectal Surgery Department of the Sir Mortimer B. Davis Jewish General Hospital one of the largest hospitals in Canada and one the busiest in North America.

Our stated program of diversification continues through the addition of stand-alone modules to our product line. This makes VisualMED both available and affordable to prospective clients, including small practices, clinics and private specialty facilities. This quarter saw the release of the VisualANESTHESIOLOGY module and the signing of our first contract for VisualDENTISTRY. Both of these modules are now available for implementation.

New system configurations designed for smaller practices, private laboratories and clinics have made the modules even faster to implement and reduces integration time to one of the most efficient in the industry. One of the unique aspects of the system continues to be its full scalability, helping us to target the small and medium-sized consumers that form the bulk of our current clientele and potential market. VisualDENTISTRY has been positively reviewed by dentists and we expect the success of VisualDENTISTRY to open the private dental clinic market to us. This is a field in which few of our competitors are active.

One of our most promising new modules, VisualONCOLOGY, has been selected by one of the world’s leading academic oncology centers. Deployment is expected to start in calendar Q2 after the final agreement is signed. The references provided by this site are responsible for focusing some market attention to VisualONCOLOGY as we prepare to attend the ASCO (American Society of Clinical Oncology) conference that will be held in Chicago in early June.

Through our diversification drive, we have licensed the internet rights to the VisualMED Electronic Health Record to a consortium led by retail marketing specialists. This unique internet project will principally sell subscriptions to corporations for use by their employees. This undertaking is based on the fact that most large corporations are involved in their employees’ health maintenance.

Our marketing and sales strategy continues for the VisualMED system, and other product lines. We have hired, and intend to continue hiring, sales and marketing executives and consultants as our business grows. Most notable is the joint venture with Maximum Health, a leading hospital management consultancy firm in Southern California, Arizona and Nevada. The relationship with Maximum Health has opened the door for our company into a large market of doctor-owned hospitals and surgery centers in that region. At the time of this filing three letters of intent have been received by the company and one agreement to install our core system is scheduled to be signed with a high profile hospital in the Los Angeles area.

The sales effort will continue to target regions where current legal regulations encourage the adoption of our clinical management modules. As well our efforts remain in areas that are in close proximity to our existing sites in Wichita, Kansas, Battle Creek, Michigan, El Paso, Texas and Montreal. These markets are being aggressively pursued through the creation of sales consortiums that bring together local healthcare consultants, hardware vendors and local systems integrators. We are proud to report that current installations continue to operate at full capacity with zero downtime at all of our client facilities.

Negotiations are still on going with several hospital management groups in Europe. However, the decision making process remains slow. One Italian province is still pushing for budgets to deploy VisualMED in its leading teaching hospital and expects to be making progress now that the government transition period is over. The French healthcare shareable Electronic Medical Record initiative has ground to a halt during the political transition in that country. With our partner Post-Logic we continue to expect that France may become an important market for our products but this will take some time.

In the Middle East, our pilot project with Habib Thameur Hospital in Tunis was a success last year however we have yet to receive an official approbation from Tunisian healthcare authorities to proceed with further projects.

Pursuant to our representation agreement with International Test Systems of Riyadh, Saudi Arabia, we continue to look for a suitable first site through which VisualMED technology will be showcased for potential clients in Saudi Arabia, the United Arab Emirates, and Lebanon. We have significant interest from this affluent English speaking market and have recently filed for a tender for a new facility in the KSA.

System-wide improvements to our technology platform to make VisualMED compatible with ASP and internet distribution have advanced during this period. In particular, in order to support our commitment to the internet- and clinics-based ASP market, we have had to acquire additional rights to technology and specialized applications from Visual Healthcare Corp. for the non-acute care healthcare market. Even though this acquisition has been costly, at more than $7 million worth of warrants, the potential for revenue growth amply justifies this strategic orientation. As the hospital market decision process is extremely slow the company requires this type of technology to enter markets that are governed by a faster turnaround timeframe. These new technologies and applications permit extremely low integration costs, executed over a matter of days, which we expect to significantly boost our market presence in the short term.

Financial Condition, Liquidity and Capital Resources

During the nine months ending March 31, 2007, we recognized revenue of $27,542 from licensing of our product.

At March 31, 2007, we had a working capital deficiency of $1,490,017, compared to a working capital deficiency of $74,429 at June 30, 2006.

We had a net loss of $14, 744,950 and $5,863,923 for the nine month periods ending March 31, 2007 and 2006, respectively.

At March 31, 2007, our total assets were $131,374, as compared to total assets of $392,878 at June 30, 2006.

At March 31, 2007, we had pre-paid expenses of $30,196. This amount consisted of $9,685 for directors and officers insurance, professional liability insurance $12,676 and a security deposit of $3,903 for the lease of an automobile for a marketing employee.

At March 31, 2007, our total liabilities were $1,565,371 as compared to total liabilities of $400,785 at June 30, 2006.

We will need to raise additional equity and/or debt financing to sustain operations over the next twelve months. Our auditors have expressed substantial doubt about our ability to continue as a going concern in their audit report that was included in our Form 10-KSB for the fiscal year ended June 30, 2006.

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations are based upon the financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and disclosures on the date of the financial statements. On an on-going basis, we evaluate our estimates, including, but not limited to, those related to revenue recognition.

We use authoritative pronouncements, historical experience and other assumptions as the basis for making judgments. Actual results could differ from those estimates. Critical accounting policies identified are as follows:

Long-Lived Assets

In accordance with SFAS No. 144, “*Accounting for the Impairment or Disposal of Long-Lived Assets*”, we test long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and current expectation that the asset will more likely than not be sold or disposed significantly before the end of its estimated useful life.

Recoverability is assessed based on the carrying amount of the asset and its fair value which is generally determined based on the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset, as well as specific appraisal in certain instances. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.

Foreign Currency Transactions/Balances

Our functional and reporting currency is the United States dollar. The functional currency of the Company’s subsidiary is the Canadian dollar. The financial statements of this subsidiary are translated to United States dollars in accordance with SFAS No. 52, “*Foreign Currency Translation*”, using period-end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues and expenses. Translation gains (losses) are recorded in accumulated other comprehensive income (loss) as a component of stockholders’ equity. Foreign currency transaction gains and losses are included in current operations.

Revenue Recognition

The Company recognizes revenue related to sales and licensing of medical software in accordance with Statement of Position No. 97-2, “*Software Revenue Recognition*” (“SOP 97-2”), as amended by Statement of Position No. 98-9, “*Software Revenue Recognition with Respect to Certain Arrangements*”. Pursuant to SOP 97-2 and Staff Accounting Bulletin No. 104 “*Revenue Recognition*”, revenue will only be recognized when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectibility is reasonably assured. The Company’s revenue contracts are accounted for in conformity with Accounting Research Bulletin No. 45 “*Long-Term Construction-Type Contracts*”, using the relevant guidance in SOP 81-1 “*Accounting for Performance of Construction-Type and Certain Production-Type Contracts* ”, unless specified criteria for separate accounting for any service element are met. The Company also follows the guidance in Emerging Issues Task Force (“EITF”) Issue No. 00-21 “*Revenue Arrangements with Multiple Deliverables*” relating to the separability of deliverables included in an arrangement into different units of accounting and the allocation of an arrangement’s consideration to those units of accounting. It does not address when revenue should be recognized for the units of accounting. The Company received $39,000 during the nine month period ended March 31, 2007 for the annual license renewal fees. At March 31, 2007, the balance of deferred revenue, which relates to the unearned portion received of annual license fees, is $28,750. During the period ended March 31, 2007, the Company also received an advance of $248,000 pursuant to an agreement to provide planning and information systems. This amount is recorded in deferred revenue. Incremental direct costs related to contract acquisition and origination, which result in deferred revenue, are expensed as incurred. Any allowance for doubtful accounts is based on the Company's detailed assessment of the collectibility of specific customer accounts. Any significant customer accounts that are not expected to be collected are excluded from revenues. To date, the Company has not experienced any losses from uncollectible accounts.

Disclosure Regarding Forward-Looking Statements

Certain statements contained in this quarterly report on Form 10-QSB/A constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause deviations in actual results, performance or achievements to be materially different from any future results, performance or achievement expressed or implied. Such factors include but are not limited to: market and customer acceptance of and satisfaction with our products, market demand for our products; fluctuations in foreign currency markets; the use of estimates in the preparation of our financial statements; the impact of competitive products and pricing in our field; the ability to develop and launch new products in a timely fashion; government and industry regulatory environment; fluctuations in operating results, including, but not limited to, spending on research and development, spending on sales and marketing activities, spending on technical and product support; and other risks outlined in previous filings with the Securities and Exchange Commission, and in this quarterly report on Form 10-QSB/A. The words "believe," "expect," "may," "anticipate," "intend" and "plan" and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that cannot be quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements. The terms "Company," "we," "us," "our," "VisualMED" and Registrant" refer to VisualMED Clinical Solutions Corp., a Nevada corporation, and its subsidiaries.

Factors that could cause actual results to differ from those expressed in forward-looking statements include, but are not limited to:

- Our limited operating history;
- Our auditors have issued a going concern opinion. Therefore we may not be able to achieve our objectives and may have to suspend or cease operations;
- Because we have historically incurred losses and these losses may increase in the future, we must begin generating a profit from our operations. If we do not begin generating a profit we may have to suspend or cease operations;
- We have experienced a history of losses and expect to incur future losses. Therefore, we must continue to raise money from investors to fund our operations. If we are unable to fund our operations, we will cease doing business;
- Because we depend on a limited number of third parties to manufacture and supply critical components for our products and services, if a third party manufacturer should cease operations or refuse to sell components to us, we may have to suspend or cease operations;
- If we cannot deliver the VisualMED systems our customers demand, we will be unable to attract customers, which would likely result in a loss of income and eventually a termination of our operations;
- Competition from companies with already established marketing links to our potential customers may adversely affect our ability to market our products;
- Our parent company has significant influence over our corporate decisions;
- Because we do not have any patents, we rely on trade secrets, confidentiality agreements and contractual agreements, which may not be adequate to protect our proprietary interests. If our proprietary interests are divulged to the public, our operations may be adversely impacted and we may have to cease operations;

- We may be exposed to liability claims if products based on our technologies are marketed and sold. We have liability insurance coverage in the amount of $1,000,000, however, if a judgment is rendered against us in excess of the amount of our coverage, we may have to cease operations;
- Third parties may claim that our current or future products or services infringe their proprietary rights or assert other claims against us;

- Fluctuations in the value of foreign currencies could result in increased product costs and operating expenses;
- We must be able to respond to rapidly changing technology, services and standards in order to remain competitive;
- Because the market for our common stock is limited, our investors may not be able to resell their shares of common stock;
- Because our common stock is subject to penny stock rules, the liquidity of investments may be restricted.

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, under the supervision and with the participation of our management, including Gerard Dab, our Chief Executive Officer, and Larry Kurlender, our Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities and Exchange Act of 1934 (Exchange Act)). Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that these disclosure controls and procedures are effective to ensure that information required to be disclosed in our annual reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities Exchange Commission rules and forms. There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our officers believe that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that VisualMED files or submits under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer in order to allow timely decisions regarding required disclosure. There are frequent daily communications among all of our executives, including Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, President and our Vice President for Finance. All of our budgetary decisions and all of our billing and other expenditures require the written, signed approval of at least three of our executives. All issues regarding disclosures and procedures are discussed in a timely fashion, including all financial and other key operational information. Current disclosure controls and procedures are governed by the Board of Directors, and any changes to such controls and procedures must be made with the Board's approval.

Part II

ITEM 1. LEGAL PROCEEDINGS

From time to time we may be involved in litigation incidental to the conduct of our business, such as contractual matters and employee-related matters. Currently, we are not a party to any material legal proceeding or litigation, whether current or threatened, nor are any of our officers, directors or affiliates, a party adverse to us in any legal proceeding or litigation.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a)	Exhibits	Description
	3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company’s Registration Statement on Form SB-2 (Registration No. 333-94835) filed with the SEC on January 18, 2001).
	3.2	Amendment to the Articles of Incorporation (incorporated by reference to Exhibit 3.2 to the Company’s Quarterly Report on Form 10-QSB filed with the SEC on February 22, 2005).
	3.3	By-Laws (incorporated by reference to Exhibit 3.2 to the Company’s Registration Statement on Form SB-2 (Registration No. 333-94835) filed with the SEC on January 18, 2001).
	3.4	VisualMED Clinical Solutions Corp. October 2006 Nonqualified Stock Option Plan (incorporated by reference to the Company’s Registration Statement on Form S-8 filed with the SEC on October 4, 2006).
	3.5	VisualMED Clinical Solutions Corp. March 2007 Nonqualified Stock Option Plan (incorporated by reference to the Company’s Registration Statement on Form S-8 filed with the SEC on March 22, 2007).
	31.1	Certification of Principal Executive Officer pursuant to Rule 13a-15(e) and Rule 15d-15(e), promulgated under the Securities and Exchange Act of 1934, as amended.
	31.2	Certification of Principal Financial Officer pursuant to Rule 13a-15(e) and Rule 15d-15(e), promulgated under the Securities and Exchange Act of 1934, as amended.
	32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Principal Executive Officer).
	32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Principal Financial Officer).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 14th day of May, 2007.

VISUALMED CLINICAL SOLUTIONS CORP.
(Registrant)

By: /s/ Gerard Dab

Gerard Dab
Principal Executive Officer, Secretary and
a member of the Board of Directors

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Treatment of interest and penalties related to uncertain tax positions

Accounting for uncertain tax positions in interim periods

Disclosure and transition

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with major financial institutions and at times, cash balances with any one financial institution may exceed Federal Deposit Insurance Corporation (FDIC) insured limits.

For the three and six months ended June 30, 2010 and 2009, no single customer accounted for 10% or more of the Company s revenue, or of total accounts receivable.

Fair Value of Financial Instruments

As required by the Financial Instruments Topic of the FASB Accounting Standards Codification, the estimated fair values of financial instruments must be disclosed. Excluding fixed assets, intangible assets, goodwill, and prepaid expenses and other assets (excluding as noted below), substantially all of the Company s assets and liabilities are considered financial instruments as defined under this standard. Fair value estimates are subjective in nature and are dependent on a number of significant assumptions associated with each instrument or group of similar instruments, including estimates of discount rates, risks associated with specific financial instruments, estimates of future cash flows and relevant available market information.

The carrying values of the following balance sheet items approximate their fair values primarily due to their liquidity and short-term or adjustable-yield nature:

Cash and cash equivalents

Restricted cash

Broker receivable

Accounts receivable

Bank notes payable

Accrued interest receivable (included in prepaid expended and other assets)

SBA loans transferred, subject to premium recourse

Accrued interest payable (included in accounts payable and accrued expenses)

Accounts payable and accrued expenses

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 (included in prepaid expenses and other assets), credits in lieu of cash, notes payable in credits in lieu of cash, liability on SBA loans transferred, subject to premium recourse and loans receivable approximate fair value based on management s estimates.

New Accounting Standards

In June 2009, the FASB issued an accounting standard which requires entities to provide more information regarding sales of securitized financial assets and similar transactions, particularly if the entity has continuing exposure to the risks related to transferred financial assets and removes the concept of a qualifying special-purpose entity and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor

Table of Contents

has continuing involvement with the transferred financial asset. The new standard became effective for the Company on January 1, 2010 and its effect on asset, liability and revenue recognition is described in this note, under Revenue Recognition, Sales and Servicing of SBA Loans. This accounting standard was subsequently codified into ASC Topic 860, Transfers and Servicing.

In June 2009, the FASB issued an accounting standard which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. It clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. It requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity and additional disclosures about a company s involvement in variable interest entities and any significant changes in risk exposure due to that involvement. The new standard became effective for the Company on January 1, 2010 and did not have a material impact on its financial position or results of operations. This accounting standard was subsequently codified into ASC Topic 805, Business Combinations.

In August, 2009, the FASB issued Accounting Standards Update 2009-05, Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value, which updates ASC 820-10. The update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques:

1. A valuation technique that uses

    a. the quoted price of an identical liability when traded as an asset, or

    b. quoted prices for similar liabilities or similar liabilities when traded as assets.

2. Another valuation technique that is consistent with the principles of Topic 820, examples include an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability.

This standard is effective for financial statements issued for interim and annual periods ending after August 2009. The Company adopted Update 2009-05 effective for the quarter ending September 30, 2009. The adoption did not have a material impact on the Company s disclosures.

On July 21, 2010, the FASB issued Accounting Standards Update No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses , which requires significant new disclosures about the allowance for credit losses and the credit quality of financing receivables. The requirements are intended to enhance transparency regarding credit losses and the credit quality of loan and lease receivables. Under this statement, allowance for credit losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired financing receivables and nonaccrual status are to be presented by class of financing receivable. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio s risk and performance. This standard is effective for interim and annual reporting periods after December 15, 2010. The Company is currently evaluating the impact of adopting the new standard on the condensed consolidated financial statements.

NOTE 3 FAIR VALUE MEASUREMENTS:

FAIR VALUE OPTION ELECTIONS

Effective January 1, 2008, the Company adopted fair value accounting concurrent with the election of the fair value option. The accounting standard relating to the fair value measurements clarifies the definition of fair value and describes methods available to appropriately measure fair value in accordance with GAAP. The accounting standard applies whenever other accounting standards require or permit fair value measurements. The accounting standard relating to the fair value option for financial assets and financial liabilities allows entities to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities that are not otherwise required to be measured at fair value, with changes in fair value recognized in earnings as they occur. It also establishes presentation and disclosure requirements designed to improve comparability between entities that elect different measurement attributes for similar assets and liabilities.

On January 1, 2008, the Company elected the fair value option for valuing its Capcos credits in lieu of cash, notes payable in credits in lieu of cash and prepaid insurance.

Table of Contents

On January 1, 2010, the Company elected the fair value option for valuing its liability on SBA loans transferred, subject to premium recourse.

The Company elected the fair value option in order to reflect in its financial statements the assumptions that market participants use in evaluating these financial instruments.

FAIR VALUE OPTION ELECTION CREDITS IN LIEU OF CASH, PREPAID INSURANCE AND NOTES PAYABLE IN CREDITS IN LIEU OF CASH

Under the cost basis of accounting, the discount rates used to calculate the present value of the credits in lieu of cash and notes payable in credits in lieu of cash did not reflect the credit enhancements that the Company s Capcos obtained from Chartis, Inc. (Chartis) (formerly American International Group, Inc.), namely its AA+ rating at such time, for their debt issued to certified investors. Instead the cost paid for the credit enhancements was recorded as prepaid insurance and amortized on a straight-line basis over the term of the credit enhancements.

With the adoption of the fair value measurement of financial assets and financial liabilities and the election of the fair value option, credits in lieu of cash and notes payable in credits in lieu of cash are valued based on the yields at which financial instruments would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. The accounting standards require the fair value of the assets or liabilities to be determined based on the assumptions that market participants use in pricing the financial instrument. In developing those assumptions, the Company identified characteristics that distinguish market participants generally, and considered factors specific to (a) the asset type, (b) the principal (or most advantageous) market for the asset group, and (c) market participants with whom the reporting entity would transact in that market.

Based on the aforementioned characteristics and in view of the Chartis credit enhancements, the Company believes that market participants purchasing or selling its Capcos debt, and therefore its credits in lieu of cash and notes payable in credits in lieu of cash, view nonperformance risk to be equal to the risk of Chartis nonperformance risk and as such both the fair value of credits in lieu of cash and notes payable in credits in lieu of cash should be priced to yield a rate equal to an applicable Chartis U.S. Dollar denominated debt instrument. Because the value of notes payable in credits in lieu of cash directly reflects the credit enhancement obtained from Chartis, the unamortized cost relating to the credit enhancement will cease to be separately carried as an asset on Company s condensed consolidated balance sheets and is incorporated in notes payable in credits in lieu of cash.

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of June 30, 2010 are as follows (in thousands):

	Fair Value Measurements Using:			
	Total	Level 1	Level 2	Level 3
Assets:				
Credits in lieu of cash	$ 42,632	$	$ 42,632	$
Liabilities:				
Notes payable in credits in lieu of cash	$ 42,632	$	$ 42,632	$

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2009 are as follows (in thousands):

	Fair Value Measurements Using:			
	Total	Level 1	Level 2	Level 3
Assets:				
Credits in lieu of cash	$ 51,947	$	$ 51,947	$
Liabilities:				
Notes payable in credits in lieu of cash	$ 51,947	$	$ 51,947	$

15

Table of Contents

Credits in lieu of cash and Notes payable in credits in lieu of cash

The Company elected to account for both credits in lieu of cash and notes payable in credits in lieu of cash at fair value in order to reflect in its condensed consolidated financial statements the assumptions that market participant s use in evaluating these financial instruments.

Fair value measurements:

The Company s Capcos debt, enhanced by Chartis insurance, effectively bears the nonperformance risk of Chartis. Therefore the Company calculates the fair value of both the Credits in lieu of cash and Notes payable in credits in lieu of cash using the yields of various Chartis notes with similar maturities to each of the Company s respective Capcos debt. The Company elected to discontinue utilizing Chartis 7.70% Series A-5 Junior Subordinated Debentures (the Chartis Debentures) because those long maturity debentures began to trade with characteristics of a preferred stock after Chartis received financing from the United States Government. The Company considers the Chartis Note Basket a Level 2 input under fair value accounting, since it is a quoted yield for a similar liability that is traded in an active exchange market. The Company selected these Chartis Note Baskets as the most representative of the nonperformance risk associated with the CAPCO notes because they are Chartis issued notes, are actively traded and because maturities match Credits in lieu of cash and Notes payable in credits in lieu of cash.

After calculating the fair value of both the Credits in lieu of cash and Notes payable in credits in lieu of cash, the Company compares their values. This calculation is done on a quarterly basis. Calculation differences primarily due to tax credit receipt versus delivery timing may cause the value of the Credits in lieu of cash to differ from that of the Notes payable in credits in lieu of cash. Because the Credits in lieu of cash asset has the single purpose of paying the Notes payable in credits in lieu of cash and has no other value to the Company, Newtek determined that the Credits in lieu of cash should equal the Notes payable in credits in lieu of cash.

On December 31, 2009, the yield on the Chartis Note Basket was 6.92%. As of June 30, 2010, the date the Company revalued the asset and liability, the yields on the Chartis notes averaged 5.42% reflecting changes in interest rates in the marketplace. This decrease in yield increased both the fair value of the credits in lieu of cash and the fair value of the notes payable in credits in lieu of cash. The Company increased the value of the credits in lieu of cash to equal the value of the notes payable in credits in lieu of cash because the credits in lieu of cash can only be used to satisfy the liability and must equal the value of the notes payable in credits in lieu of cash at all times. The net change in fair value reported in the Company s condensed consolidated statements of operations for the three and six months ended June 30, 2010 was a gain of $13,000 and $174,000, respectively.

On December 31, 2008, the yield on the Chartis Note Basket was 11.76%. As of June 30, 2009, the date the Company revalued the asset and liability, the yields on the Chartis notes averaged 18.27% reflecting changes in interest rates in the marketplace. This increase in yield decreased both the fair value of the credits in lieu of cash and the fair value of the notes payable in credits in lieu of cash. The Company reduced the value of the credits in lieu of cash to equal the value of the notes payable in credits in lieu of cash because the credits in lieu of cash can only be used to satisfy the liability and must equal the value of the notes payable in credits in lieu of cash at all times. The net change in fair value reported in the Company s condensed consolidated statements of operations for the three and six months ended June 30, 2009 was a gain of $473,000 and $1,010,000, respectively.

Changes in the future yield of the Chartis issued debt selected for valuation purposes will result in changes to the fair values of the credits in lieu of cash and notes payable in credits in lieu of cash when calculated for future periods; these changes will be reported through the Company s condensed consolidated statements of operations.

FAIR VALUE OPTION ELECTION LIABILITY ON SBA LOANS TRANSFERRED, SUBJECT TO PREMIUM RECOURSE

Effective January 1, 2010, a new accounting standard codified into ASC Topic 860, Transfers and Servicing, requires the Company to establish a new liability related to the guaranteed portion of SBA 7(a) loans contractually sold but subject to premium recourse. Contemporaneous with the adoption of this new accounting standard the Company elected the fair value option for valuing this new liability, which is captioned in the condensed consolidated financial statements as Liability on SBA loans transferred, subject to premium recourse . Management elected to adopt the fair value option election because it more accurately reflects the economic transaction. Within the fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value, the Company utilizes Level 3 unobservable inputs which reflect the Company s own assumptions about the assumptions that market participants would use in pricing the liability (including assumptions about risk). The Company values the liability based on the probability of payment given the Company s history of returning premium: the transferee will receive 100% of the guaranteed portion from either the borrower or the SBA and approximately 3% of the

16

Table of Contents

premium amount from the Company. The aforementioned return of premiums is triggered by either the borrower s prepayment of the loan within 90 days of the transfer settlement date or the borrower s default within 275 days of the settlement date on loans where any of the borrower s first three payments were delinquent.

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of June 30, 2010 are as follows (in thousands):

	Fair Value Measurements Using:			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Liability on SBA loans transferred, subject to premium recourse	$ 21,176	$	$	$ 21,176

Below is a summary of the activity in the Liability on SBA loans transferred, subject to premium recourse for the six months ended June 30, 2010 (In thousands):

Balance at December 31, 2009	$
Liability on SBA loans transferred, subject to premium recourse	23,605
SBA loans sold, no longer subject to premium recourse	(2,429)
Balance at June 30, 2010	$ 21,176

OTHER FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis are as follows (in thousands):

	Fair Value Measurements at June 30, 2010 Using:				
	Total	**Level 1**	**Level 2**	**Level 3**	**Total Losses**
Assets					
Impaired loans	$ 6,147	$	$	$ 6,147	$ (851)
Other real-estate owned	117		117		(4)
Total assets	$ 6,264	$	$ 117	$ 6,147	$ (855)

	Fair Value Measurements at December 31, 2009 Using:				
	Total	**Level 1**	**Level 2**	**Level 3**	**Total Losses**
Assets					
Impaired loans	$ 5,302	$	$	$ 5,302	$ (2,239)
Impaired customer merchant accounts					(126)
Other real-estate owned	132		132		(314)
Total assets	$ 5,434	$	$ 132	$ 5,302	$ (2,679)

Table of Contents

Impaired loans

Impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan s effective interest rate, or the fair value of the collateral if the loan is collateral dependent. Impaired loans for which the carrying amount is based on fair value of the underlying collateral are included in assets and reported at estimated fair value on a non-recurring basis, both at initial recognition of impairment and on an on-going basis until recovery or charge-off of the loan amount. The determination of impairment involves management s judgment in the use of market data and third party estimates regarding collateral values. Valuations in the level of impaired loans and corresponding impairment affect the level of the reserve for loan losses.

Impaired customer merchant accounts

Customer merchant accounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In reviewing for impairment, the carrying value is compared to the estimated undiscounted future cash flows expected. If such cash flows are not sufficient to support the asset s recorded value, an impairment charge is recognized to reduce the carrying value of the customer merchant account to its estimated fair value. The determination of future cash flows as well as the estimated fair value of customer merchant accounts involves significant estimates on the part of management.

Other real-estate owned (included in Prepaid expenses and other assets)

The estimated fair value of other real-estate owned is calculated using observable market information, including bids from prospective purchasers and pricing from similar market transactions where available. The value is generally discounted between 20-25% based on market valuations as well as expenses associated with securing our interests. Where bid information is not available for a specific property, the valuation is principally based upon recent transaction prices for similar properties that have been sold. These comparable properties share comparable demographic characteristics. Other real estate owned is generally classified within Level 2 of the valuation hierarchy.

NOTE 4 SBA LOANS:

SBA loans are primarily concentrated in the hotel and motel industry (10% of the portfolio) and the restaurant industry (12% of the portfolio), as well as geographically in Florida (27% of the portfolio) and New York (13% of the portfolio). Below is a summary of the activity in the SBA loans held for investment, net of SBA loan loss reserves for the six months ended June 30, 2010 (In thousands):

Balance at December 31, 2009	$ 23,257
SBA loans funded for investment	3,029
Payments received	(1,292)
Provision for SBA loan losses	(853)
Loans foreclosed into real estate owned	(12)
Discount on loan originations, net	152
Balance at June 30, 2010	$ 24,281

Below is a summary of the activity in the reserve for loan losses for the six months ended June 30, 2010 (In thousands):

Balance at December 31, 2009	$ 3,985
SBA loan loss provision	853
Recoveries	45
Loan charge-offs	(1,185)
Balance at June 30, 2010	$ 3,698

18

Table of Contents

Below is a summary of the activity in the SBA loans held for sale for the six months ended June 30, 2010 (In thousands):

Balance at December 31, 2009	$ 200
Originations of SBA Loans held for sale	23,659
SBA loans transferred, subject to premium recourse	(23,536)
Balance at June 30, 2010	$ 323

SBA loans transferred, subject to premium recourse represents fully funded SBA loans which were transferred during the quarter, but cannot yet be considered as sold as a result of the recourse provision under SBA Form 1086. The value of the SBA loans transferred equals the amount of the guaranteed portion of the loans transferred.

All loans are priced at the Prime interest rate plus approximately 2.75% to 3.75%. The only loans with a fixed interest rate are defaulted loans of which the guaranteed portion sold is repurchased from the secondary market by the SBA, while the unguaranteed portion of the loans still remains with the Company. As of June 30, 2010 and December 31, 2009, net SBA loans receivable held for investment with adjustable interest rates amounted to $21,100,000 and $22,549,000, respectively.

For the six months ended June 30, 2010 and 2009, the Company funded approximately $26,489,000 and $ 3,581,000 in loans and transferred approximately $23,536,000 and $8,802,000 of the guaranteed portion of the loans, respectively. Receivables from loans traded but not settled of $8,065,000 and $6,467,000 as of June 30, 2010 and December 31, 2009, respectively, are presented as broker receivable in the accompanying condensed consolidated balance sheets.

The outstanding balances of loans past due ninety days or more and still accruing interest as of June 30, 2010 and December 31, 2009 amounted to $41,000 and $300,000, respectively.

At June 30, 2010 and December 31, 2009, total impaired non-accrual loans amounted to $8,861,000 and $8,324,000, respectively. For the six months ended June 30, 2010 and for the year ended December 31, 2009, the average balance of impaired non-accrual loans was $8,649,000 and $7,773,000, respectively. Approximately $2,713,000 and $3,022,000 of the allowance for loan losses were allocated against such impaired non-accrual loans, respectively. The following is a summary of SBA loans held for investment as of:

(In thousands):	**June 30, 2010**	**December 31, 2009**
Due in one year or less	$ 21	$ 6
Due between one and five years	3,024	2,672
Due after five years	26,372	26,154
Total	29,417	28,832
Less : Allowance for loan losses	(3,698)	(3,985)
Less: Deferred origination fees, net	(1,438)	(1,590)
Balance (net)	$ 24,281	$ 23,257

NOTE 5 SERVICING ASSET:

Servicing rights are recognized as assets when transferred SBA loans are accounted for as sold and the rights to service those loans are retained. The Company measures all separately recognized servicing assets initially at fair value, if practicable. The Company reviews capitalized servicing rights for impairment based on risk strata, which are determined on a disaggregated basis given the predominant risk characteristics of the underlying loans. The predominant risk characteristics are loan term and year of loan origination.

19

Table of Contents

The changes in the value of the Company s servicing rights for the six months ended June 30, 2010 were as follows:

(In thousands):	
Balance at December 31, 2009	$ 2,436
Servicing assets capitalized	39
Servicing assets amortized	(329)
Balance at June 30, 2010	$ 2,146

The estimated fair value of capitalized servicing rights was $2,146,000 and $2,436,000 at June 30, 2010 and December 31, 2009, respectively. The estimated fair value of servicing assets at both balance sheet dates was determined using a discount rate of 17%, weighted average prepayment speeds ranging from 1% to 13%, depending upon certain characteristics of the loan portfolio, weighted average life of 3.4 years, and an average default rate of 6%. The Company uses an independent valuation specialist to estimate the fair value of the servicing asset.

The unpaid principal balances of loans serviced for others are not included in the accompanying condensed consolidated balance sheets. The unpaid principal balances of loans serviced for others within the NSBF originated portfolio were $161,764,000 and $142,513,000 as of June 30, 2010 and December 31, 2009, respectively. The unpaid principal balances of loans serviced for others which were not originated by NSBF and are outside of the Newtek portfolio were $77,682,000 and $794,000 as of June 30, 2010 and December 31, 2009, respectively.

NOTE 6 BANK NOTES PAYABLE:

In April 2010, the Company closed two five-year term loans aggregating $14,583,000 with Capital One, N.A., of which $12,500,000 refinanced Newtek Small Business Finance s debt to General Electric Commercial Capital (GE) and $2,083,000 refinanced the pre-existing term loan between Capital One and NTS. This financing will support the lending operations of NSBF by providing working capital. The interest rate on the loans is variable based on the monthly LIBOR rate plus 4.25% or Prime plus 2.25%, but no lower than 5.75%. The balance of the two term loans included in bank notes payable on the condensed consolidated balance sheet at June 30, 2010 was $14,316,000 and the interest rate at June 30, 2010 was 5.75%. Interest is paid in arrears along with each monthly principal payment due. The agreement includes such financial covenants as a minimum fixed charge coverage ratio and minimum EBITDA; the Company guarantees these term loans.

In connection with the closing of the Capital One facility, in April 2010, NSBF repaid the outstanding balance of $12,500,000 of its credit facility with GE plus accrued interest of approximately $70,000.

NOTE 7 BENEFIT FOR INCOME TAXES:

The Company s effective tax rate benefit for the three and six month periods ended June 30, 2010 was 72% and 185%, respectively, based on the Company revising its effective tax rate during the second quarter of 2010 to reflect the utilization of an NOL at NSBF for which a reserve had previously been taken. Based on NSBF s current and expected performance, the Company believes there is sufficient evidence to conclude that it is more likely than not that such NOLs will be used for the 2010 tax year.

NOTE 8 NON-CONTROLLING INTEREST:

Resulting from the completion of a statutory merger and acquisition during the quarter ended June 30, 2010, the Company purchased 26% of the non-controlling interest in NBC for approximately $26,000. As a result, the excess of the value of the purchase price over the non-controlling interest balance at the date of purchase, approximately $216,000, was recorded as additional paid-in capital.

During the quarter ended June 30, 2010, unexercised warrants that had entitled holders to interests in two Capcos expired. As a result, the non-controlling interest balance as of the expiration, approximately $136,000, was reclassified to additional paid-in capital.

Table of Contents

NOTE 9 EARNINGS (LOSS) PER SHARE:

Basic earnings (loss) per share is computed based on the weighted average number of common shares outstanding during the period. The dilutive effect of common share equivalents is included in the calculation of diluted loss per share only when the effect of their inclusion would be dilutive.

The calculations of earnings (loss) per share were:

	Three months Ended June 30:		Six months Ended June 30:	
(In thousands except per share data):	**2010**	**2009**	**2010**	**2009**
Numerator for basic and diluted EPS income (loss) available to common shareholders	$ 931	$ (637)	$ 464	$ (1,613)
Denominator for basic EPS weighted average shares	35,648	35,625	35,648	35,625
Effect of dilutive securities	155		148	
Denominator for diluted EPS weighted average shares	35,803	35,625	35,796	35,625
Earnings (loss) per share: Basic and diluted	$ 0.03	$ (0.02)	$ 0.01	$ (0.05)
The amount of anti-dilutive shares/units excluded from above is as follows:				
Stock options	992	1,544	992	1,544
Warrants	266	266	266	266
Contingently issuable shares	83	97	83	97

NOTE 10 SEGMENT REPORTING:

Operating segments are organized internally primarily by the type of services provided. The Company has aggregated similar operating segments into six reportable segments: Electronic payment processing, Web hosting, Small business finance, All other, Corporate and Capcos.

The Electronic payment processing segment is a processor of credit card transactions, as well as a marketer of credit card and check approval services to the small- and medium-sized business market. Expenses include direct costs (included in a separate line captioned electronic payment processing costs), professional fees, salaries and benefits, and other general and administrative costs, all of which are included in the respective caption on the condensed consolidated statements of operations.

The Web hosting segment consists of NTS, acquired in July 2004. NTS s revenues are derived primarily from web hosting services and consist of web hosting and set up fees. NTS generates expenses such as professional fees, payroll and benefits, and depreciation and amortization, which are included in the respective caption on the accompanying condensed consolidated statements of operations, as well as licenses and fees, rent, and general office expenses, all of which are included in other general and administrative costs in the respective caption on the condensed consolidated statements of operations.

The Small business finance segment consists of Small Business Lending, Inc., a lender that primarily originates, sells and services government guaranteed SBA 7(a) loans to qualifying small businesses through NSBF, its licensed SBA lender; the Texas Whitestone Group which manages the Company s Texas Capco and closes loans; and NBC which provides accounts receivable financing, billing and accounts receivable maintenance services to businesses. NSBF generates revenues from sales of loans, servicing income for those loans retained to service by NSBF and interest income earned on the loans themselves. The lender generates expenses for interest, professional fees, salaries and benefits, depreciation and amortization, and provision for loan losses, all of which are included in the respective caption on the condensed consolidated statements of operations. NSBF also has expenses such as loan recovery expenses, loan processing costs, and other expenses that are all included in the other general and administrative costs caption on the condensed consolidated statements of operations.

21

Table of Contents

The All other segment includes revenues and expenses primarily from qualified businesses that received investments made through the Company s Capcos which cannot be aggregated with other operating segments. The two largest entities in the segment are Newtek Insurance Agency, LLC, an insurance sales operation, and Business Connect, LLC, a provider of sales and processing services.

Corporate activities represent revenue and expenses not allocated to our segments. Revenue includes interest income and management fees earned from Capcos (and included in expenses in the Capco segment). Expenses primarily include corporate operations related to broad-based sales and marketing, legal, finance, information technology, corporate development and additional costs associated with administering the Capcos.

The Capco segment, which consists of the 13 Capcos, generates non-cash income from tax credits, interest income and gains from investments in qualified businesses which are included in other income. Expenses primarily include non-cash interest and insurance expense, management fees paid to Newtek (and included in the Corporate activities revenues), legal, and auditing fees and losses from investments in qualified businesses.

Management has considered the following characteristics when making its determination of its operating and reportable segments:

- the nature of the product and services;
- the type or class of customer for their products and services;
- the methods used to distribute their products or provide their services; and
- the nature of the regulatory environment (for example, banking, insurance, or public utilities).

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Table of Contents

The following table presents the Company s segment information for the three and six months ended June 30, 2010 and 2009 and total assets as of June 30, 2010 and December 31, 2009 (In Thousands):

	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Third Party Revenue				
Electronic payment processing	$ 20,407	$ 16,889	$ 39,170	$ 32,663
Web hosting	4,814	4,707	9,604	9,382
Small business finance	1,943	1,564	3,265	3,407
Capcos	596	2,733	1,376	4,311
All other	382	1,320	719	1,706
Corporate activities	532	925	1,240	1,785
Total reportable segments	28,674	28,138	55,374	53,254
Eliminations	(668)	(1,061)	(1,515)	(2,056)
Consolidated Total	$ 28,006	$ 27,077	$ 53,859	$ 51,198
Inter-Segment Revenue				
Electronic payment processing	$ 204	$ 51	$ 295	$ 96
Web hosting	100	87	207	200
Small business finance	189	22	262	36
Capcos	480	543	887	893
All other	3,234	135	3,371	275
Corporate activities	512	520	977	921
Total reportable segments	4,719	1,358	5,999	2,421
Eliminations	(4,719)	(1,358)	(5,999)	(2,421)
Consolidated Total	$	$	$	$
Income (loss) before income taxes				
Electronic payment processing	$ 1,368	$ 1,060	$ 2,452	$ 2,023
Web hosting	1,194	917	2,126	1,833
Small business finance	557	(748)	447	(1,341)
Capcos	(666)	(1,063)	(1,567)	(2,167)
All other	(215)	555	(563)	151
Corporate activities	(1,724)	(1,496)	(3,255)	(3,352)
Totals	$ 514	$ (775)	$ (360)	$ (2,853)
Depreciation and amortization				
Electronic payment processing	$ 397	$ 425	$ 813	$ 885
Web hosting	467	762	957	1,554
Small business finance	194	243	406	472
Capcos	3	(4)	6	12
All other	33	32	78	62
Corporate activities	81	112	171	234

Totals	$ 1,175	$ 1,570	$ 2,431	$ 3,219

Table of Contents

	As of June 30, 2010	As of December 31, 2009
Identifiable assets		
Electronic payment processing	$ 8,883	$ 12,295
Web hosting	11,481	12,382
Small business finance	72,143	43,109
Capcos	51,221	59,679
All other	4,132	5,125
Corporate activities	1,748	3,492
Consolidated total	$ 149,608	$ 136,082

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations is intended to assist in the understanding and assessment of significant changes and trends related to the results of operations and financial position of the Company together with its subsidiaries. This discussion and analysis should be read in conjunction with the condensed consolidated financial statements and the accompanying notes.

This Quarterly Report on Form 10-Q contains forward-looking statements. Additional written or oral forward-looking statements may be made by Newtek from time to time in filings with the Securities and Exchange Commission or otherwise. The words believe, expect, seek, anticipate and intend and similar expressions identify forward-looking statements, which speak only as of the date the statement is made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but are not limited to, projections of income or loss, expenditures, acquisitions, plans for future operations, financing needs or plans relating to our services, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements. Newtek does not undertake, and specifically disclaims, any obligation to release publicly the results of revisions which may be made to forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after such statements.

Our Capcos operate under a different set of rules in each of the 7 jurisdictions and these place varying requirements on the structure of our investments. In some cases, particularly in Louisiana, we don t control the equity or management of a qualified business but that cannot always be presented orally or in written presentations.

For the quarter ended June 30, 2010, the Company reported income before income taxes of $514,000, an improvement from the loss of $(775,000) for the same quarter of 2009. This transition from loss to income resulted from continued improvements in business operations producing an increase in revenue. We had net income of $931,000, an improvement of $1,568,000 over 2009 primarily from the improvement in operations and a $370,000 benefit from income taxes. Total revenues increased by $929,000 to $28,006,000, or 3.4%, from $27,077,000 for the quarter ended June 30, 2009, principally due to increased revenues in the Electronic payment processing, Web hosting and Small business finance (see below) segments offset by a decrease in revenues from our Capco and All other segments. The improvement to a profit from the net loss from the second quarter of 2009 reflects improvements in operations for all segments: Electronic payment processing from a gain in margin (margin on a percentage basis continued to decrease and will continue to negatively impact profitability for the segment); Web hosting from improved sales and reduced depreciation and amortization; Small business finance from improved results from loan origination, loan servicing and receivables factoring; and Capco, All other and Corporate segments from reductions in expenses.

The Company s SBA lender enjoyed a healthy operating environment due to beneficial pricing in the secondary market for guaranteed loan sales, the current 90% guaranty rate for SBA 7(a) loans and healthy demand for loans from borrowers due to the shortage of loans provided by conventional lenders. However, the revenues of the Small business finance segment were negatively impacted by the effects of ASC Topic 860, Transfers and Servicing which resulted in second quarter sales of SBA loans held for sale into the SBA-regulated secondary market being accounted for as financings. In addition, the operation of this new accounting standard also resulted in additions to the new asset, SBA loans transferred, subject to recourse , and the new liability, Liability for SBA loans transferred, subject to recourse . By electing to fair value the liability to its true economic value, the segment and the Company benefited from a gain of $1,047,000 for the quarter ending June 30, 2010; this gain approximates the difference between the premium amount received on the loan portions sold and the probably lesser amount to be returned to the transferee prior to the expiration of the brief warranty period. The Company will recognize the revenue later in the year when the transactions are accounted for as sales under applicable accounting standards. Although ASC Topic 860 changed the accounting treatment for the sale of these loans, it did not change the operation of the Company s SBA lender and therefore neither the economic benefit nor the effect on the liquidity of the Company from originating SBA 7(a) loans.

The SBA lender received a rating of average from Standard and Poors as a commercial finance business-based real estate servicer and a commercial finance business-based real estate special servicer, which will permit the Company to service a wider range of portfolios.

In April 2010, the Company closed 2 five-year term loans aggregating $14,583,000 with Capital One, N.A. which refinanced Newtek Small Business Finance s $12,500,000 debt to General Electric Commercial Capital as well as the existing $2,083,000 term loan between Capital One and NTS. This financing supports the lending operations of NSBF; the change from a revolving loan to term loan provided working capital for NSBF as well. Future SBA lending operations will be funded from internal sources while the SBA lender and NTS pay down these loans over the next five years. The Company guarantees these term loans.

25

Table of Contents

The Company s effective tax rate benefit for the three and six month periods ended June 30, 2010 was 72% and 185%, respectively, based on the Company revising its effective tax rate during the second quarter of 2010 to reflect the utilization of an NOL at NSBF for which a reserve had previously been taken. Based on NSBF s current and expected performance, the Company believes there is sufficient evidence to conclude that it is more likely than not that such NOLs will be used for the 2010 tax year.

The Company is currently evaluating its investment in a qualified business accounted for under the cost method. This investment, SmartPill, LLC, is recorded at its cost basis of $500,000. SmartPill is currently attempting to raise additional funds and as a result, Newtek s interest may or may not be diluted. If such dilution occurs, it may cause the investment to be impaired. It is uncertain at this time if the offering which has begun will be completed and if the offering would have a dilutive effect or otherwise reduce the value of the investment. As of June 30, 2010 the Company believes the investment is recoverable.

The decrease in the Company s cash and cash equivalents from $12,581,000 to $7,790,000 at June 30, 2010 is primarily due to the resumption of lending by the Company s SBA lender for a third consecutive quarter, the reduction in debt associated with NSBF and NTS, establishment of restricted reserve accounts for such debt, and transfer of cash from Company operating to restricted Capco accounts. Overall, we believe that throughout 2010 the Company has and will continue to enjoy improvements from increased revenues and the benefit from the previous expense reductions as well as the continuing cost cutting efforts in 2010.

The Company s reportable business segment results:

The Company s reportable segments are described in Note 1 to the Unaudited Condensed Consolidated Financial Statements and their results of operations for the three and six months ended June 30, 2010 and 2009 are discussed below.

Electronic Payment Processing

	Three months ended June 30:			
(In thousands):	**2010**	**2009**	**$ Change**	**% Change**
Revenue:				
Electronic payment processing	$ 20,403	$ 16,880	$ 3,523	21%
Interest income	4	9	(5)	(56%)
Total revenue	20,407	16,889	3,518	21%
Expenses:				
Electronic payment processing costs	17,247	14,107	3,140	22%
Salaries and benefits	1,046	991	55	6%
Professional fees	73	59	14	24%
Depreciation and amortization	397	425	(28)	(7%)
Other general and administrative costs	276	247	29	12%
Total expenses	19,039	15,829	3,210	20%
Income before income taxes	$ 1,368	$ 1,060	$ 308	29%

Three months ending June 30, 2010 and 2009:

Electronic payment processing revenue for the second quarter increased $3,518,000 or 21% from the previous period due to the impact of growth in organic revenue of 22% while revenues from acquired portfolios decreased overall revenue growth by 1% between periods due to merchant attrition and other factors. The growth in organic revenue was due to a combination of growth in processing volumes, selective fee increases and additions to services provided to our merchants. Processing volumes were favorably impacted by an increase in the average number of merchants under contract between periods of 9%. In addition, organic revenue between periods increased due to an increase of approximately 9% in the average monthly processing volume per merchant. The increase in the average monthly processing volume per merchant is due in part to the addition of several larger

Table of Contents

volume processing merchants as well as year-over-year growth in processing volumes from existing merchants. The remaining increase in organic revenue is due to selective fee increases, principally reflecting the pass through effect to merchants of corresponding fee increases by both VISA® and Master Card®, and the mix of services provided to our merchants.

Electronic payment processing costs increased $3,140,000 or 22% between years. Electronic payment processing costs resulting from acquired portfolios had the overall effect of decreasing such costs by approximately 1% between periods due to merchant attrition and other factors. Organic electronic payment processing costs had the effect of increasing electronic payment processing cost by 23% between periods. Processing revenues less electronic payment processing cost (margin) declined approximately 1.0% from 16.5% in 2009 to 15.5% in 2010 for the same periods. A lower contribution to margin from acquired portfolios contributed .7% to the decline in margin. An increase in residual payments made to certain high volume third-party sales referral sources and the growth of such third-party sales on a sales mix basis resulted in a reduction of the margin by 2.1%. Partially offsetting the aforementioned factors were margin improvements totaling approximately 1.8%. Such margin improvements included negotiated cost reductions with the Company s principal transaction processor, the introduction of new, higher margin products and services, as well as rate increases for certain processing services. Margin on a dollar basis increased by $384,000 period over period.

Costs other than electronic payment processing costs increased $71,000 or 4% over the prior period. Depreciation and amortization costs decreased $28,000 between periods as the result of previously acquired portfolio intangible assets becoming fully amortized between periods. Remaining costs increased $99,000 principally in customer service related costs to support the growth in the number of merchants served between periods.

Income before income taxes increased $308,000 to $1,368,000 in 2010 from $1,060,000 in 2009. An increase in the dollar margin of operating revenues less EPP processing costs due to the reasons noted above coupled with a lower rate of increase in other expenses resulted in the increase in income before income taxes between periods.

(In thousands):	Six months ended June 30: 2010	2009	$ Change	% Change
Revenue:				
Electronic payment processing	$ 39,160	$ 32,641	$ 6,519	20%
Interest income	10	22	(12)	(55%)
Total revenue	39,170	32,663	6,507	20%
Expenses:				
Electronic payment processing costs	33,119	27,048	6,071	22%
Salaries and benefits	2,127	2,124	3	0%
Professional fees	161	114	47	41%
Depreciation and amortization	813	885	(72)	(8%)
Other general and administrative costs	498	469	29	6%
Total expenses	36,718	30,640	6,078	20%
Income before income taxes	$ 2,452	$ 2,023	$ 429	21%

Six months ending June 30, 2010 and 2009:

Electronic payment processing revenue increased $6,507,000 or 20% between periods due to the impact of growth in organic revenue of 21% while revenues from acquired portfolios decreased overall revenue growth by 1% between periods due to merchant attrition and other factors. The growth in organic revenue was due to a combination of growth in processing volumes, selective fee increases, and additions to services provided to our merchants. Processing volumes were favorably impacted by an increase in the average number of merchants under contract between periods of 7%. In addition, organic revenue between periods increased due to an increase of approximately 10% in the average monthly processing volume per merchant. The increase in the average monthly processing volume per merchant is due in part to the addition of several larger volume processing merchants as well as period-over-period growth in processing volumes from existing merchants. The remaining increase in organic revenue is due to selective fee increases, principally reflecting the pass through effect to merchants of corresponding fee increases by both VISA® and Master Card®, and the mix of services provided to our merchants.

Table of Contents

Electronic payment processing costs increased $6,071,000 or 22% between years. Electronic payment processing costs resulting from acquired portfolios had the overall effect of decreasing such costs by approximately 1% between periods due to merchant attrition and other factors. Organic electronic payment processing costs had the effect of increasing electronic payment processing cost by 23% between periods. Processing revenues less electronic payment processing cost (margin) declined approximately 1.7% from 17.2% in 2009 to 15.5% in 2010 for the same periods. A lower contribution to margin from acquired portfolios contributed .8% to the decline in margin. An increase in residual payments made to certain high volume third-party sales referral sources and the growth of such third-party sales on a sales mix basis resulted in a reduction of the margin by 1.9%. Partially offsetting the aforementioned factors were margin improvements totaling approximately 1.0%. Such margin improvements included negotiated cost reductions with the Company s principal transaction processor, the introduction of new, higher margin products and services, as well as rate increases for certain processing services. Margin on a dollar basis increased by $448,000 period over period.

Excluding electronic payment processing costs, other costs increased only $7,000 between periods. Depreciation and amortization costs decreased $72,000 between periods as the result of previously acquired portfolio intangible assets becoming fully amortized between periods. Remaining costs increased $79,000 and included $40,000 for a consulting project as to the efficacy of the operations of the segment with the remainder of the increase related to a growth in customer service related costs to support growth in the number of merchants served between periods.

Income before income taxes increased $429,000 to $2,452,000 in 2010 from $2,023,000 in 2009. An increase in the dollar margin of operating revenues less EPP processing costs due to the reasons noted above coupled with only a slight increase in other expenses resulted in the increase in income before income taxes between periods.

Web Hosting

(In thousands):	Three months Ended June 30: 2010	2009	$ Change	% Change
Revenue:				
Web hosting	$ 4,812	$ 4,702	$ 110	2%
Interest income	2	5	(3)	(60)%
Total revenue	4,814	4,707	107	2%
Expenses:				
Salaries and benefits	1,250	1,245	5	%
Interest	28	33	(5)	(15)%
Professional fees	125	28	97	346%
Depreciation and amortization	467	762	(295)	(39)%
Other general and administrative costs	1,750	1,722	28	2%
Total expenses	3,620	3,790	(170)	(4)%
Income before income taxes	$ 1,194	$ 917	$ 277	30%

Three months ended June 30, 2010 and 2009:

This segment derives revenue primarily from monthly recurring fees from hosting websites, including monthly plans for shared hosting, dedicated servers and virtual instances. Web hosting revenue between periods increased $110,000, or 2%, to $4,812,000 for the three months ended June 30, 2010 over the same period in 2009 due to improved revenue per plan, organic growth of hosted virtual instances, and sales of custom website development services. NTS sales promotions and service and plan enhancements failed to drive growth in plans but did help to improve revenue.

The increase in revenue reflects an increase in average quarterly revenue per plan of 9% to $78.26 from $71.54 offset by a decrease in the average number of total plans by 4,242 for the three months ended June 30, 2010 as compared to the same period in 2009, or 7%, to 61,485 from 65,727. Improvement in revenue per plan primarily reflects the growth in virtual instances and customers gravitating towards higher-end services combined with additional options and services. The average number of dedicated server plans for the three months ended June 30, 2010, which generate a higher monthly fee versus shared hosting plans, increased by 32 between periods, or 1%, to an average of 2,203 from an average of 2,171 for the same period in 2009. The

Table of Contents

average number of shared hosting plans decreased 4,318, or 7%, to 59,092 for the three months ended June 30, 2010, from 63,410 for the same period in 2009; the reduction in shared plans without replacement with new revenue streams has become a drag on revenue growth. The average number of virtual instance plans increased 42, or 29%, to 189 for the three months ended June 30, 2010, from 147 for the same period in 2009. Current economic conditions, although starting to improve, and increased competition from other web hosting providers as well as alternative website services continue to have a negative effect on plan count growth.

Total segment expenses decreased by 4%, or $170,000 for the three months ended June 30, 2010 over the same period a year earlier. The majority of the decrease between periods reflects a decrease in depreciation and amortization of $295,000 and a decrease in interest expense of $5,000 partially offset by an increase in other general and administrative costs of $28,000 mainly due to an increase in utility costs, an increase in salaries and benefits of $5,000, and an increase in professional fees of $97,000. The $295,000 decrease in depreciation and amortization was primarily due to the intangible assets (the customer account and non-compete covenant from the time of acquisition) being fully amortized as of June 30, 2009 and the slowing of capital expenditures as a result of more efficient use of the existing equipment within the datacenter. The increase of $97,000 in professional fees was due to higher legal and consulting fees for the three months ended June 30, 2010 due primarily to litigation related to the termination of a former lease.

Income before income taxes increased 30% or $277,000 to $1,194,000 for the three months ended June 30, 2010 from $917,000 for the same period in 2009. The improvement in profitability primarily resulted from the increase in web site plan revenue combined with a decrease in total expenses.

(In thousands):	Six months ended June 30: 2010	2009	$ Change	% Change
Revenue:				
Web hosting	$ 9,601	$ 9,374	$ 227	2%
Interest income	3	8	(5)	(63)%
Total revenue	9,604	9,382	222	2%
Expenses:				
Salaries and benefits	2,666	2,430	236	10%
Interest	46	67	(21)	(31)%
Professional fees	269	109	160	147%
Depreciation and amortization	957	1,554	(597)	(38)%
Other general and administrative costs	3,540	3,389	151	4%
Total expenses	7,478	7,549	(71)	(1)%
Income before income taxes	$ 2,126	$ 1,833	$ 293	16%

Six months ended June 30, 2010 and 2009:

Web hosting revenue between periods increased $227,000, or 2%, to $9,601,000 for the six months ended June 30, 2010 over the same period in 2009 due to improved revenue per plan, organic growth of hosted virtual instances, and sales of custom website development services. NTS sales promotions and service and plan enhancements failed to drive growth in plans but did help to improve revenue.

The increase in revenue reflects an increase in average monthly revenue per plan of 14% to $26.83 from $23.57 offset by a decrease in the average number of total plans by 4,242 for the six months ended June 30, 2010 as compared to the same period in 2009, or 6%, to 62,026 from 66,268. Improvement in revenue per plan primarily reflects the growth in virtual instances and customers gravitating towards higher-end services combined with additional options and services. The average number of dedicated server plans for the six months ended June 30, 2010, which generate a higher monthly fee versus shared hosting plans, decreased by 3 between periods, or less than 1%, to an average of 2,203 from an average of 2,206 for the same period in 2009. The average number of shared hosting plans decreased 4,302, or 7%, to 59,639 for the six months ended June 30, 2010, from 63,941 for the same period in 2009; the reduction in shared plans without replacement with new revenue streams has become a drag on revenue growth. The average number of virtual instance plans increased 63, or 52%, to 184 for the six months ended June 30, 2010, from 121 for the same period in 2009. Current economic conditions, although starting to improve, and increased competition from other web hosting providers as well as alternative website services continue to have a negative effect on plan count growth.

Table of Contents

Total segment expenses decreased by 1%, or $71,000 for the six months ended June 30, 2010. The majority of the decrease between periods reflects a decrease in depreciation and amortization of $597,000 and a decrease in interest expense of $21,000, partially offset by an increase in other general and administrative costs of $151,000, an increase in salaries and benefits of $236,000, and an increase in professional fees of $160,000. The $597,000 decrease in depreciation and amortization was primarily due to the intangible assets (the customer account and non-compete covenant from the time of acquisition) being fully amortized as of June 30, 2009 and the slowing of capital expenditures as a result of more efficient use of the already existing equipment within the datacenter. The increase of $160,000 in professional fees was due to higher litigation related legal and consulting fees for the six months ended June 30, 2010. The increase in other general and administrative costs was primarily due to a $107,000 increase in rent and utilities, a $35,000 increase in processing costs, a $35,000 increase in licenses and permits, a $4,000 increase in office and other costs and a $29,000 increase in bad debt expense. The increases were offset in part by a $19,000 decrease in internet and communications expenses, a result of renegotiations of internet and telephone contracts, and an approximate decrease of $40,000 in marketing costs. Salaries and benefits increased $236,000 for the six months June 30, 2010 due to benefits costs increasing by $63,000 and as a result of headcount having grown at a higher rate than revenue growth primarily in the first quarter; during the second quarter 2010 management has reduced headcount in order to lessen salaries and benefits expense throughout the rest of the year.

Income before income taxes increased 16% or $293,000 to $2,126,000 for the six months ended June 30, 2010 from $1,833,000 for the same period in 2009. The improvement in profitability primarily resulted from the increase in web site plan revenue combined with a decrease in total expenses.

Small Business Finance

(In thousands):	**Three months ended June 30: 2010**	**2009**	**$ Change**	**% Change**
Revenue:				
Premium income	$ 193	$ 137	$ 56	41%
Servicing fee	673	424	249	59%
Interest income	366	376	(10)	(3)%
Management fees	146	146		%
Other income	565	481	84	17%
Total revenue	1,943	1,564	379	24%
Net change in fair market value of:				
Liability on SBA loans transferred, subject to premium recourse	1,047		1,047	%
Expenses:				
Salaries and benefits	857	705	152	22%
Interest	413	374	39	10%
Management fees	115	115		%
Professional fees	122	88	34	39%
Depreciation and amortization	194	243	(49)	(20)%
Provision for loan losses	401	509	(108)	(21)%
Other general and administrative costs	331	278	53	19%
Total expenses	2,433	2,312	121	5%
Income (loss) before income taxes	$ 557	$ (748)	$ 1,305	174%

Table of Contents

Three months ended June 30, 2010 and 2009:

Revenue is derived primarily from premium income generated by the sale of the guaranteed and unguaranteed portions of SBA loans. The implementation of ASC Topic 860, Transfers and Servicing, which became effective January 1, 2010, has delayed the recognition of premium income. Additionally, the Company derives revenue from interest income on SBA loans held for investment, servicing fee income on the guaranteed portions of SBA loans previously sold, servicing income for loans originated by other lenders for which NSBF is the servicer, and financing and billing services, classified as other income above, provided by Newtek Business Credit (NBC). Most SBA loans originated by NSBF charge an interest rate equal to the Prime rate plus an additional percentage amount; the interest rate resets to the current Prime rate on a monthly or quarterly basis, which will result in changes to the amount of interest accrued for that month and going forward and a re-amortization of a loan s payment amount until maturity.

Generally, NSBF sells the guaranteed portion of each loan to a third party via an SBA regulated secondary market transaction utilizing SBA form 1086 and retains the unguaranteed principal portion in its own portfolio. SBA form 1086 requires, as part of the transferor s representations and warranties, that the transferor repay any premium received from the transferee if either the SBA 7(a) loan borrower prepays the loan within 90 days of the transfer settlement date or fails to make one of its first three loan payments after the settlement date in a timely fashion and then proceeds to default within 275 days of the settlement date. Under ASC Topic 860, Transfers and Servicing, effective January 1, 2010, such recourse precludes sale treatment of the transferred guaranteed portions during this warranty period; rather NSBF is required to account for this as a financing arrangement with the transferee. Until the warranty period expires such transferred loans are classified as SBA loans transferred, subject to premium recourse with a matching liability Liability on SBA loans transferred, subject to premium recourse. The Company values the liability based on the probability of payment given the Company s history of returning premium: the transferee will receive 100% of the guaranteed portion from either the borrower or the SBA and approximately 3% of the premium amount from the Company in instances of default or prepayment during the warranty period. This calculation resulted in the recognition of $1,246,000 for the three months ended June 30, 2010. At the expiration of the warranty period, the sale of the guaranteed portions of these loans as well as the corresponding gain is recognized into premium income, and the asset and liability eliminated. Recognition is estimated to occur from 90 days of settlement date, which for some of the loans sold in the first quarter 2010 began at the end of the second quarter. Recognition resulted in the realization of the premium income, described more fully below, as well as a corresponding decrease in the FAS166 Secured Borrowing for the quarter of $199,000 resulting in a net fair value adjustment of $1,047,000 for the quarter ending June 30, 2010.

As a continuing result of the implementation of ASC Topic 860, the Company recognized $193,000 in premium income for the second quarter ended June 30, 2010 for four guaranteed loan sales totaling $2,422,000 where the warranty period expired. Also during these three months, the Company transferred 27 guaranteed loans aggregating $12,534,000; however, as discussed above, the recognition of the revenue from these transfers are delayed into future periods until the sale is recognized. Premium income for the three months ended June 30, 2009 totaled $137,000, resulting from one guaranteed loan sale aggregating $1,500,000 and recognized under previous accounting treatment. As a result of the dislocation in the secondary market during the early part of 2009, NSBF stopped originating new loans. Improving secondary market conditions and changes to the SBA 7(a) loan program in the 2^{nd} quarter 2009 permitted NSBF to begin lending again, although the temporary nature of its lending line with GE at that time caused management to limit the amount of loans NSBF made.

Servicing fee income related to SBA loans increased by $249,000 due primarily to the addition of servicing income associated with the FDIC contract, which totaled $165,000 for the three months ended June 30, 2010; there was no corresponding FDIC income in the prior quarter. Additionally, the average NSBF servicing portfolio increased from $126,356,000 for the quarter ended June 30, 2009 to $137,406,000 for the three months ended June 30, 2010 reflecting NSBF s renewed loan originations starting in the fourth quarter of 2009.

Total interest income decreased by $10,000 for the quarter due to a reduction in the average outstanding performing portfolio of SBA loans held for investment from $22,822,000 for the three months ended June 30, 2009 to $20,179,000 in the second quarter of 2010. This portfolio contraction resulted in a decrease of $40,000 in interest income. An additional $70,000 reduction in interest income was recognized in the second quarter of 2010 as a result of previous recognized interest income being reversed as a result of loans being transferred into nonperforming status. This was partially offset by the recognition of $99,000 in interest income recognized on the loans transferred, not yet sold under ASC 860.

Other income increased by $84,000 due primarily to the addition of consulting income associated with the FDIC contract, which totaled $121,000. This increase was partially offset by reductions in late payment and other loan-related income at NSBF as well as a reduction in billing services revenue earned by Newtek Business Credit. The average number of billing service customers decreased by 6 from an average of 80 to an average of 74 during the three months ended June 30, 2009 and 2010, respectively.

Table of Contents

As a result of the implementation of ASC Topic 860, the Company established a new liability, Liability for SBA loans transferred, subject to recourse to account for transfers of the guaranteed portions sold via SBA regulated secondary market transactions as financings during the duration of the premium warranty period. As discussed above, contemporaneous with the implementation the Company elected to fair value the new liability. As a result, the Company recognized a gain of $1,246,000, which was reduced by $199,000 for the recognition of four loan sales in the quarter ended June 30, 2010. This net gain, totaling $1,047,000, resulted from the reduction of the value of the liability based on its economic likelihood of repayment.

Salaries and benefits increased by $152,000 as additional staff was added in the originating, servicing and liquidation departments in connection with the resumption of lending that began in the third quarter of 2009. Payroll expense at NBC decreased by $11,000 for the three months ended June 30, 2010 as compared with the prior quarter as a result of management reduction in headcount of one employee. The Company believes it has adequate staff to maintain operations at NBC as well as service its portfolio and originate loans at NSBF. The combined average headcount for the quarter increased by 42% from 31 at June 30, 2009, to 44 at June 30, 2010.

During the second quarter 2010, NSBF paid off its line with GE and initiated a $12,500,000 new term loan with Capital One. After deducting the amortization of deferred financing costs associated with the lines of credit held by NSBF and NBC of $89,000 for the three months ended June 30, 2009 and the amortization of deferred financing costs of $54,000 and the interest expense of $99,000 associated with the secured borrowings under ASC 860 for the three months ended June 30, 2010, interest expense decreased from $285,000 to $260,000 for the same periods, respectively. This decrease was due primarily to the average combined debt outstanding by NSBF and NBC decreasing from $17,660,000 to $16,172,000 quarter over quarter. The decrease in amortization of deferred financing costs for the quarter ended June 30, 2010, was due to the extension of the GE line of credit under the Fifth Amendment in July 2009 through May 2010 which extended the amortization period of the remaining asset.

Professional fees for the three months ended June 30, 2010 increased by $34,000 as a result of an increase in consulting and accounting expenses, which was partially offset by a decrease in legal expense.

Consideration in arriving at the provision for loan loss includes past and current loss experience, current portfolio composition, future estimated cash flows, and the evaluation of real estate and other collateral as well as current economic conditions. While the quarterly provision for loan loss decreased by $108,000 quarter over quarter, the reserve for loan losses as compared to the gross portfolio balance remained relatively constant decreasing from $3,756,000 or 12.7% at June 30, 2009 to $3,698,000 or 12.6% at June 30, 2010. Total impaired non-accrual loans at June 30, 2009 and June 30, 2010, amounted to $7,126,000 and $8,666,000, respectively, with $2,738,000 or 38.4% and $2,713,000 or 31.3% of the allowance for loan losses being allocated against such impaired non-accrual loans, respectively. The year over year increase in non-performing loans reflects the effects the recession has had on NSBF s borrowers and the borrowers assets underlying the loans in addition to NSBF carrying a higher retained balance in loans originated in more recent years as compared to those originated prior to 2007 as a result of a shutdown in the unguaranteed sale market We believe that although the economic situation has improved, which should result in the stabilization of the amount of impaired non-accrual loans, we cannot predict when the allowance for loan losses will improve.

Other general and administrative costs increased by $53,000 due primarily to an adjustment made to reduce force placed insurance expense in the three months ended June 30, 2009. Additionally, increases in loan servicing costs, rent and utilities were offset by reductions in bank service charges and loan recovery expenses for the quarter ended June 30, 2010.

The resumption of loan originations and transfers in 2010 with the 90% guaranty percentage, the additions to servicing and consulting income from the NSBF portfolio and the FDIC contracts, and the adoption of fair value accounting for the liability created in accordance with ASC Topic 860, restored segment operations to a profit in the current quarter as opposed to a loss in the previous year s quarter.

Table of Contents

(In thousands):	Six months ended June 30: 2010	2009	$ Change	% Change
Revenue:				
Premium income	$ 193	$ 582	$ (389)	(67)%
Servicing fee	1,129	825	304	37%
Interest income	702	796	(94)	(12)%
Management fees	293	293		%
Other income	948	911	37	4%
Total revenue	3,265	3,407	(142)	(4)%
Net change in fair market value of:				
Liability on SBA loans transferred, subject to premium recourse	2,026		2,026	%
Expenses:				
Salaries and benefits	1,652	1,447	205	14%
Interest	746	792	(46)	(6)%
Management fees	230	230		%
Professional fees	262	158	104	66%
Depreciation and amortization	406	472	(66)	(14)%
Provision for loan losses	853	933	(80)	(9)%
Other general and administrative costs	695	716	(21)	(3)%
Total expenses	4,844	4,748	96	2%
Income (loss) before income taxes	$ 447	$ (1,341)	$ 1,788	133%

For the six months ended June 30, 2010 and 2009:

The Company recognized $193,000 in premium income for the six months ended June 30, 2010 for four guaranteed loan sales totaling $2,422,000 where the warranty period expired. Also during these six months, the Company transferred 44 guaranteed loans aggregating $23,536,000; however, as discussed above, the recognition of the revenue from these transfers is delayed into future periods until the sale can be recognized. Premium income for the six months ended June 30, 2009 totaled $582,000, resulting from 14 guaranteed loan sales aggregating $8,802,000. As a result of the dislocation in the secondary market during 2009, the premium on the guaranteed loans sold dropped to par and the servicing component increased to over 3.4% during the first six months. In order to more appropriately value the servicing asset, in 2009 the Company applied a discounted cash flow model, which uses valuation techniques to convert future amounts to a single present amount and is based on the value indicated by current market expectations about those future amounts. The premium earned during the second half of 2009 is reflective of this valuation method of the newly created servicing assets. In 2010 the Company reverted back to the strip multiple method.

Servicing fee income related to SBA loans increased by $304,000 due primarily to the addition of servicing income associated with the FDIC contract, which totaled $230,000 for the six months ended June 30, 2010; there was no FDIC income in the corresponding six month period in 2009. Additionally, the average NSBF servicing portfolio increased from $127,319,000 for the six months ended June 30, 2009 compared to $132,352,000 for the current six month period reflecting NSBF s renewed loan originations starting in the fourth quarter of 2009.

Interest income decreased by $123,000 due to a reduction in the average outstanding performing portfolio of SBA loans held for investment from $24,277,000 for the six months ended June 30, 2009 to $20,140,000 in the first half of 2010. An additional $70,000 reduction in interest income was recognized during the first six months of 2010 as a result of previous recognized interest income being reversed as a result of loans being transferred into nonperforming status. This decrease was partially offset by the recognition of $99,000 in interest income recognized on the loans transferred, not yet sold under ASC 860 during the first six months of 2010.

Other income increased by $37,000 due primarily to the addition of consulting income associated with the FDIC contract, which totaled $137,000. This increase was partially offset by reductions in late payment and other loan-related income at NSBF as well as a reduction in billing services revenue earned by Newtek Business Credit. The average number of billing service customers decreased by 7 from an average of 82 to an average of 75 during the respective first halves of 2009 and 2010.

33

Table of Contents

As a result of the implementation of ASC Topic 860, the Company established a new liability, Liability for SBA loans transferred, subject to recourse to account for transfers of the guaranteed portions sold via SBA regulated secondary market transactions as financings during the duration of the premium warranty period. As discussed above, contemporaneous with the implementation of ASC Topic 860, the Company elected to fair value the new liability. As a result, the Company recognized a gain of $2,026,000 from the reduction of the value of the liability based on its economic likelihood of repayment of the premium under the warranty.

Salaries and benefits increased by $205,000 as additional staff was added in the originating, servicing and liquidation departments of NSBF in connection with the resumption of lending that began in the third quarter of 2009. Payroll expense at NBC remained constant decreasing by less than $5,000 during the first six months ended June 30, 2010. The Company believes it has adequate staff to maintain operations at NBC as well as service its portfolio and originate loans at NSBF. The combined average headcount for the six month periods increased by 27% from 33 at June 30, 2009, to 42 at June 30, 2010.

During the second half of 2010, NSBF paid off its line with GE and initiated a $12,500,000 new term loan with Capital One. After deducting the amortization of deferred financing costs associated with the lines of credit held by NSBF and NBC of $196,000 for the six months ended June 30, 2009 and $125,000 for the six months ended June 30, 2010 along with the interest expense of $99,000 associated with the secured borrowings under ASC 860 for the six months ended June 30, 2010, interest expense decreased from $596,000 to $522,000 for the same periods, respectively. This decrease was due primarily to the average combined outstanding debt by NSBF and NBC decreasing from $17,946,000 to $15,088,000 for the six months ended June 30, 2009 and 2010, respectively. The decrease in amortization of deferred financing costs for the six months ended June 30, 2010, was due to the extension of the GE line of credit under the Fifth Amendment in July 2009 through May 2010 which extended the amortization period of the remaining asset.

Professional fees for the six months ended June 30, 2010 increased by $104,000 as a result of an increase in consulting and accounting expenses, which was partially offset by a decrease in legal expense. The increase in consulting and accounting expenses was mainly due to obtaining a rating from the S&P on our loan servicing operations and additional professional fees associated with the payoff of the line with GE.

Consideration in arriving at the provision for loan loss includes past and current loss experience, current portfolio composition, future estimated cash flows, and the evaluation of real estate and other collateral as well as current economic conditions. While the provision for loan loss decreased by $80,000 for the six month period ended June 30, 2010, the reserve for loan losses as compared to the gross portfolio balance remained constant decreasing minimally from $3,756,000 or 12.7% at June 30, 2009 to $3,698,000 or 12.6% at June 30, 2010. Total impaired non-accrual loans at June 30, 2009 and June 30, 2010, amounted to $7,126,000 and $8,666,000, respectively, with $2,738,000 or 38.4% and $2,713,000 or 31.3% of the allowance for loan losses being allocated against such impaired non-accrual loans, respectively. The year over year increase in non-performing loans reflects the effects the recession has had on NSBF s borrowers and the borrowers assets underlying the loans. We believe that although the economic situation has improved, which should result in the stabilization of the amount of impaired non-accrual loans, we cannot predict when the allowance for loan losses will decrease.

Other general and administrative costs decreased by $21,000 due to a reduction in loan recovery expenses which included a $102,000 write-down on foreclosed property and a $10,000 loss on disposal of owned property in the prior period. These decreases were partially offset by increases in loan servicing costs and rent and utilities for the quarter ended June 30, 2010.

While premium and interest income decreased for the six months ended June 30, 2010, the resumption of loan originations with the 90% guaranty percentage, the additions to servicing and consulting income from the NSBF portfolio and the FDIC contracts, and the adoption of fair value accounting for the liability created in accordance with ASC Topic 860 resulted in a return to profitability for the first half of 2010.

Capcos

As described in Note 3 to the condensed consolidated financial statements, effective January 1, 2008, the Company adopted fair value accounting for its financial assets and financial liabilities concurrent with its election of the fair value option for substantially all credits in lieu of cash, notes payable in credits in lieu of cash and prepaid insurance. These are the financial assets and liabilities associated with the Company s Capco notes that are reported within the Company s Capco segment. The

Table of Contents

tables below reflect the effects of the adoption of fair value measurement on the income and expense items (income from tax credits, interest expense and insurance expense) related to the revalued financial assets and liability for the three and six months ended June 30, 2010 and 2009. In addition, the net change to the revalued financial assets and liability for the three and six months ended June 30, 2010 and 2009 is reported in the line Net change in fair market value of Credits in lieu of cash and Notes payable in credits in lieu of cash on the condensed consolidated statement of operations.

	Three months Ended June 30:			
(In thousands):	**2010**	**2009**	**$ Change**	**% Change**
Revenue:				
Income from tax credits	$ 556	$ 2,714	$ (2,158)	(80)%
Interest income	39	19	20	105%
Other income	1		1	%
Total revenue	596	2,733	(2,137)	(78)%
Net change in fair market value of:				
Credits in lieu of cash and Notes payable in credits in lieu of cash	13	473	(460)	(97)%
Expenses:				
Interest	577	3,197	(2,620)	(82)%
Management fees	555	947	(392)	(41)%
Professional fees	68	143	(75)	(52)%
Other than temporary decline in value of investments		158	(158)	(100)%
Other general and administrative costs	75	(176)	251	143%
Total expenses	1,275	4,269	(2,994)	(70)%
Loss before income taxes	$ (666)	$ (1,063)	$ (397)	(37)%

Three months ending June 30, 2010 and 2009:

Revenue is derived primarily from non-cash income from tax credits. The decrease in second quarter 2010 revenue versus the second quarter 2009 reflects the effect of the lower interest rate used under fair value accounting. The amount of future income from tax credits revenue will fluctuate with future interest rates. However, over future periods through 2016, the amount of tax credits, and therefore the income the Company will recognize, will decrease to zero.

Expenses consist primarily of management fees and non-cash interest expense. Management fees decreased 41%, or $392,000, to $555,000 for the three months ended June 30, 2010 from $947,000 for the same period ended 2009. Management fees, which are eliminated upon consolidation, are expected to decline in the future as the Capcos mature and utilize their cash. Interest expense decreased 82%, or $2,620,000, to $577,000 for the three months ended June 30, 2010 from $3,197,000 as a result of the lower interest rate used under the fair value accounting for the period. The $251,000 increase in other general and administrative costs is due to the returned premium on a Capco insurance policy for $250,000 during the second quarter 2009 which does not recur in 2010.

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

35

(In thousands):	Six months ended June 30: 2010	2009	$ Change	% Change
Revenue:				
Income from tax credits	$ 1,302	$ 4,250	$ (2,948)	(69)%
Interest income	68	61	7	11%
Other income	6		6	%
Total revenue	1,376	4,311	(2,935)	(68)%
Net change in fair market value of:				
Credits in lieu of cash and Notes payable in credits in lieu of cash	174	1,010	(836)	(83)%
Expenses:				
Interest	1,492	5,260	(3,768)	(72)%
Management fees	1,287	1,827	(540)	(30)%
Professional fees	173	295	(122)	(41)%
Other than temporary decline in value of investments	6	158	(152)	(96)%
Other general and administrative costs	159	(52)	211	406%
Total expenses	3,117	7,488	(4,371)	(58)%
Loss before income taxes	$ (1,567)	$ (2,167)	(600)	(28)%

Six months ending June 30, 2010 and 2009:

Revenue is derived primarily from non-cash income from tax credits. The decrease in revenue for the six months ended June 30, 2010 versus the same period in 2009 reflects the effect of the lower interest rate used under fair value accounting. The amount of future income from tax credits revenue will fluctuate with future interest rates. However, over future periods through 2016, the amount of tax credits, and therefore the income the Company will recognize, will decrease to zero.

Expenses consist primarily of management fees and non-cash interest expense. Management fees decreased 30%, or $540,000, to $1,287,000 for the six months ended June 30, 2010 from $1,827,000 for the same period ended 2009. Management fees, which are eliminated upon consolidation, are expected to decline in the future as the Capcos mature and utilize their cash. Interest expense decreased 72%, or $3,768,000, to $1,492,000 for the six months ended June 30, 2010 from $5,260,000 as a result of the lower interest rate used under the fair value accounting for the period. The $211,000 increase in other general and administrative costs is due to the returned premium on a Capco insurance policy for $250,000 during the six months ended June 30, 2009 which does not recur in 2010.

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

Table of Contents

All Other

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

(In thousands):	Three months Ended June 30: 2010	2009	$ Change	% Change
Revenue:				
Interest income	$ 36	$ 12	$ 24	200%
Insurance commissions	204	217	(13)	(6)%
Other income	142	1,091	(949)	(87)%
Total revenue	382	1,320	(938)	(71)%
Expenses:				
Salaries and benefits	398	402	(4)	(1)%
Professional fees	45	46	(1)	(2)%
Depreciation and amortization	33	32	1	3%
Other general and administrative costs	121	285	(164)	(58)%
Total expenses	597	765	(168)	(22)%
(Loss) income before income taxes	$ (215)	$ 555	$ (770)	(139)%

Three months ending June 30, 2010 and 2009:

The revenue decrease of $938,000 is primarily due to the decrease in other income of $949,000 in the second quarter of 2010 as compared to the second quarter of 2009: the second quarter of 2009 enjoyed a one-time $1,000,000 recovery of an investment previously written off that did not recur in the second quarter of 2010. Interest income increased as a result of an increase in cash and cash equivalents during the second quarter of 2010 as compared with the second quarter of 2009. Insurance commissions decreased 6%, or $13,000, for the three months ended June 30, 2010.

Salaries and benefits, professional fees and depreciation and amortization remained flat period over period. Other general administrative costs decreased by $164,000, or 58% to $121,000 for the second quarter ended June 30, 2010, as compared to $285,000 for 2009 mainly due to the second quarter of 2009 reflecting a write-off of insurance agency receivables and a reduction in the insurance agency software maintenance costs in the second quarter of 2010.

(In thousands):	Six months Ended June 30: 2010	2009	$ Change	% Change
Revenue:				
Interest income	$ 47	$ 28	$ 19	68%
Insurance commissions	412	417	(5)	(1)%
Other income	260	1,261	(1,001)	(79)%
Total revenue	719	1,706	(987)	(58)%
Expenses:				
Salaries and benefits	801	894	(93)	(10)%
Professional fees	102	125	(23)	(18)%
Depreciation and amortization	78	62	16	26%

Other general and administrative costs	301	474	(173)	(36)%
Total expenses	1,282	1,555	(273)	(18)%
(Loss) income before income taxes	$ (563)	$ 151	$ (714)	(473)%

Table of Contents

Six months ending June 30, 2010 and 2009:

The revenue decrease of $987,000 is primarily due to the decrease in other income of $1,001,000 for the six months ended June 30, 2010 as compared to the comparable period 2009, primarily due to a one-time $1,000,000 recovery in 2009 of an investment previously written off that has not recurred in 2010. Interest income increased as a result of an increase in cash and cash equivalents. Insurance commissions remained flat period over period.

Salaries and benefits decreased by $93,000, or 10% to $801,000 for the six months ended June 30, 2010, as compared to $894,000 for same period 2009, as a result of management s cost cutting initiatives in the insurance agency and other entities mainly during the first quarter 2010. Professional fees declined by $23,000, or 18% to $102,000 for the six months ended June 30, 2010 as compared to $125,000 for 2009. Other general administrative costs decreased by $173,000, or 36% to $301,000 for the six months ended June 30, 2010, as compared to $474,000 for 2009, primarily due to a one-time adjustment and a reduction in software maintenance costs in the insurance agency as a result of a software conversion.

Corporate activities

The Corporate activities segment implements business strategy, directs marketing, provides technology oversight and guidance, coordinates and integrates activities of the other segments, contracts with alliance partners, acquirers customer opportunities and owns our proprietary NewTracker referral system and all other intellectual property rights. This segment includes revenue and expenses not allocated to other segments, including interest income, Capco management fee income and corporate operations expenses.

(In thousands):	**Three months ended June 30: 2010**	**2009**	**$ Change**	**% Change**
Revenue:				
Management fees	$ 524	$ 916	$ (392)	(43)%
Interest income	5	9	(4)	(44)%
Other income	3		3	%
Total revenue	532	925	(393)	(42)%
Expenses:				
Salaries and benefits	1,143	1,154	(11)	(1)%
Professional fees	391	574	(183)	(32)%
Depreciation and amortization	81	112	(31)	(28)%
Other general and administrative costs	641	581	60	10%
Total expenses	2,256	2,421	(165)	(7)%
Loss before income taxes	$ (1,724)	$ (1,496)	$ (228)	(15)%

Three months ended June 30, 2010 and 2009:

Revenue is derived primarily from management fees earned from the Capcos which declined 43%, or $392,000, to $524,000 for the three months ended June 30, 2010 from $916,000 for the second quarter of 2009. Management fees, which are eliminated upon consolidation, are expected to continue to decline in the future as the Capcos mature and utilize their cash. If a Capco does not have current or projected cash sufficient to pay management fees, then such fees are not accrued.

Expenses declined $165,000, or 7%, in the second quarter of 2010 from the comparable period in 2009. Salaries and benefits decreased $11,000 or 1% to $1,143,000 for the second quarter of 2010 as compared to $1,154,000 for the same period ended 2009. Professional fees decreased $183,000, or 32%, during the three months ended June 30, 2010 due to the Company exploring various financing and restructuring alternatives in 2009 that resulted in significant one-time professional fees for the three months ended June 30, 2009. Other general and administrative costs increased $60,000 or 10% to $641,000 for the second quarter of 2010 as compared to $581,000 for the same period ended 2009.

38

Table of Contents

(In thousands):	Six months ended June 30: 2010	2009	$ Change	% Change
Revenue:				
Management fees	$ 1,224	$ 1,764	$ (540)	(31)%
Interest income	13	12	1	8%
Other income	3	9	(6)	(67)%
Total revenue	1,240	1,785	(545)	(31)%
Expenses:				
Salaries and benefits	2,439	2,393	46	2%
Professional fees	646	1,139	(493)	(43)%
Depreciation and amortization	171	234	(63)	(27)%
Other general and administrative costs	1,239	1,371	(132)	(10)%
Total expenses	4,495	5,137	(642)	(12)%
Loss before income taxes	$ (3,255)	$ (3,352)	$ (97)	(3)%

Six months ended June 30, 2010 and 2009:

Revenue from management fees earned from the Capcos declined 31%, or $540,000, to $1,224,000 for the six months ended June 30, 2010 from $1,764,000 for the comparable period 2009. Management fees, which are eliminated upon consolidation, are expected to continue to decline in the future as the Capcos mature and utilize their cash. If a Capco does not have current or projected cash sufficient to pay management fees, then such fees are not accrued.

Expenses declined $642,000, or 12%, for the six months ended June 30, 2010 from the comparable period in 2009. Salaries and benefits increased $46,000 or 2% to $2,439,000 for the six months ended June 30, 2010 as compared to $2,393,000 for the same period ended 2009. Professional fees decreased $493,000, or 43%, for the six months ended June 30, 2010 from the comparable period in 2009 due to the Company exploring various financing and restructuring alternatives in 2009 that resulted in significant one-time professional fees for the six months ended June 30, 2009. Other general and administrative costs decreased $132,000 or 10% to $1,239,000 as compared to $1,371,000 for the six months ended June 30, 2009 mainly due to decreases in rent, utilities, maintenance and telephone costs.

Liquidity and Capital Resources

Cash requirements and liquidity needs over the next twelve months are anticipated to be funded primarily through operating results and available cash and cash equivalents. In April 2010, the Company closed two five year term loans aggregating $14,583,000 with Capital One, N.A. which refinanced Newtek s SBA lender s $12,500,000 debt to GE as well as the existing $2,083,000 term loan between Capital One and NTS. Previously the SBA lender utilized the GE debt to originate and warehouse the guaranteed and unguaranteed portions of SBA loans. Under the new Capital One term loan, all loan repayment proceeds are used to reduce the outstanding indebtedness and the SBA lender will fund its cash requirements through available cash and cash equivalents supplemented as needed by the cash resources of Newtek. The receivables financing unit utilizes a $10 million line of credit provided by Wells Fargo Bank to purchase and warehouse receivables. There are no cross covenants or collateralization between the Wells Fargo lending facility and the Capital One term loans. The availability of the Wells Fargo line of credit and the performance of the Capital One term loans are subject to compliance with certain covenants and collateral requirements as set forth in their respective agreements, as well as limited restrictions on distributions or loans to the Company by the respective debtor, none of which are material to the liquidity of the Company. The Company guarantees these loans for the subsidiaries: Capital One for the amount borrowed and Wells Fargo for up to $800,000. As of June 30, 2010, the Company s unused sources of liquidity consisted of $7,790,000 in unrestricted cash and cash equivalents and $459,000 available through the Wells Fargo line of credit.

Restricted cash totaling $9,380,000, which is primarily held in the Capcos, can be used in managing and operating the Capcos, making qualified investments, to repay debt obligations, and for the payment of taxes on capco income.

In summary, Newtek generated and used cash as follows:

(Dollars in thousands)

	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Net cash (used in) provided by operating activities	$ (2,113)	$ 4,649
Net cash (used in) provided by investing activities	(4,253)	2,337
Net cash provided by (used in) financing activities	1,575	(5,244)
Net (decrease) increase in cash and cash equivalents	(4,791)	1,742
Cash and cash equivalents, beginning of period	12,581	16,852
Cash and cash equivalents, end of period	$ 7,790	$ 18,594

Net cash flows from operating activities decreased $6,762,000 to $(2,113,000) for the six months ended June 30, 2010 compared to $4,649,000 for the six months ended June 30, 2009. This primarily reflects the use of funds for lending and purchasing receivables by our Small business finance segment in the current six months whereas the 2009 six month period benefited from the sale of SBA loans held for sale originated in 2008. For the six months ended June 30, 2009, proceeds from sale of SBA loans held for sale sold via SBA regulated secondary market transactions benefited from selling $8,802,000 of loans held for sale originated in 2008 and the first half of 2009 against originations of $2,669,000. For the six months ended June 30, 2010 and reflecting the effects of ASC Topic 860 Transfers and Servicing which became effective on January 1, 2010 (discussed above), the Company originated and transferred, rather than sold, via SBA regulated secondary market transactions, $23,859,000 of the guaranteed portions of SBA 7(a) loans in return for $17,739,000 of cash and $8,015,000 of broker receivable. Under ASC Topic 860 the transfer is considered a financing until the end of the premium warranty period. The receipt of cash and the broker receivable therefore gave rise to a new liability (Liability for SBA loans transferred, subject to recourse) of $25,804,000 (subsequently reduced by the conversion to sale treatment of $2,640,000 of the guaranteed portions and their cash premium and then fair valued to $21,176,000). The transferred loans remain on the financial statements of the Company as a new asset SBA loans transferred, subject to premium recourse which is subsequently reduced by conversion of the transactions to sale treatment upon the expiration of the premium warranty period. Upon the expiration of the premium warranty periods for the transferred loans, the transfers will be accounted for as sales, the asset and liability will be eliminated, the gain on fair value for the liability will be reversed, and the gain on sale will be recognized: these changes will be shown in the supplemental disclosures of cash flow activities as non-cash changes in assets and liabilities. ASC Topic 860 changed the accounting treatment for the sale of these loans but did not change their effect on the liquidity of the Company.

Net cash (used in) provided by investing activities primarily includes the purchase of fixed assets and customer accounts, activity regarding the unguaranteed portions of SBA loans, changes in restricted cash and activities involving investments in qualified businesses. Net cash (used in) provided by investing activities decreased by $6,590,000 to cash used of $(4,253,000) for the six months ended June 30, 2010 compared to cash provided of $2,337,000 for the six months ended June 30, 2009. The decrease was due primarily to a greater amount of SBA loans originated for investment for the six month period, $(3,108,000) in 2010, versus $(828,000) in 2009, a lesser return from qualified investments in 2010, $111,000, as compared to the return of $1,909,000 in 2009; and a decrease in payments received on SBA loans from $1,862,000 in 2009 to $1,292,000 in 2010 primarily due to a decline in prepayments. The change in restricted cash provided $1,513,000 less cash flows in 2010, or $(1,620,000), versus cash flows used of $(107,000) in 2009.

Net cash flows provided by (used in) financing activities primarily includes the net borrowings (repayments) on bank notes payable to Capital One, Wells Fargo, and GE. Net cash flows provided by (used in) financing activities increased by $6,819,000 to cash provided of $1,575,000 for the six months ended June 30, 2010 from a cash use of $(5,244,000) for the six months ended June 30, 2009. The primary reason for the increase was the 2009 period reflected the repayment of bank notes payable of $(5,203,000) primarily from the application of Proceeds from sale of SBA loans held for sale to the GE line, while the current six months reflected borrowings on the Company s lines of credit with Wells Fargo to fund the increase in accounts receivables purchased offset by the amount borrowed by NSBF. During the six month period of 2010, the Company received $12,500,000 of proceeds from the Capital One term note used the funds to repay the outstanding amount on the GE line of credit. In addition, the Company made principal payments on the Capital One term note of $268,000 for the period. NBC had net borrowings on the Wells

Fargo line of credit for the six month period of $2,419,000, all of which reflect a net increase of $1,852,000 to the financing activities for the six month period.

Table of Contents

The $(4,791,000) decrease in cash and cash equivalents in the first half of 2010 primarily reflects the increase in the origination of SBA loans held for investment, reduction in debt associated with NSBF and NTS, establishment of restricted reserve accounts for such debt, and transfer of cash from Company operating to restricted capco accounts due to the deconsolidation of a qualified investment which effectively moved cash from the business s unrestricted cash account back to the Capco s escrow, or restricted, cash account. Continued improvements in the Company s operations should continue to benefit liquidity in the future.

Item 3. Quantitative and Qualitative Disclosure about Market Risk.

All of our business activities contain elements of risk. We consider the principal types of risk to be fluctuations in interest rates and loan portfolio valuations. We consider the management of risk essential to conducting our businesses. Accordingly, risk management systems and procedures are designed to identify and analyze our risks, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs.

Our SBA lender primarily lends at an interest rate of prime, which resets on a quarterly basis, plus a fixed margin. Our factoring business purchases receivables primarily on a basis that equates to a similar prime plus a fixed margin structure. The Capital One term loan and the Wells Fargo line of credit are both on a prime plus a fixed factor basis as well (although the Company has elected under the Wells Fargo line to borrow under a lower cost LIBOR basis). As a result the Company believes it has matched its cost of funds to its interest income. However, because of the differential between the amount lent and the smaller amount financed, a significant change in market interest rates will have a material effect on our operating income. In periods of sharply rising interest rates, our cost of funds will increase at a slower rate than the interest income earned on the loans we have made; this should improve our net operating income, holding all other factors constant. However, a reduction in interest rates, as has occurred since 2008, has and will result in the Company experiencing a reduction in operating income; that is interest income will decline more quickly than interest expense resulting in a net reduction of benefit to operating income.

We do not have significant exposure to changing interest rates on invested cash which was approximately $17,170,000 at June 30, 2010. We do not purchase or hold derivative financial instruments for trading purposes. All of our transactions are conducted in U.S. dollars and we do not have any foreign currency or foreign exchange risk. We do not trade commodities or have any commodity price risk.

We believe that we have placed our demand deposits, cash investments and their equivalents with high credit-quality financial institutions. Invested cash is held almost exclusively at financial institutions with ratings from Standard and Poor s of A- or better. The Company invests cash not held in interest free checking accounts or bank money market accounts mainly in U.S. Treasury only money market instruments or funds and other investment-grade securities. As of June 30, 2010, cash deposits in excess of FDIC and SIPC insurance totaled approximately $938,000 and funds held in U.S. Treasury only money market funds or equivalents in excess of SIPC insurance totaled approximately $7,729,000.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective to provide assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the issuer s management including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Table of Contents

(b) Change in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the quarter ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(c) Limitations

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurances that the control system s objectives will be met. Furthermore, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with its policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. We periodically evaluate our internal controls and make changes to improve them.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are not involved in any material pending litigation.

Item 4. Submission of Matters to a Vote of Security Holders

Information required by this Item has been provided by the Company in its Current Report on Form 8-K, filed June 14, 2010, which report is incorporated herein by reference.

Item 6. Exhibits

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Newtek Business Services, Inc., as amended
10.17.2	Form of ISO Stock Option Agreement for the Company s 2010 Stock Incentive Plan
10.17.3	Form of Non-ISO Stock Option Agreement for the Company s 2010 Stock Incentive Plan
10.17.4	Form of Stock Appreciation Rights Agreement for the Company s 2010 Stock Incentive Plan
10.17.5	Form of Restricted Share Award Agreement for the Company s 2010 Stock Incentive Plan
31.1	Certification by Chief Executive Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act.
31.2	Certification by Chief Financial Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act.
32.1	Certification by Chief Executive and Chief Financial Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEWTEK BUSINESS SERVICES, INC.

Date: August 12, 2010	By: /s/ Barry Sloane Barry Sloane Chairman of the Board, President, Chief Executive Officer and Secretary
Date: August 12, 2010	By: /s/ Seth A. Cohen Seth A. Cohen Chief Financial Officer and Treasurer

44