Golub Capital BDC, Inc.
Form 10-Q
February 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended December 31, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 814-00794

Golub Capital BDC, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**27-2326940**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

150 South Wacker Drive, Suite 800

Chicago, IL 60606

(Address of principal executive offices)

(312) 205-5050

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of February 6, 2015, the Registrant had 47,171,518 shares of common stock, $0.001 par value, outstanding.

Part I. Financial Information

Part II. Other Information

Golub Capital BDC, Inc. and Subsidiaries
Consolidated Statements of Financial Condition
(In thousands, except share and per share data)

	December 31, 2014 (unaudited)	September 30, 2014
Assets		
Investments, at fair value		
Non-controlled/non-affiliate company investments	$ 1,357,614	$ 1,309,701
Non-controlled affiliate company investments	3,407	3,080
Controlled affiliate company investments	39,705	34,831
Total investments, at fair value (cost of $1,391,805 and $1,337,580, respectively)	1,400,726	1,347,612
Cash and cash equivalents	5,740	5,135
Restricted cash and cash equivalents	35,686	74,808
Interest receivable	6,185	5,791
Deferred financing costs	9,436	9,515
Receivable from investments sold	2,232	-
Other assets	578	527
Total Assets	$ 1,460,583	$ 1,443,388
Liabilities		
Debt	$ 714,650	$ 697,150
Secured borrowings, at fair value (proceeds of $376 and $384, respectively)	380	389
Interest payable	4,455	3,196
Management and incentive fees payable	5,853	8,451
Accounts payable and accrued expenses	1,468	1,397
Accrued trustee fees	59	66
Total Liabilities	726,865	710,649
Commitments and contingencies (Note 8)		
Net Assets		
Preferred stock, par value $0.001 per share, 1,000,000 shares authorized, zero shares issued and outstanding as of December 31, 2014 and September 30, 2014	-	-
Common stock, par value $0.001 per share, 100,000,000 shares authorized, 47,171,518 and 47,119,498 shares issued and outstanding as of December 31, 2014 and September 30, 2014, respectively	47	47
Paid in capital in excess of par	721,364	720,479
Undistributed net investment income	3,106	3,627
Net unrealized appreciation (depreciation) on investments and secured borrowings	11,583	12,694
Net realized gain (loss) on investments	(2,382)	(4,108)
Total Net Assets	733,718	732,739
Total Liabilities and Total Net Assets	$ 1,460,583	$ 1,443,388
Number of common shares outstanding	47,171,518	47,119,498

Net asset value per common share	$ 15.55	$ 15.55

See Notes to Consolidated Financial Statements.

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Golub Capital BDC, Inc. and Subsidiaries
Consolidated Statements of Operations (unaudited)
(In thousands, except share and per share data)

	Three months ended December 31, 2014	2013
Investment income		
From non-controlled/non-affiliate company investments:		
Interest income	$ 26,769	$ 24,157
Dividend income	18	16
Fee income	208	829
Total investment income from non-controlled/non-affiliate company investments	26,995	25,002
From non-controlled affiliate company investments:		
Interest income	-	225
Fee income	-	171
Total investment income from non-controlled affiliate company investments	-	396
From controlled affiliate company investments:		
Interest income	550	181
Total investment income from controlled affiliate company investments	550	181
Total investment income	27,545	25,579
Expenses		
Interest and other debt financing expenses	5,694	4,092
Base management fee	4,821	3,824
Incentive fee	1,071	3,032
Professional fees	629	658
Administrative service fee	607	582
General and administrative expenses	166	131
Total expenses	12,988	12,319
Net investment income	14,557	13,260
Net gain (loss) on investments and secured borrowings		
Net realized gains (losses):		
Non-controlled/non-affiliate company investments	1,726	(4,994)
Net realized gains (losses):	1,726	(4,994)
Net unrealized appreciation (depreciation):		
Non-controlled/non-affiliate company investments	(1,412)	6,133
Non-controlled affiliate company investments	327	274
Controlled affiliate company investments	(26)	240
Net unrealized appreciation (depreciation)	(1,111)	6,647

Net change in unrealized depreciation (appreciation) on secured borrowings	-	(76)
Net gain (loss) on investments and secured borrowings	615	1,577
Net increase in net assets resulting from operations	$ 15,172	$ 14,837
Per Common Share Data		
Basic and diluted earnings per common share	$ 0.32	$ 0.34
Dividends and distributions declared per common share	$ 0.32	$ 0.32
Basic and diluted weighted average common shares outstanding	47,121,194	43,285,250

See Notes to Consolidated Financial Statements.

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Golub Capital BDC, Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets (unaudited)
(In thousands, except share data)

	Common Stock		Paid in Capital		Net Unrealized Appreciation (Depreciation) on		
		Par	in Excess	Undistributed Net	Investments and	Net Realized Gain	Total
	Shares	Amount	of Par	Investment Income	Secured Borrowings	(Loss) on Investments	Net Assets
Balance at September 30, 2013	43,282,932	$ 43	$ 652,669	$ 2,725	$ 9,225	$ (6,426)	$ 658,236
Issuance of common stock, net of offering and underwriting costs	-	-	-	-	-	-	-
Net increase in net assets resulting from operations	-	-	-	13,260	6,571	(4,994)	14,837
Distributions to stockholders:							
Stock issued in connection with dividend reinvestment plan	42,643	-	758	-	-	-	758
Dividends and distributions	-	-	-	(13,850)	-	-	(13,850)
Balance at December 31, 2013	43,325,575	$ 43	$ 653,427	$ 2,135	$ 15,796	$ (11,420)	$ 659,981
Balance at September 30, 2014	47,119,498	$ 47	$ 720,479	$ 3,627	$ 12,694	$ (4,108)	$ 732,739
Issuance of common stock, net of offering and underwriting costs	-	-	-	-	-	-	-
Net increase in net assets resulting from operations	-	-	-	14,557	(1,111)	1,726	15,172
Distributions to stockholders:							
Stock issued in connection with dividend reinvestment plan	52,020	-	885	-	-	-	885
Dividends and distributions	-	-	-	(15,078)	-	-	(15,078)

Balance at December 31, 2014	47,171,518	$ 47	$ 721,364	$ 3,106	$ 11,583	$ (2,382)	$ 733,718

See Notes to Consolidated Financial Statements.

Golub Capital BDC, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)
(In thousands)

	Three Months Ended December 31,	
	2014	2013
Cash flows from operating activities		
Net increase in net assets resulting from operations	$15,172	$14,837
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities		
Amortization of deferred financing costs	1,047	439
Accretion of discounts and amortization of premiums	(1,670)	(1,865)
Net realized (gain) loss on investments	(1,726)	4,994
Net change in unrealized (appreciation) depreciation on investments	1,111	(6,647)
Net change in unrealized appreciation (depreciation) on secured	-	76

borrowings		
Proceeds from (fundings of) revolving loans, net	90	277
Fundings of investments	(131,470)	(256,213)
Proceeds from principal payments and sales of portfolio investments	80,941	103,570
PIK interest	(390)	653
Changes in operating assets and liabilities:		
Interest receivable	(394)	138
Receivable for investments sold	(2,232)	-
Other assets	(51)	73
Interest payable	1,259	1,882
Management and incentive fees payable	(2,598)	1,172
Payable for investments purchased	-	(2,020)
Accounts payable and accrued expenses	71	(265)
Accrued trustee fees	(7)	-
Net cash (used in) provided by operating activities	(40,847)	(138,899)
Cash flows from investing activities		
Net change in restricted cash and cash equivalents	39,122	(1,384)
	39,122	(1,384)

Net cash (used in) provided by investing activities

Cash flows from financing activities

The Chief Executive Officer semi-annually reviews the performance of each member of the senior executiv
named executive officers (other than himself whose performance is reviewed by the Committee). The concl
recommendations based on these reviews, including with respect to salary adjustments and annual award an
presented to the Committee by the Chief Executive Officer. The Committee will review the recommendatio
with the Company s compensation policies.

Setting Executive Compensation

During the course of each fiscal year, it has been the practice of the Chief Executive Officer to review the h
elements of each executive officer s total compensation and the Chief Executive Officer may also compare
the executive officers with that of the executive officers in an appropriate market comparison group of com
capitalization similar to that of the Company. We seek to set compensation levels that are perceived as fair,
externally, and competitive with overall compensation levels at other companies in our industry, including l
from which we may want to recruit employees. However,

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the Company does not establish individual objectives in the range of comparative data for each individual o
compensation. Typically, the Chief Executive Officer sets compensation with respect to the executive office
and presents it to the Committee for conformity with the Company s overall compensation policies. The na
are not present at the time of these deliberations. The Committee then performs a similar review of the Chie
total compensation and makes compensation decisions with respect to such officer, who does not participate
determination.

We choose to pay each element of compensation in order to attract and retain the necessary executive talent
performance and provide incentive for balanced focus on long-term strategic goals as well as short-term per
amount of each element of compensation is determined by or under the direction of our Committee, which u
factors to determine the amount of salary and other benefits to pay each named executive officer:

- performance against corporate and individual objectives for the year;
- difficulty of achieving desired results in the coming year;
- value of their unique skills and capabilities to support long-term performance;
- performance of their general management responsibilities; and
- contribution as a member of the executive management team.

At this point in the Company s development, we do not establish individual goals but focus on the overall p
our business. This entails an emphasis on discouraging excessive risk taking and leverage generally.

Based on the foregoing objectives, we have structured the Company s annual and long-term incentive-base
executive compensation to motivate executives to achieve the business goals set by the Company and rewar
achieving such goals.

There is no pre-established policy or target for the allocation between either cash or non-cash compensation
2010 we granted a majority of total compensation to executive officers in the form of cash compensation.

For the year ended December 31, 2010, the principal components of compensation for named executive offi

- base salary;
- performance-based incentive compensation based on the Company s and the executive s p
- equity based, long term compensation for a limited number of senior level executives, othe
executive officers; and
- retirement and other benefits made available to all employees.

Base Salary

The Company provides named executive officers and other employees with base salary to compensate them
rendered during the fiscal year. Executive base salaries continue to reflect our operating philosophy, our per
corporate culture and business direction, with each salary determined by the skills, experience and performa
individual executive, and the needs and resources of the Company. Base salaries are targeted to market leve
of published salary surveys and the closest related peer company compensation since we do not believe that
companies. Base salary ranges for named executive officers are determined for each executive based on his
responsibility by using market data from published salary surveys such as Equilar, and the Company genera
each named executive officer s salary within the range. We believe that the Company s most direct compe
talent are not necessarily restricted to those companies that are included in the peer company index used to c
returns, but encompass a broader group of companies engaged in the recruitment and retention of executive
with the Company.

During the review of base salaries for senior level executives, including the named executive officers, we pr

an internal review of each executive s compensation both individually and relative to othe

individual performance of the executive; and

a review of the Company s revenue growth, net income and cash flow metrics relative to t
annual plan as established by the Board.

Salary levels are typically considered annually as part of the Company s performance review process as we or other change in job responsibility. Merit based increases to salaries are based on the Chief Executive Off the individual s performance. Merit based increases to the salaries of named executive officers other than tl Officer are recommended by the Chief Executive Officer and confirmed by the Committee.

Annual Bonus

Annual bonuses may be awarded to executive officers under the Company s cash bonus plan. The Compan based on annually determined percentage of the salaries of all employees which it accrues as an expense. Pa plan are based on the Company s overall performance as determined by the Chief Executive Officer and th Committee determines any bonus for the Chief Executive Officer based on, among other things, a review of revenue growth, net income and cash flow metrics relative to the Company s annual plans as established by Committee has fixed an amount for the annual bonus pool, the Chief Executive Officer in consultation with respect to the named executive officers, or in consultation with the named executive officers and other exec respect to lower level employees, determines annual bonuses for other employees based on such employee considered include the achievement of business plans, defined goals and performance relative to other comp size and business strategy. The mix and weighting of the factors vary, depending on the business segment ar responsibilities. The level of achievement and overall contribution by the executive determines the level of l

Equity Based Compensation

From time to time, at the discretion of the Committee, the Company grants equity-based awards, such as sto restricted stock to the named executive officers and other employees to create a clear and strong alignment l compensation and shareholder return and to enable the named executive officers and other employees to dev stock ownership position in the company that will vest over time and act as an incentive for the employee to Company. Restricted stock and options may be granted pursuant to the Company s 2003 Stock Incentive Pl Incentive Plan. The Company s 2000 Incentive Stock and Deferred Compensation Plan expired in 2010 in terms. During the Company s early years of operation, through approximately 2005, we relied more freque equity-based awards due to the limited resources available to the Company to attract and retain qualified em executives. During that period the Company paid very little in the form of cash bonuses and using instead eo Currently, the cash flow of the Company permits a more balanced approach, allowing a combination of cash to implement the Company s compensation policies.

Under applicable accounting rules, we are required to measure the value of equity awards based on the fair v the grant date. The cost is recognized in our statement of operations over the period during which an employ provide service in exchange for the award, which is usually the vesting period.

Options are awarded at the average of the highest and lowest sale price of the Company s Common Shares market on the date of the grant (the Market Value). In certain limited circumstances, the Committee may executive at an exercise price in excess of the Market Value of the Company s Common Shares on the gran has never granted options with an exercise price that is less than the Market Value of the Company s Comn grant date, nor has it granted options which are priced on a date other than the grant date.

Options granted by the Committee typically vest over the first two to five years of the ten-year option term, cases we have granted options that have vested immediately. Vesting rights cease upon

termination of employment and vested options granted prior to 2008 may be exercised within one year of te
termination for cause) and those granted in 2008 and subsequent which have vested have 90 days after term
exercise. Prior to the exercise of an option, the holder has no rights as a shareholder with respect to the shar
option, including voting rights and the right to receive dividends or dividend equivalents.

Upon a change of control, or if earlier, the execution of an agreement to effect a change of control, all optio
stock awards under the Company s 2000 Incentive Stock and Deferred Compensation Plan, its 2003 Stock
2010 Stock Incentive Plan become fully vested and immediately exercisable, notwithstanding any other pro
any agreement.

During 2010, upon the recommendation of the Chief Executive Officer, long term equity awards were appro
Committee for three senior executives of the Company. These awards do not vest until July 2014 and are fu
event of the termination of the employment of the executive whether for cause or otherwise.

Benefits and Perquisites

Our executives are generally not entitled to benefits that are not available to all of our employees. In this reg
noted that we do not provide pension arrangements, post-retirement health coverage or similar benefits for o
employees. The Committee periodically reviews the levels of benefits provided to executive officers. The na
officers participate in the Company s 401(k) savings plan and other benefit plans on the same basis as other
employees. The Company has adopted a match for the Company s 401(k) savings plan which consists of a
50% of the first 2% of employee contributions up to a maximum of 1% of the employee s compensation. A
discretion the match may be in the form of cash or Common Shares. For 2010 a match Company shares valu
approved and paid in March 2010.

The perquisites we provided in fiscal 2010 are as follows. We paid the premiums on life insurance policies f
costs for Mr. Sloane our Chief Executive Officer in the amount of $19,133.

Compensation of the Chief Executive Officer

The Committee determined the compensation for Barry Sloane, Chairman, Chief Executive Officer and Pre
While recognizing the Chief Executive Officer s leadership in building a highly talented management team
Company forward, Mr. Sloane s salary was maintained at $350,000 for 2010 to which was added a bonus o
paid $125,000 in 2010 and $125,000 in 2011. Mr. Sloane received no bonus in 2008 or 2009. The Committe
that this salary and bonus package is less than the competitive labor market median for someone with his sk
nonetheless is reflective of the Company s current cash and financial position and the status of the Compan
Mr. Sloane s base compensation has remained unchanged since 2005.

Compensation of the Other Named Executive Officers

Based upon the recommendations of the Chief Executive, the Committee approved the 2010 compensation f
Senior Vice President and Chief Information Officer, and Seth A. Cohen, Chief Financial Officer. As with t
Officer, Mr. Brunet s and Mr. Cohen s base salaries were maintained at their 2009 levels in 2010, $276,00
respectively. The Chief Executive Officer and the Committee have determined that these compensation pac
with the competitive labor market median for people with their skills and talents and are reflective of the Co
and financial positions and the status of the Company s Common Shares.

Conclusion

Attracting and retaining talented and motivated management and employees is essential to creating long-ter
Offering a competitive, performance-based compensation program helps to achieve this objective by alignin
executive officers and other key employees with those of shareholders. We believe that the Company s 201
program met those objectives.

COMPENSATION RISK ASSESSMENT

Our Compensation, Corporate Governance and Nominating Committee aims to establish company-wide co and practices that reward contributions to long-term stockholder value and do not promote unnecessary or e In furtherance of this objective, the Committee conducted an assessment of our compensation arrangements our named executive officers. The assessment process included, among other things, a review of our (1) co philosophy, (2) compensation mix and (3) cash and equity-based incentive plans.

In its review, among other factors, the Committee considered the following:

- Our revenue model and our cash incentive plan encourage our employees to focus on creating a s predictable stream of revenue over multiple years, rather than focusing on current year revenue a of succeeding years.

- The Committee believes that the distribution of compensation among our core compensation ele balanced short-term performance and long-term performance.

- Our cash and equity-based incentive awards in conjunction with management efforts focus on bo long-term goals.

- Our cash and equity-based incentive awards contain a range of performance levels and payouts, t executives from taking risky actions to meet a single target with an all or nothing result of compe compensation.

- Our executives are encouraged to hold a meaningful number of shares of our common stock purs ownership policy.

Based upon this assessment, our Compensation, Corporate Governance and Nominating Committee believe company-wide compensation policies and practices do not create risks that are reasonably likely to have a m on us.

COMPENSATION COMMITTEE REPORT

The Compensation, Corporate Governance and Nominating Committee of the Company has reviewed and d foregoing Compensation Discussion and Analysis for fiscal 2010 required by Item 402(b) of Regulation S-K and, based on such review and discussions, the Compensation, Corporate Governance and Nominating Com to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Stateme

THE COMPENSATION, CORPORATE GOVERNANCE AND NOMINATING COMMI

Salvatore F. Mulia, Chairman

David C. Beck

Sam Kirschner

SUMMARY COMPENSATION TABLE

The following tables set forth the aggregate compensation earned by the Company s Chief Executive Offic Officer and next most highly compensated executive officers during 2010 and the two previous years which executive officers.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(6)	Option Awards ($)(6)	Non-Equity Incentive Plan Compensation ($)	Change Pensio Value and Nonquali Deferr Compens Earnings
Barry Sloane,	2010	350,000	250,000(1)				
CEO, PRES., CHR.	2009	350,000					
	2008	350,000					
Seth A. Cohen,	2010	240,000	35,900(5)				
CFO, SVP	2009	240,000	48,250(2)				
	2008	240,833			52,000(4)		
Craig J. Brunet,	2010	276,000	41,400(5)	13,250(6)			
CIO, EVP	2009	276,000	26,500(2)				
	2008	276,000	60,000(1)		52,000(4)		
Jeffrey G. Rubin,	2010						
President (3)	2009						
	2008	53,290					

(1) Cash bonus awarded for 2010 performance, $125,000 of which was and paid in 2010 and $125,000 wa
quarter of 2011.
(2) Cash bonus awarded for 2009 performance and paid in 2010.
(3) Resigned March 7, 2008.
(4) 10 year options with 2 year vesting.
(5) Cash bonus awarded for 2010 performance and paid in 2011.
(6) The value reported for Stock and Option Awards is the aggregate grant date fair value of options or res
granted to the named executive officers in the years shown, determined in accordance with FASB ASC
disregarding adjustments for forfeiture assumptions. The assumptions for making the valuation determ
in the footnote titled Stock-Based Compensation to our financial statements in the Company s Ann
for the fiscal year ended December 31, 2010

Equity Compensation Plans

The following table provides information as of December 31, 2010 with respect to our Common Shares that
our equity compensation plans.

Plan Category	Number of Securities to be issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Nu Se Re Ava Futu Und Con
Equity Compensation Plans Approved by Shareholders (1)	1,256,403	$ 1.24	
Equity Compensation Plans Not Approved by Shareholders			
Total	1,256,403	$ 1.24	

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(1) Consists of 2,600,000 Common Shares under the Company s 2000 Stock Incentive and Deferred Com
1,000,000 Common Shares under the Company s 2003 Stock Incentive Plan and 1,650,000 Common
Company s 2010 Stock Incentive Plan.

Grants Of Plan Based Awards

The following reflects all grants to our named executive officers made in the fiscal year ended December 31

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards (#)	Grant Dated Fa and C Aw
Barry Sloane, CEO, PRES., CHR			
Seth A. Cohen, CFO, SVP			
Craig J. Brunet, CIO, EVP	August 11, 2010	10,600(1)	$

(1) Craig J. Brunet was awarded 10,600 shares of restricted Common Shares under the Company s 2003 S
all of which vest on the earliest of the following to occur: (a) July 1, 2014; (b) a Change in Control (as
of the Company; or (c) his death or total disability.

Outstanding Equity Awards At 2010 Year End

The following table reflects all outstanding equity awards held by our named executive officers as of Decen

	Option Awards (1)					Stock Awards		
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that have not Vested ($)	Eq Ince P Awa Num Unea Sha Uni Ot Righ hav Vest
Barry Sloane, CEO, PRES								
Craig J. Brunet, CIO, EVP	100,000(1)			1.57	12/21/15			
	100,000(1)			1.50	05/18/18			10
Seth A. Cohen, CFO, SVP	50,000(1)			1.57	12/21/15			
	100,000			1.50	05/15/18			

* calculated at closing price of stock on December 31, 2010 ($1.72).

(1) These options are fully vested.

(2) These shares of restricted stock shall vest on the earliest of the following to occur: (a) July 1, 2014; (b)
(as defined in the plan) of the Company; or (c) his death or total disability.

OPTIONS EXERCISED AND STOCK VESTED

There were no stock options exercised or restricted shares vested during 2010 for the named executive offic

Employment Agreements

The Company has entered into separate employment agreements with the following three executive officers

- Barry Sloane, as Chairman, Chief Executive Officer and President;
- Craig J. Brunet, as Executive Vice President and Chief Information Officer; and
- Seth a. Cohen, Chief Financial Officer.

Barry Sloane, as Chairman and Chief Executive Officer, is responsible for implementing the policies adopte
Board of Directors.

Mr. Sloane s employment agreement provides for:

- A twelve month term through March 31, 2012 at an annual base salary of $350,000;
- at least one annual salary review by the Board of Directors;
- participation in any discretionary bonus plan established for senior executives;
- retirement and medical plans, customary fringe benefits, vacation and sick leave; and
- $2 million of split-dollar life insurance coverage.

Mr. Brunet s employment agreement provides for:

- A twelve month term through March 31, 2012 at an annual base salary of $276,000;
- at least one annual salary review by the Board of Directors;
- participation in any discretionary bonus plan established for senior executives; and
- retirement and medical plans, customary fringe benefits, vacation and sick leave.

Mr. Cohen s employment agreement provides for:

- a twelve month term through March 31, 2012 at an annual base salary of $240,000;

- at least one annual salary review by the Board of Directors;

- participation in any discretionary bonus plan established for senior executives; and

- retirement and medical plans, customary fringe benefits, vacation and sick leave.

Payments upon Change of Control

Mr. Sloane s employment agreement provides for a payment in the event of non renewal of his employmen to one and one half (1.5) times, or in the case of a change of control or termination other than for cause of th amount equal to two (2) times, the sum of (i) the executive s base salary in effect at the time of termination of any incentive compensation paid with respect to the immediately preceding fiscal year.

Each of Mr. Brunet s and Mr. Cohen s employment agreements provides for a payment in the case of non- other than for cause of the agreement equal to one (1) times the sum of (i) the executive s base salary in eff termination, plus (ii) the amount of any incentive compensation paid with respect to the immediately preced of the employment agreements provides for a payment in the case of a termination concurrent with a change one (1) times the sum of (i) the executive s base salary in effect at the time of termination, plus (ii) the amo compensation paid with respect to the immediately preceding fiscal year.

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Each employment agreement contains a non-competition provision that requires the employee to devote sub
business time and efforts to the performance of the employee s duties under the agreement. The employee i
however, from:

serving on the boards of directors of, and holding offices or positions in, companies or orga
the opinion of the Board of Directors, will not present conflicts of interest with the Compa

investing in any business dissimilar from the Company s or, solely as a passive or minorit
business.

Under each of the employment agreements, the Company may terminate an employee s employment for j
the agreement, and upon the termination, no severance benefits are available. If the employee voluntarily te
employment for good reason as defined in the agreement, or the employee s employment terminates du
agreement due to death, disability, or retirement after age 62, the employee will be entitled to a continuatio
benefits from the date of termination through the remaining term of the agreement. The employee is able to
his agreement by providing 60 days written notice to the Board of Directors, in which case the employee is
only his compensation, vested rights, and benefits up to the date of termination.

Post Termination Payments

The table below reflects the amount of compensation that would be payable to the executive officers under
if the hypothetical termination of employment events described above had occurred on December 31, 2010,
compensation and service levels as of such date. All payments are payable by the Company in a lump sum u
noted.

These benefits are in addition to benefits available regardless of the occurrence of such an event, such as cu
stock options, and benefits generally available to salaried employees, such as distributions under the Compa
disability benefits, and accrued vacation pay. In addition, in connection with any termination of Mr. Sloane
Company may determine to enter into an agreement or to establish an arrangement providing additional ben
altering the terms of benefits described below, as the Compensation, Corporate Governance and Nominatin
appropriate.

The actual amounts that would be paid upon Mr. Sloane s, Mr. Cohen s and Mr. Brunet s termination of e
determined only at the time of their separation from the Company.

	Post Termination Payments		
Name	Change in Control with Termination	Change in Control with Change in Duties	O R Te wit
Barry Sloane, CEO, PRES, CHR	$ 950,000	$ 712,500	$
Craig Brunet, CIO, EVP	$ 315,750	$ 315,750	$
Seth Cohen, CFO, SVP	$ 288,250	$ 288,250	$

Nonqualified Deferred Compensation

The Company did not have any nonqualified deferred compensation in the year ended December 31, 2010.

Pension Benefits

The Company had no obligation under pension benefit plans to the named executive officers as of Decembe

Tax and Accounting Implications

Deductibility of Executive Compensation

As part of its role, the Committee reviews and considers the deductibility of executive compensation under
Internal Revenue Code, which provides that the Company may not deduct compensation of more than $1,00
certain individuals. The Company believes that compensation paid by the Company is generally fully deduc
income tax purposes. However, in certain situations, the Committee may, in the future, approve compensati
these requirements in order to ensure competitive levels of total compensation for its executive officers.

Accounting for Stock-Based Compensation

Beginning on January 1, 2006, the Company began accounting for stock-based payments including its Stoc
Long-Term Stock Grant Program, Restricted Stock Program and Stock Award Program in accordance with
FASB Statement 123(R).

PROPOSAL II RATIFICATION OF INDEPENDENT AUDITORS

The Audit Committee of the Board has reappointed J.H. Cohn LLP as our independent registered accountin
consolidated financial statements for the fiscal year ending December 31, 2011, and the Audit Committee h
selection be ratified by our shareholders.

Representatives of J.H. Cohn LLP are invited to the Annual Meeting. They will have an opportunity to mak
so desire and will be available to respond to appropriate questions.

The ratification of the selection of J.H. Cohn LLP as our independent accountants for the fiscal year ending
will require the affirmative vote of the holders of a majority of the Common Shares present at the Annual M
represented by proxy, and entitled to vote. In determining whether the proposal has received the requisite nu
votes, broker non-votes will be disregarded and will have no effect on the outcome of the vote. In the event
approved, the Audit Committee will take such fact into account in selecting the Company s independent ac
ending December 31, 2012 but Committee is not bound by the outcome of the vote.

**THE BOARD BELIEVES THAT A VOTE FOR THE PROPOSAL TO RATIFY THE APPOINTME
INDEPENDENT ACCOUNTANTS AS DESCRIBED ABOVE IS IN THE BEST INTERESTS OF OU
SHAREHOLDERS AND RECOMMENDS A VOTE FOR SUCH PROPOSAL.**

PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Fees and Services

J. H. Cohn LLP served as the Company s independent accounting firm for the years ended December 31, 2
2009 and December 31, 2010.

Fees for professional services rendered to the Company by J. H. Cohn LLP during the fiscal years ended De
were as follows (in thousands):

Audit Fees	$ 850,000
Audit Related Fees	9,450

Tax Fees	
All Other Fees	13,500
Total Fees	$ 872,950

Fees for professional services rendered to the Company by J. H. Cohn LLP during the fiscal year ended Dec
as follows (in thousands):

Audit Fees	$ 806
Audit Related Fees	60
Tax Fees	
All Other Fees	
Total Fees	$ 866

Audit Fees: The audit fees for the fiscal years ended December 31, 2010 and 2009 were for professional ser
connection with the audit of the Company s annual financial statements, assistance with review of documer
consents and other services required to be performed by our independent registered public accounting firm.

Audit-Related Fees: The audit-related fees during the fiscal years ended December 31, 2010 and 2009 were
related services associated with the audit.

Tax Fees: No fees were billed to the Company by J. H. Cohn LLP during the fiscal years ended December 3
professional services rendered in connection with tax compliance, tax advice, and tax planning.

All Other Fees: All other fees billed to the Company by J. H. Cohn LLP during the fiscal years ended Dece
2009 for non-audit services and assurance and related services for attestations not required by law.

In accordance with the Audit Committee Charter, all of the foregoing audit and non-audit fees paid to and th
provided by J.H. Cohn LLP were pre-approved by the Audit Committee. In addition, it is the policy of the A
to engage our independent accountants to perform any non-audit services specifically prohibited by law or r

REPORT OF THE AUDIT COMMITTEE

The Board of Directors, through its Audit Committee, and in accordance with its written Charter, reviews th
internal controls and financial statements of the Company. The Committee consists solely of directors who
employees and are considered independent under applicable rules of the Securities and Exchange Comm
Stock Market. In 2010, the Audit Committee convened 8 times to discuss with management and the indepe
respective accounting, auditing and financial reporting responsibilities with respect to the fiscal years 2010

In connection with the December 31, 2010 financial statements of the Company, the Audit Committee: (1) r
discussed the audited and interim unaudited financial statements with management; (2) discussed with the a
required by AU section 380 and the independence of the auditors; and (3) received and discussed with the a
required by Independence Standards Board Statement No. 1. In discharging these oversight responsibilities
process, the Committee obtained from the independent auditors a formal written statement describing all rel
the auditor and the Company that might bear on the auditors independence and discussed with the auditors
may impact their objectivity and independence. Based upon these procedures and discussions with Compan
Audit Committee considered whether it was necessary to exclude J.H. Cohn LLP from performing any worl
separate and apart from auditing the Company s financial statements. After a thorough analysis, the Audit
that at this time there was no conflict that would jeopardize auditor independence and that it is satisfied as t
independence. The committee also discussed with management and the independent auditors the quality an
Company s internal controls.

The Audit Committee, with and without management present, discussed and reviewed the results of the ind
examination of the financial statements. The Audit Committee reviewed the audited financial statements of
and for the fiscal year ended December 31, 2010, with management and the independent auditors. Based up
the resulting discussions, the Audit Committee recommended to the Board that the Company s audited fina
included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2010, for filing with th
Exchange Commission.

Date: April 25, 2011

Respectfully submitted,
David C. Beck, Chairman
Salvatore F. Mulia
Sam Kirschner

PROPOSAL III   ADVISORY VOTE ON COMPENSATION OF NAMED EXECUTIVE

Pursuant to the Securities and Exchange Commission rules adopted under the Dodd-Frank Wall Street Refo
Protection Act (the   Dodd-Frank Act), we are conducting a shareholder advisory vote on the compensatio
executive officers. Although the vote is advisory and is not binding on the Board, the Company or the Comp
Governance and Nominating Committee, the Compensation, Corporate Governance and Nominating Comm
account the outcome of the vote when considering future executive compensation decisions.

This proposal, commonly referred to as a   say-on-pay   proposal, gives shareholders the opportunity to exp
compensation of our named executive officers and the executive compensation philosophy, policies and pro
this proxy statement. We ask that you support the compensation of our named executive officers as disclose
  Executive Compensation , including the   Compensation Discussion and Analysis   section and the accon
tables and related narrative disclosure.

As described in the Compensation Discussion and Analysis section, we seek to provide a compensation pac
retains executive talent and to motivate them to achieve, and reward them for achieving, superior performar
our compensation program strikes the appropriate balance between utilizing responsible, measured pay prac
incentivizing our named executive officers to dedicate themselves fully to value creation for our shareholde

You are encouraged to read the detailed information under   Executive Compensation   beginning on page 9
for additional details about our executive compensation programs.

The Board strongly endorses the Company s executive compensation program and recommends that shareh
the following resolution:

RESOLVED, that the shareholders of Newtek Business Services, Inc. hereby approve on an advisory basis,
paid to the Company s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K to th
Statement for the 2011 Annual Meeting of Shareholders, including the Compensation Discussion and Analy
tables and narrative discussion.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE   FOR   THE APPRO

RESOLUTION RELATED TO COMPENSATION OF NAMED EXECUTIVE OFFIC

PROPOSAL IV   ADVISORY VOTE ON FREQUENCY OF EXECUTIVE COMPENSAT

Pursuant to the Securities and Exchange Commission rules adopted under the Dodd-Frank Act, we are cond
advisory vote on the frequency of the   say-on-pay vote   contained in Proposal III.

In particular, we are asking whether shareholders would prefer that the   say-on-pay   advisory vote occur e
two years or every year. The option of one year, two years or three years that receives the highest number o
Company s shareholders will be taken as the consensus of the Shareholders on this matter. However, becau
it is not binding on the Board or the Company in any way and the Board may for reasons it deems in the bes
Company determine to present the matter to Shareholders on a more or less frequent schedule.

After careful consideration of this proposal, the Board has determined that an advisory vote that occurs ever
most appropriate alternative for the Company, and therefore, the Board recommends that you vote for a thre
the advisory vote on executive compensation. Please note that you are not being asked to approve or disapp
recommendation, but rather to indicate your own choice of one, two or three years for this proposal.

In formulating its recommendation, the Board considered that a tri-annual advisory vote on executive comp
the Company s shareholders to provide us with direct input on our compensation philosophy, politics and p
the proxy statement but will also give enough time for the decisions of the Board and the policies implemen
Additionally, the Board believes that such a frequency is consistent with the Board s desire to implement
respect to corporate governance. We understand that Shareholders may have different views as to what is th
the Company and we look forward to hearing from shareholders on this proposal.

When casting your vote on your preferred voting frequency for advisory vote of named executive officer co
choose one of the following four frequency options: 1 year, 2 years, 3 years, or abstain .

RESOLVED, that the option of once every year, two years or three years that receives the highest number o
resolution will be determined to be the preferred frequency with which the Company is to hold an advisory
shareholders on the compensation paid to the Company s named executive officers, as disclosed pursuant t
Regulation S-K, including the Compensation Discussion and Analysis compensation tables and narrative di

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SAY-ON-PAY VO

BE TAKEN EVERY THREE YEARS

OTHER MATTERS

The Board of Directors is not aware of any business to come before the Annual Meeting other than those ma
above in this Proxy Statement and matters incident to the conduct of the Annual Meeting. Properly executed
accompanying form that have not been revoked confer discretionary authority on the persons named therein
direction of a majority of the Board of Directors on any other matters presented at the Annual Meeting. Und
Shareholder does not notify the Company within a reasonable time before the date of this Proxy Statement o
intent to present a proposal at the Annual Meeting, the persons named in the accompanying proxy may exer
discretionary voting authority if the proposal is raised at the Annual Meeting, without any discussion of the
Statement.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERI

FOR THE ANNUAL MEETING TO BE HELD ON WEDNESDAY, MAY 25, 201

The Proxy Statement and Annual Report for the year ended December 31, 2010 are available at the special
http://www.amstock.com/proxyservices/viewmaterial.asp?CoNumber=11363.

ADDITIONAL INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC at 100 F
Washington, D.C. 20549. You may read and copy any reports, statements or other information we file at the
Reference Room in Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further informatio
Reference Room. Our SEC filings are also available to the public from commercial document retrieval serv
site maintained by the SEC at www.sec.gov. **A copy of our 2010 Annual Report on Form 10-K, as filed v
excluding exhibits), is available on our website, www.Thesba.com. A complete copy of our 10-K, inclu
requested, may be obtained without charge, upon written request directed to Newtek Business Servic
Broadway, 17th Floor, New York, NY 10018, Attention: Secretary.**

The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery req
materials with respect to two or more shareholders sharing the same address. This process, which is commo
householding, potentially provides extra convenience for shareholders and cost savings for companies. T
brokers household proxy materials, delivering a single copy of the proxy materials to multiple shareholders
unless contrary instructions have been received from the affected shareholders.

Once you have received notice from your broker or the Company that they or the Company will be househo
your address, householding will continue until you are notified otherwise or until you revoke your consent.
no longer wish to participate in householding, please notify your broker if your shares are held in a brokerag
Company if you hold registered shares. You can notify the Company by sending a written request to, Newte
Inc., 1440 Broadway, 17th Floor, New York, NY 10018, Attention: Chief Legal Officer or call (212) 356-9
receipt by us of such a request from a shareholder, separate proxy materials will be delivered to the requesti
Shareholders who currently receive multiple copies of the proxy statement at their addresses and would like
householding of their communications should contact their brokers.

CONFIDENTIALITY OF PROXIES

The Company s policy is that proxies identifying individual shareholders are private except as necessary to
with law, to assert or defend legal claims, in a contested proxy solicitation or in the event that a shareholder
comment on a proxy card or an attachment to it.

COSTS OF PROXY SOLICITATION; SHAREHOLDER COMMUNICATIONS

The cost of solicitation of proxies will be borne by the Company. The Company will reimburse brokerage fi
custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy material to
owners of Common Shares. In addition to solicitations by mail, directors, officers and regular employees of
solicit proxies personally, by telephone or by email without additional compensation.

Shareholders may send written communications to the Board of Directors to the attention of the Board of D
Business Services, Inc., 1440 Broadway, 17th floor, New York, New York 10018. Shareholder communicat
by the shareholder and identify the number of Common Shares held by the shareholder. Each properly subm
communication will be provided to the Board of Directors at its next meeting or, if such communication req
immediate attention, it will be forwarded to the Directors promptly after receipt.

SHAREHOLDER PROPOSALS

In order to be eligible for inclusion in the proxy statement and proxy relating to the 2012 Annual Meeting o
Company, which will be held on or about May 25, 2012, any shareholder proposal to take action at such me
received by the Secretary of the Company at 1440 Broadway, 17th Floor, New York, New York 10018 no l
2012. Nothing in this paragraph shall be deemed to require the Company to include in its proxy statement a
the 2012 Annual Meeting of Shareholders, or to consider and vote upon at any such meeting, any sharehold
does not meet all of the requirements established by the Securities and Exchange Commission (SEC) or t
Certificate of Incorporation or Bylaws in effect at the time such proposal is received.

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By order of the Board of Dire

Matthew G. Ash, Secretary

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ANNUAL MEETING OF SHAREHOLDERS OF

NEWTEK BUSINESS SERVICES, INC.

May 25, 2011

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:

The Notice of Meeting, Proxy Statement, Proxy Card

are available at http://www.amstock.com/ProxyServices/ViewMaterial.asp?CoNumber=1

Please sign, date and mail

your proxy card in the

envelope provided as soon

as possible.

i Please detach along perforated line and mail in the envelope provided. i

20430304000000001000 3 052511

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE FOUR DIREC

FOR PROPOSALS 2 AND 3, AND FOR A 3 YEARS FREQUENCY IN PROPOSA

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOU BLACK INK AS SHOWN HERE x

1. Election of Four Directors for a one year term (except as marked to the contrary):

NOMINEES:

.. **FOR ALL NOMINEES**

¡ David C. Beck

¡ Sam Kirschner

.. **WITHHOLD AUTHORITY FOR ALL NOMINEES**

¡ Salvatore F. Mulia

¡ Barry Sloane

..

2. The ratification of J.H. Cohn LLP as the independent registered public accounting firm for the fiscal year ending December 31, 2011.

F ABSTAI

F ABSTAI

3. The approval of the compensation of the named executive officers.

1 year 2 ABSTAI

4. The approval of the frequency of a shareholder vote to approve the compensation of the named executive officers.

.. ..

FOR ALL EXCEPT

(See instructions below)

The undersigned acknowledges receipt from th
execution of this proxy of the Notice of Annua
Shareholders, a Proxy Statement for the Annua
Shareholders and the 2010 Annual Report to S

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold. l

Check here if you plan to attend the A

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. ••

Signature of Shareholder Date: Signature of Shareholder

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder sho
as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporat
corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in par
authorized person.

NEWTEK BUSINESS SERVICES, INC.

ANNUAL MEETING OF SHAREHOLDERS

May 25, 2011

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTO

The undersigned shareholder of Newtek Business Services, Inc. (the Company) hereby appoints B David C. Beck, or either of them, with full powers of substitution, as attorneys and proxies for the un all Common Shares of the Company which the undersigned is entitled to vote at the Annual Meeting be held at the New York City office of the Company, 1440 Broadway, 17th Floor, New York, NY 10 Wednesday, May 25, 2011 at 9:00 a.m., local time, and at any and all adjournments thereof, as indica determined by a majority of the Board of Directors with respect to such other matters as may come b Meeting.

This proxy will be voted as directed, but if no instructions are specified, this proxy will be voted of the named nominees, for each of propositions 2 and 3, and for a 3 year frequency for shareho executive compensation in proposition 4. If any other business is presented at the Annual Meeti this proxy confers discretionary authority, this proxy will be voted by those named in this prox by a majority of the Board of Directors. At the present time, the Board of Directors knows of n to be presented at the Annual Meeting.

(Continued and to be signed on the reverse side.)

ANNUAL MEETING OF SHAREHOLDERS OF

NEWTEK BUSINESS SERVICES, INC.

May 25, 2011

PROXY VOTING INSTRUCTIONS

INTERNET - ** Access **www.voteproxy.com and follow the on-screen instructions. Have your proxy card available when you access the web page.

COMPANY NUM

TELEPHONE - ** Call toll-free **1-800-PROXIES (1-800-776-9437) in the United States or **1-718-921-8500** from foreign countries from any touch-tone telephone and follow the instructions. Have your proxy card available when you call.

ACCOUNT NUM

Vote online/phone until 11:59 PM EST the day before the meeting.

**MAIL - ** Sign, date and mail your proxy card in the envelope provided as soon as possible.

**IN PERSON - ** You may vote your shares in person by attending the Annual Meeting.

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL: The Notice of meeting, proxy

card are available at http://www.amstock.com/ProxyServices/ViewMaterial.asp?CoNumber

i Please detach along perforated line and mail in the envelope provided IF you are not voting via telepho

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NOMINEES:

.. **FOR ALL NOMINEES** ¡ David C. Beck

.. **WITHHOLD AUTHORITY FOR ALL NOMINEES** ¡ Sam Kirschner

¡ Salvatore F. Mulia

¡ Barry Sloane

.. **FOR ALL EXCEPT**

(See instructions below)

2. The ratification of J.H. Cohn LLP as the independent registered public accounting firm for the fiscal year ending December 31, 2011. F ABSTAI

F ABSTAI

3. The approval of the compensation of the named executive officers.

1 year 2 ABSTAI

4. The approval of the frequency of a shareholder vote to approve the compensation of the named executive officers. .. ..

The undersigned acknowledges receipt from th execution of this proxy of the Notice of Annua Shareholders, a Proxy Statement for the Annua Shareholders and the 2010 Annual Report to S

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here: l

Check here if you plan to attend the A

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. ..

Signature of Shareholder Date: Signature of Shareholder

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder sho as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporat corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in par authorized person.

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