NEWTEK BUSINESS SERVICES INC
Form S-1/A
June 28, 2004
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As filed with the Securities and Exchange Commission on June 25, 2004

Registration No. 333-115615

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 3 TO

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

NEWTEK BUSINESS SERVICES, INC.

(Exact name of registrant as specified in its charter)

NEW YORK	**6199**	**11-3504638**
(State or other jurisdiction of incorporation or organization)	**(Primary SIC Code Number)**	**(I.R.S. Employer Identification No.)**

100 QUENTIN ROOSEVELT BLVD, SUITE 408

GARDEN CITY, NEW YORK 11530

(516) 390-2260

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

BARRY SLOANE

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

NEWTEK BUSINESS SERVICES, INC.

462 SEVENTH AVENUE, 14TH FLOOR

NEW YORK, NEW YORK 10018

(212) 356-9500

(Name, address, including zip code, and telephone number, including area code, of agent for service of process)

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Approximate date of commencement of proposed sale of securities to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If the delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee (2)
Common stock, $.02 par value	7,026,477 shares	$ 4.91	$ 34,500,000	$ 4,372

(1) Includes 916,497 shares of common stock that may be sold by the registrant and the selling shareholders upon exercise of the underwriters over-allotment option.
(2) Calculated pursuant to Rule 457(o) under the Securities Act of 1933. Such amount was previously paid.

The registrant hereby amends this registration statement on such date or dates as maybe necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall there after become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said section 8(a), may determine.

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

PRELIMINARY PROSPECTUS **SUBJECT TO COMPLETION, DATED JUNE 25, 2004**

6,000,000 Shares

Common Stock

We are offering 6,000,000 shares of our common stock. Our common stock is traded on the Nasdaq National Market under the symbol NKBS. On June 24, 2004, the last reported sale price of our common stock was $4.14 per share.

This prospectus contains important information that you should know before investing. Please read it before you invest and keep it for future reference.

Investing in our common stock involves risks. See Risk Factors beginning on page 7.

	Per Share	Total [(1)]
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to us[(2)]	$	$

(1) We and the selling shareholders named in this prospectus have granted the underwriters a 45-day option to purchase up to an additional 900,000 shares of our common stock at the public offering price, less the underwriting discount. If this over-allotment option is exercised in full, the total public offering price will be $, the total underwriting discount will be $ and the total proceeds, before expenses, to us would be $. For all shares sold pursuant to the over-allotment option, 50% will be sold by us on a first priority basis; and 50% will be sold by three of our principal shareholders, all of whom are executive officers, on the same terms and conditions as us, but on a second priority basis.

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

This is a firm commitment underwriting. The underwriters have the option to purchase up to 450,000 shares of common stock from us and thereafter an additional 450,000 shares from the three selling shareholders on the same basis as the shares sold by us within 45 days from the date of this prospectus to cover over-allotments, if any. The underwriters expect to deliver the shares on or about , 2004.

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

Roth Capital Partners **Maxim Group LLC**

The date of this prospectus is , 2004.

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You should rely only on the information contained in this prospectus or any supplement. We have not authorized anyone to provide you with any different information. You should not consider any statement modified or superceded, except as so modified or superceded by any supplement to this prospectus, to constitute a part of this prospectus.

Unless otherwise indicated, all information in this prospectus assumes that the underwriters will not exercise their option to purchase shares to cover over-allotments.

To understand this offering fully, you should read this entire document carefully, including, in particular, the Risk Factors section beginning on page 7 as well as the documents identified in the section entitled Where You Can Find More Information on page 85.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. It is not complete and does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the Risk Factors section, our consolidated financial statements and the related notes before investing in our common stock.

Our Business

Newtek Business Services, Inc. is a holding company for several wholly and majority-owned operating subsidiaries and certified capital companies, or capcos. Our major focus is to provide high value and cost efficient services to small and medium-sized businesses. We currently operate in three principal lines of business and expect to add a fourth upon the conclusion of this offering. These four lines of business are as follows:

Certified capital companies. A capco is a company we form pursuant to a state-sponsored program which is designed to encourage investment in small and new businesses and to create economic activity and jobs in the sponsoring state. To induce investors to participate in capco programs, the state provides a capco with tax credits to issue to its investors, all of which must be insurance companies. After it is capitalized, the capco is obligated to invest its funds in small and new businesses within the state in accordance with statutory requirements relating to such matters as the size of the business, location and number of employees. We have used our capcos to finance our SBA, payment processing and financial reporting businesses. To date, our primary source of cash has been the statutorily fixed annual management fees of 2.5% of each capco s initial capital.

Small business loans. Through our majority-owned subsidiary, Newtek Small Business Finance, Inc., or NSBF, we make small business loans guaranteed by the U.S. Small Business Administration, or SBA, under the section 7(a) loan program and related section 504 business real estate loan program. NSBF is one of 14 companies licensed to provide SBA loans nationwide under the section 7(a) loan program and the related section 504 real estate loan program. The SBA definition of eligible small businesses is based on standard industry codes and generally includes businesses with less than $25,000,000 in revenues and no more than 1,500 employees.

Payment processing. Newtek Merchant Solutions, or NMS, offers credit card, debit card and gift card processing services and check approval services to approximately 6,000 small and medium-sized businesses as of March 31, 2004 through its four payment processing companies and its full-service processing center in Milwaukee, Wisconsin. NMS also provides these services to local and regional banks and credit unions that do not offer their own payment processing services so that these banks may offer these services to their merchant clients through us.

Website hosting. On April 28, 2004, we signed a definitive agreement to acquire CrystalTech Web Hosting, Inc., or CrystalTech. Netcraft, an independent consultant, has cited CrystalTech as the world s third largest website hosting enterprise utilizing exclusively Microsoft Hosting 2003®. As of April 2004, CrystalTech had approximately 26,000 active accounts in approximately 80 countries, approximately 80% of which are located in the United States. Completion of the acquisition is contingent upon our arrangement for financing through this offering or otherwise, obtaining certain consents and approvals, and other customary conditions. If we do not acquire CrystalTech, we will have full discretion to utilize the proceeds of this offering which would have been used to acquire CrystalTech to pursue our general growth strategy.

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Our Strategy

Through our business relationships, we continually assess new product offerings and services for our small and medium-sized business customers. As we seek to enhance our position as a leading provider of business services to our marketplace, we have implemented the following strategies:

Aggressively focus our business model to provide products and services to the small and medium-sized business market. Over the last three years, we have refined our business model to focus on developing and marketing products and services aimed at small and medium-sized businesses like those we fund through our capco programs. As our product and service offerings grow and diversify, we intend to continue to reduce our dependence on the capco programs as a source of funding and revenue.

Further develop national recognition of the Newtek brand through marketing alliances. We have formed key marketing alliances with national business organizations such as Merrill Lynch and Cendant Corporation, business and trade organizations such as the Credit Union National Association and the Community Bankers of Wisconsin, and affinity organizations such as Revelation Corporation of America, Navy Federal Credit Union and the semi-public Veterans Corporation of America. These strategic partners, through their customers, members and participants, generate small business lending and payment processing business for us and build awareness of our brand name. We intend to develop further our Newtek brand by seeking out and entering into new marketing alliances.

Cross-sell additional products and services to small and medium-sized businesses. Our web-based, proprietary referral system is a custom designed customer relationship management tool which allows us to utilize our marketing alliance partners client base efficiently and cost effectively and assures our alliance partners full transaction transparency with the highest level of customer service. We intend to expand the use of this tool to cross-sell our products and services to our customer base, the customers we acquire through acquisitions, including those of CrystalTech and our alliance partners.

Opportunistically acquire companies or assets to provide complementary products and services to small and medium-sized businesses. By strategically acquiring companies or assets in our primary product and service markets, we can expand our customer base and create cross-selling opportunities for our growing suite of complementary goods and services. We believe that the acquisition of CrystalTech furthers this objective.

Focus our cross marketing and acquisition strategies on the addition of small and medium-sized business customers. We plan to grow the marketing programs of our current businesses and acquire other complementary businesses to build a large unified base of small and medium-sized business customers.

Continue to develop our technology to process new business and financial transactions. Our applications processing technology allows us to process new business received by our small and medium-sized business customers utilizing a web-based system and a centralized processing point. Our trained representatives use these web-based applications as a tool to acquire and process data, eliminating the need for our customers to complete multiple paper forms in face-to-face meetings. We will continue to develop this system because we believe it is customer friendly, allows us to process applications efficiently and allows us to store client information for further processing and future cross-selling efforts.

Continue to access the capco market as capco opportunities arise. We believe there is continued opportunity to use the capco programs as a funding source to facilitate the growth of our businesses.

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Pending Acquisition of CrystalTech

On April 28, 2004 we signed a definitive agreement to acquire the business of CrystalTech, a Phoenix-based company engaged in the business of providing website hosting services to over 26,000 customers. The aggregate purchase price for CrystalTech consists of $10,000,000 in cash and $250,000 in our common stock and additional payments of up to a total of $1,250,000 in cash and $1,750,000 in our common stock would be made if the business meets certain profitability benchmarks. One condition of the closing of this acquisition is the completion of this offering or the completion of an alternative financing resulting in minimum net proceeds to us of $12,000,000, of which $10,000,000 is the cash portion of the purchase price. As part of our agreement with the underwriters of this offering, we have agreed to use our commercially reasonable best efforts to consummate this transaction within eight days of the closing of the offering.

About Us

We were incorporated in 1999 in New York and changed our name from Newtek Capital, Inc. to Newtek Business Services, Inc. in November 2002. Our principal executive offices are located at 100 Quentin Roosevelt Boulevard, Suite 408, Garden City, New York 11530, and our telephone number is (516) 794-0100. Our website address is *www.NewtekBusinessServices.com*. Information contained on our website or any other website is not a part of this prospectus.

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The Offering

Common stock offered by us	6,000,000 shares
Common stock to be outstanding after this offering	33,246,433 shares
Over-Allotment Option	We have granted to the underwriters an option for 45 days to purchase up to 450,000 additional shares of common stock to cover over-allotments, if any. In addition, three of our principal shareholders, who are all executive officers, have also granted a similar option to the underwriters to cover over-allotments and will sell up to an aggregate of 450,000 shares of their respective common stock subsequent to our shares being sold.
Nasdaq National Market symbol	NKBS
Use of proceeds	We intend to use the net proceeds of this offering to pay the cash portion of the purchase price of CrystalTech and, whether or not the CrystalTech transaction closes, for working capital and general corporate purposes, including potential future acquisitions of complementary businesses and technologies and providing additional capital or liquidity to our current or future operating subsidiaries.
Risk Factors	See Risk Factors beginning on page 7 for a discussion of factors you should carefully consider before deciding to invest in our common stock.

The number of shares to be outstanding after this offering is based on 26,846,433 shares outstanding as of June 24, 2004. The number of shares to be outstanding after the offering excludes 3,612,621 shares (of which 419,458 shares relates to restricted share grants) reserved for issuance under our 2000 Stock Incentive and Deferred Compensation Plan and our 2003 Stock Incentive Plan, of which options to purchase 1,637,379 shares at a weighted average exercise price of $4.51 per share were outstanding as of June 24, 2004. The number of shares to be outstanding after this offering also excludes up to 450,000 shares that may be sold pursuant to the over-allotment option to the underwriters, but includes up to 400,000 shares to be issued as a part of the consideration for CrystalTech (assuming that all potential contingent share consideration is ultimately earned and issued). Our 2003 Stock Incentive Plan is subject to shareholder approval at our upcoming annual meeting.

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Summary Selected Consolidated Financial Data

We derived the following summary selected consolidated financial data from our consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP, independent accountants and from our unaudited consolidated financial statements for the period ending March 31, 2004. Historical results are not necessarily indicative of the results to be expected in the future. You should read the summary selected consolidated financial data presented below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes to those financial statements appearing elsewhere in this prospectus. For a review of the possible effect of the acquisition of CrystalTech, see the Pro Forma Financial Information section of this prospectus.

	Years Ended December 31,					Three Months Ended March 31, (unaudited)	
	1999	2000	2001	2002	2003	2003	2004
				(in thousands)			
Statement of Operations Data:							
Revenue	$ 11,882	$ 8,710	$ 23,905	$ 34,670	$ 60,493	$ 12,919	$ 7,870
Expenses	3,859	13,591	21,932	27,152	42,423	10,466	11,059
Income (loss) before minority interest, (provision) benefit for income taxes and extraordinary items	8,023	(4,881)	1,973	7,518	18,070	2,453	(3,189)
Minority interest	(3,521)	2,234	(509)	(335)	(1,598)	288	300
Income (loss) before (provision) benefit of income taxes and extraordinary items	4,502	(2,647)	1,464	7,183	16,472	2,741	(2,889)
(Provision) benefit for income taxes		(1,140)	(534)	(2,658)	(7,090)	(1,069)	1,185
Income (loss) before extraordinary items	4,502	(3,787)	930	4,525	9,382	1,672	(1,704)
Extraordinary gain on acquisition of minority interests				908			
Extraordinary gain on acquisition of a business	924	362		2,735	187	187	
Net Income (loss)	$ 5,426	$ (3,425)	$ 930	$ 8,168	$ 9,569	$ 1,859	$ (1,704)

	Years ended December 31,					Three Months Ended March 31, (unaudited)	
	1999	2000	2001	2002	2003	2003	2004
				(in thousands except per share data)			
Weighted average common shares outstanding:							
Basic	18,250	19,310	21,890	24,184	25,777	25,410	26,471
Diluted	18,250	19,310	21,910	24,294	26,177	25,661	26,471
Income (loss) per share after extraordinary gain:							

Basic	$ .30	$ (.18)	$ .04	$ .34	$ .37	$ .07	$ (.06)
Diluted	$ .30	$ (.18)	$ .04	$ .34	$ .37	$ .07	$ (.06)
Income (loss) per share before extraordinary gain:							
Basic	$ .25	$ (.20)	$ .04	$ .19	$ .36	$ .07	$ (.06)
Diluted	$ .25	$ (.20)	$ .04	$ .19	$ .36	$ .07	$ (.06)

	As of December 31, 2003			As of March 31, 2004		
	Actual	As Adjusted(1)	Pro Forma As Adjusted(2)	Actual	As Adjusted(1)	Pro Forma As Adjusted(2)
Balance Sheet Data:						
Cash	$ 33,444,611	$ 60,894,611	$ 50,243,304	$ 42,564,071	$ 70,014,071	$ 59,362,764
Total assets	$ 192,184,009	$ 219,634,009	$ 223,295,349	$ 200,721,138	$ 228,171,138	$ 232,163,144
Note payable in credits in lieu of cash	$ 65,697,050	$ 65,697,050	$ 65,697,050	$ 69,726,477	$ 69,726,477	$ 69,726,477
Minority interest	$ 8,393,151	$ 8,393,151	$ 8,393,151	$ 8,092,837	$ 8,092,837	$ 8,092,837
Total liabilities	$ 143,543,436	$ 143,543,436	$ 146,954,776	$ 151,975,686	$ 151,975,686	$ 155,717,692
Stockholders equity	$ 40,247,422	$ 67,697,422	$ 67,947,422	$ 40,652,615	$ 68,102,615	$ 68,352,615

(1) As adjusted to reflect the sale of 6,000,000 shares of common stock offered hereby at an assumed public offering price of $5.00 per share, after deducting the underwriters discount and the underwriters expenses but excluding all other offering-related and acquisition expenses. Does not include shares issuable by us pursuant to the over-allotment option.

(2) Pro forma as adjusted to reflect: (i) the sale of 6,000,000 shares of common stock offered hereby at an assumed public offering price of $5.00 per share, (ii) the application of the estimated net proceeds as set forth in Use of Proceeds, after deducting the underwriters discount, the underwriters expenses and all other offering-related and acquisition expenses and (iii) the issuance of 50,000 shares in connection with the CrystalTech acquisition (but does not include 350,000 shares which may be earned as contingent consideration). Does not include shares issuable by us pursuant to the underwriters over-allotment option.

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RISK FACTORS

Investing in our common stock involves risks. Before you invest in our common stock, you should carefully consider the following risks as well as the other information included in this prospectus. These risks set out below are not the only risks we face. If any of the following risks occur, our business, financial condition and results of operations could be materially and adversely affected. In that case, the value of our common stock could decline and you may lose all or part of your investment.

Risks Relating to Our Business Generally

Our business focuses on the investment in and acquisition of small businesses, which typically have a high rate of failure, may take some time to become profitable and may never become profitable.

We place primary emphasis on the investment in and acquisition of small businesses with the objective of developing a network of profitable businesses, most of which will principally serve the small and medium-sized business market. Early stage businesses historically have a higher rate of failure than larger businesses, and many that do not fail will have only limited profitability. Moreover, profit generated by any of our majority-owned companies or other investments could be offset by losses generated by others. Our profitability resulting from the operations of our businesses may be delayed for the foreseeable future.

For example, our consolidated subsidiaries experienced aggregate net losses of approximately $2,700,000 for the year ended December 31, 2003, aggregate net losses of approximately $3,591,000 for the year ended December 31, 2002, and aggregate net losses of approximately $215,000 for the first quarter ended March 31, 2004. We recorded no net losses from equity method investees in 2003 and approximately $729,000 in 2002. In addition, during 2003 we wrote off approximately $1,996,000 of investments in small businesses, compared to approximately $1,602,000 in 2002, representing management s best estimate as to the amount of the other than temporary decline in the value of the investments. During the first quarter of 2004 we had $0 in write offs.

We have generated and carry goodwill as an asset resulting from some of our acquisition transactions and expect to do so as well in the CrystalTech transaction. In 2003, we determined to write down the value of our goodwill by approximately $1,435,000. We can make no assurance that our current or future additional goodwill will not be written down pursuant to applicable accounting standards. A significant write down of a major asset, such as goodwill, could have a material adverse effect on our business, a negative impact on earnings and the value of our common stock.

Each of our major investments and affiliated companies may be impacted by a variety of adverse economic, governmental, industrial and internal company factors unique to that business and outside our control. If our investments and affiliated companies do not succeed in overcoming these adverse factors, the value of our assets and the price of our stock would fall.

In the past few years we have increasingly concentrated our investments in companies participating in small business lending and electronic payment processing, and we plan to make significant investments in a new insurance agency, the Newtek Insurance Agency, and CrystalTech, following its acquisition by us, in the near future. Each of these businesses has numerous risks associated with them and you should read the specific risk factors set forth below with respect to each of these businesses.

As we have concentrated our investments, typically made through the capco programs, in companies which are part of our nationwide marketing strategy of providing a variety of services to small and medium-sized businesses, our exposure and that of our affiliated companies to risks specific to these business lines has increased. We discuss below some of the risks of our significant operations in government-guaranteed small business lending and acting as an independent sales organization in the electronic card processing business. If we are not successful in implementing this business strategy and developing and marketing our new products and services, our results of operations will be negatively impacted.

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We rely on our capcos to fund our investments and our capcos are limited by regulations in the types of investments they can make.

Our ability to invest in or acquire companies has in the past and is expected to be in the future significantly reliant on investments permissible under the capco programs in which we participate. In the programs under which the capcos operate, investments by a capco may only be made in the state in which the particular capco operates and the target company must meet certain requirements as to size, employment of state residents and possible restrictions on the ability to relocate. These limitations may require us to forego attractive or desirable investments, which could adversely affect or prevent implementation of our business strategy.

If we do not manage our growth effectively, our financial performance could be harmed.

Our rapid revenue growth has placed, and will continue to place, certain pressures on our management, administrative, operational and financial infrastructure. As we continue to grow our business, such growth could require capital, systems development and human resources beyond current capacities. As evidence of our internal growth, on December 31, 2001, we and all of our consolidated and majority-owned affiliates had approximately 20 employees, and on December 31, 2003 we had approximately 100 employees, without consideration of independent contractors. The increase in the size of our operations may make it more difficult for us to ensure that we execute our present businesses and future strategies. The failure to manage our growth effectively could have a material adverse effect on our financial condition and results of operations.

Because expenses are expected to increase as we build an infrastructure and implement our business strategy, we may incur additional losses in the future.

Because our expenses are expected to increase more quickly than our revenue as we build our infrastructure and implement our business strategy, we will likely incur additional losses in the near future. We expect the additional expenses to result primarily from our plans to:

- expand existing systems;
- broaden affiliated company support capabilities;
- continue to explore acquisition opportunities and alliances; and
- facilitate business arrangements among affiliated companies.

If we are unable to obtain the resources required for the growth and development of our affiliated companies, they will be highly susceptible to failure, which would directly affect our profitability and value.

Early-stage businesses often fail due to their limited capital and human resources. The effective implementation of our business model is dependent upon the ability of the affiliated companies, with assistance from us, to arrange for the managerial, capital and other resources which they usually require in order to become and remain profitable.

We may not be able to integrate acquired companies into our company and, as we acquire more and larger interests in affiliated companies, our resources available to assist our affiliated companies may be insufficient.

We have made strategic acquisitions and we intend to continue to make acquisitions in accordance with our business plan. Each acquisition involves a number of risks, including:

the diversion of our management s attention to the assimilation and ongoing assistance with the operations and personnel of the acquired business, which could strain the management resources we have available;

the potential for our affiliated companies to grow rapidly and adversely affect our ability to assist our affiliated companies as intended;

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- possible adverse effects on our results of operations and cash flows; and

- possible inability by us to achieve the intended objective of the acquisition.

Any strain on our ability to assist our affiliated companies as intended or to acquire and integrate businesses under our business plan could have a negative impact on our operations, financial results and cash flows.

Our business may be adversely affected by the highly regulated industries in which we operate.

Many of the industries in which we operate are highly regulated and we cannot assure you that we or our affiliated companies are, or that we will continue to be, in full compliance with current laws, rules and regulations. If we or our affiliated companies are unable to comply with applicable laws or regulations or if new laws limit or eliminate some of the benefits of our business lines, our financial condition, results of operations and our cash flows could be materially adversely affected.

If we lose our key personnel, we may not be able to find and hire experienced replacements.

Our business relies heavily on the expertise of our senior management, particularly Messrs. Barry Sloane, Brian A. Wasserman and Jeffrey G. Rubin, our CEO, CFO and President, respectively. These individuals currently serve pursuant to employment agreements which expire on June 30, 2005. The loss of the services of these individuals could have a material adverse effect on our financial condition, results of operations and cash flows and it is likely that it will be difficult to find adequate replacements.

We and our affiliated companies depend on our ability to attract and retain key personnel and any loss of ability to attract these personnel could adversely affect us.

Our success depends upon the ability of our affiliated companies and other investments to attract and retain qualified personnel and our ability to supplement those capabilities with our senior management personnel. Competition for qualified employees is intense. If our affiliated companies lose the services of key personnel, or are unable to attract additional qualified personnel, the business, financial condition, results of operations and cash flows of us or one or more of our affiliated companies could be materially adversely affected. It can take a significant period of time to identify and hire personnel with the combination of skills and attributes required in carrying out our strategy.

Our success depends on our ability to compete effectively in the highly competitive industries in which we operate.

We face intense competition in organizing capcos, originating SBA loans, processing electronic payments and offering insurance, as well as in the other industries in which we or our affiliated companies operate. Low barriers to entry often result in a steady stream of new competitors entering certain of these businesses. Current and potential competitors are or may be better established, substantially larger and have more capital and other resources than we do. If we expand into additional geographical markets, we will face competition from others in those markets as well.

A major feature of our business strategy is the development of opportunities for our service and product provider businesses to market to the customers of our other business lines and to the customer bases of our alliance partners.

Although the business strategy of management contemplates the referring of prospects between wholly-owned and partially owned companies in our network, there is no history of such cross-selling and there can be no assurances that any effort to make referrals across our network of affiliated companies will result in additional revenue opportunities. In order for our referral network to achieve the desired result, each of the constituent

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companies must have proper incentives and feel comfortable making such introduction, and furthermore, the service provider receiving such referral must properly service such referred client. Instituting a corporate culture conducive to sending and receiving referrals is difficult and may not yield the results anticipated by us. In addition, our marketing alliances are terminable and, if we make serious errors or fail to produce sufficient revenues for our alliance partners, we are at risk of losing these relationships.

The inability of any one of our business segments to service customers adequately referred to it from within our other companies could impair our overall relationship with such customers.

A significant benefit of our structure and strategy is the ability to cross market between our SBA, electronic payment processing and other business customers, including potentially those of CrystalTech. However, should the business relationship between one of our business segments and customers deteriorate for any reason, such customers may opt to withdraw their business from our other businesses. Such a loss of business could negatively impact our results of operations and cash flows.

We rely on information processing systems, and our strategy of cross marketing to customers among our majority-owned subsidiaries will increase this reliance; the interruption, loss or failure of which would materially and adversely affect our business.

Our ability to provide business services depends, and will increasingly depend, on our capacity to store, retrieve, process and manage significant amounts of data and expand and upgrade our information processing capabilities. Interruption or loss of our information processing capabilities through loss of stored data, breakdown or malfunctioning of computer equipment and software systems, telecommunications failure or damage caused by acts of god or other disruption, could have a material adverse effect on our business, financial condition and results of operations. Although we have disaster recovery procedures in place and insurance to protect against such contingencies, we cannot be certain that our disaster recovery systems or insurance will continue to be available at reasonable prices, cover all our losses or compensate us for the possible loss of clients occurring during any period that we are unable to provide outsourced business services.

We are attempting to build a national Newtek brand for services and products marketed to small and medium-sized businesses, but we are unable to obtain a significantly high level of protection for the brand name due to its previous usage in other contexts.

The current and past usage by others of names similar to Newtek may make obtaining a significant level of protection for the use of such name very costly. We cannot assure you that we will be able to prevent competitors from using the name Newtek in other contexts or even in competition with us. In the event of such an infringement, we would attempt to vigorously defend our rights to the name, but we can give no assurance that we will be successful in doing so. We have not registered the mark Newtek with the United States Patent and Trademark Office.

RISKS RELATED TO OUR CAPCO BUSINESS

Because our capcos are subject to minimum investment and other requirements under state law, a failure of any of them to meet these requirements could subject the capco and our shareholders to the loss of one or more capcos and would preclude participation in future capco programs.

Involuntary decertification of all or substantially all of our capcos would result in material loss to us and our shareholders. In general, capcos issue debt and equity instruments, such as warrants, to insurance company investors and the capcos then acquire interests in companies in accordance with applicable state statutes. In return, the states issue tax credits to the capcos, which are available to and used by the insurance company investors to reduce their state tax liabilities. In order to maintain its status as a capco and to avoid the recapture of the tax credits granted, each capco must meet a number of state requirements. A key requirement in order to maintain capco certification is

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that a capco must comply with minimum investment schedules that benchmark both the timing and type of required investments. Although to date we have met all applicable benchmarks, we may not do so in the future. A final involuntary loss of capco status, referred to as a decertification as a capco, will result in a loss of the tax credits for us and our insurance company investors; it would also enable the capco insurer, which has the obligation to make compensatory payments to offset the lost tax credits, to take control of one or more capcos and manage or liquidate the capco investments to offset its losses. This would deprive us of the value of the investments and make participation in future capco programs highly unlikely.

The ability of our capcos to meet minimum investment requirements is materially and adversely affected by the cost of capco insurance.

Each of our capcos, following its organization and payment for capco insurance, begins operations with cash approximately equal to 50% of its initial funding (inclusive of any funds obtained from the capco insurer as premium financing), or certified capital, the amount on which the minimum investment requirement is based. In order to avoid decertification and remain in compliance with applicable rules, each capco must invest an amount equal to at least 50% of certified capital in qualified investments. The capcos receive full credit in the minimum investment calculation for the reinvestment of funds returned to the capco by the repayment, sale or liquidation of investments. However, each capco s ability to meet its minimum investment requirement could be adversely effected by:

- the cost of insurance at the beginning of the capco s investment cycle;
- the ability to obtain the premium financing from the capco insurer;
- the transfer of 2.5% of certified capital per year as management fees to us;
- the direct costs and expenses of operating the capco, including legal and accounting fees;
- the payment of taxes due by the capco; and
- losses by the capco, which are common on investments in riskier early-stage, start up and potentially high growth businesses.

As of March 31, 2004 seven of our eleven operating capcos have met the minimum investment requirements (the capco managed by Exponential Business Development, Inc., or Exponential, is not included as we only manage but do not own it). The eleventh capco, in Alabama, was funded and began operations in January, 2004 and is at the beginning of its business cycle, with the entire amount of its certified capital yet to be invested. However, the remaining four capcos must invest an aggregate of approximately $14,000,000 within the varying time frames prescribed by the capcos respective states. Failure of one of these capcos to make the minimum investments within the prescribed time frames would lead to decertification of a capco.

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

The tax credits associated with the capco programs and provided to our capcos investors are to be utilized by the investors over a period of time, typically ten years. Much can change during such a period and it is possible that one or more states may revise or eliminate the tax credits. Any such revision or repeal could have a material adverse economic impact on our capco, either directly or as a result of the capco s insurer s actions. During 2002 a single legislator in Louisiana did introduce such a proposed bill, on which no action was taken, and in Colorado in 2003 and 2004 bills to modify (not repeal) its capco program were introduced; the 2002 legislation was defeated in a legislative committee. The 2004 Colorado legislation could have a material and adverse impact on the potential profitability of our Colorado capco if some of the proposed provisions are adopted.

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In the event of a threat of decertification by a state, the capco insurer is authorized to assume partial or complete control of a capco which would likely result in financial loss to the capco and possibly us and our shareholders.

Under the terms of insurance policies purchased by all but one of our capcos for the benefit of the investors, the capco insurer is authorized, in the event of a formal written threat of decertification by a state and absent appropriate corrective action by the capco, to assume partial or complete control of a capco in order to avoid final decertification and the requirement to pay compensatory interest to the certified investors under the policies. While avoiding final decertification, control by the insurer would result in significant disruption of the capco s business and likely result in financial loss to the capco and our business.

In the absence of the adoption of new capco programs, we will be unable to derive any new income from tax credits, which to date represents substantially all of our income.

Virtually all of our net income for each of the years since inception was derived from the recognition of income related to tax credits available under current capco programs. We will recognize additional income related to tax credits from the current capco programs over the next ten years. Thereafter, unless additional capco programs are adopted and we are able to participate in them, we will derive no income from additional capco programs. The adoption of new state capco programs could be materially and adversely affected by adverse economic conditions or a change in the political acceptability of economic development or capco programs.

Our method of income recognition derived from the capco tax credits causes most of such income to be received in the first five years of the programs. In the absence of income from our investments or other sources, we would sustain material losses in later years.

In our capco programs we recognize the majority of our income from the tax credits in the early years of the programs because income recognition is tied to the schedule by which the tax credits become irrevocable and beyond recapture (approximately five years). We recognize the majority of our income from ten year capco programs in the first five years. In the absence of income from other sources, such as our investments in small businesses and affiliated companies, our income would decrease materially and we would likely sustain material losses in later years. Although we will not be recognizing significant tax credit income in the latter part of the program, we will continue to incur costs for the administration of the capcos, insurance expenses for the capcos and interest expenses on the capco notes. In the absence of our participation in new capco programs, income from tax credits will remain stagnant or decrease as the capcos reach maturity beginning in 2004.

If we are deemed to be an investment company under the Investment Company Act of 1940, we will not be able to execute our business strategy.

Because capcos can operate in a manner similar to venture capital funds, there is a risk that the Securities and Exchange Commission, or the SEC, or a court might conclude that we fall within the definition of investment company, and unless an exemption is available, we would be required to register under the Investment Company Act of 1940. Compliance with the Investment Company Act as a registered investment company would cause us to alter significantly our business strategy of participating in the management and development of affiliated companies, impair our ability to operate as planned and seriously harm our business. In addition, our contracts would be voidable and a court could appoint a receiver to take control of and liquidate our business.

The SEC has adopted Rule 3a-1 that provides an exemption from registration as an investment company if a company meets both an asset and an income test and is not otherwise primarily engaged in an investment company business by, among other things, holding itself out to the public as such or by taking controlling interests in companies with a view to realizing profits through subsequent sales of these interests. A company satisfies the asset test of Rule 3a-1 if it has no more than 45% of the value of its total assets (adjusted to exclude U.S. Government securities and cash) in the form of securities other than interests in majority-owned subsidiaries and companies which it primarily and actively controls. A company satisfies the income test of Rule 3a-1 if it has derived no more than 45% of its net income for its last four fiscal quarters combined from securities other than interests in majority owned subsidiaries and primarily and actively controlled companies.

RISKS RELATING TO OUR SBA LENDING BUSINESS

We have specific risks associated with small business administration loans.

We have generally sold the guaranteed portion of SBA loans in the secondary market. There can be no assurance that we will be able to continue originating these loans, or that a secondary market will exist for, or that we will continue to realize premiums upon the sale of, the guaranteed portions of the SBA loans.

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

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

There can be no assurance that the federal government will maintain the SBA program, or that it will continue to guarantee loans at current levels. If we cannot continue making and selling government guaranteed loans, we will generate fewer origination fees and our ability to generate gains on sale of loans will decrease. From time to time, the government agencies that guarantee these loans reach their internal budgeted limits and cease to guarantee loans for a stated time period. In addition, these agencies may change their rules for loans. Also, Congress may adopt legislation that would have the effect of discontinuing or changing the programs. Non-governmental programs could replace government programs for some borrowers, but the terms might not be equally acceptable. If these changes occur, the volume of loans to small business and industrial borrowers of the types that now qualify for government guaranteed loans could decline, as could the profitability of these loans.

Changing interest rates may reduce our income from lending.

Fluctuations in interest rates may affect customer demand for our loans and other products and services. Our lending business will likely increase during times of falling interest rates and, conversely, decrease during times of significantly higher interest rates. Significant fluctuations in interest rates and loan demand could have a potentially adverse effect on our results of operations and cash flows.

Our ability to participate in the SBA government-guaranteed loan program depends on our ability to obtain sufficient warehouse or similar lending facilities, on sufficiently attractive terms, to enable us to make profitable loans.

In conjunction with the acquisition of our SBA lending affiliate, we were able to assist in the renegotiation and extension of a major warehouse loan facility from an affiliate of Deutsche Bank. This warehouse line enables NSBF to fund loans and repay the line at the time all or a portion of the loan is sold, as is typically the case.

On June 22, 2004, NSBF executed an amendment to such warehouse facility to provide for an extension of the warehouse credit line to June 30, 2005 and a possible increase of such line from the current $75 million up to $100 million under certain conditions. The credit facility had been scheduled to terminate on June 30, 2004.

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The amended warehouse line contains adjustments to the terms of the advances and required reserves, additional financial and non-financial covenants and a commitment from NSBF to obtain $10 million in additional funding by August 2, 2004. In addition, the amended agreement requires, among other terms and conditions, that: (1) Newtek continue its previous guaranty of all of NSBF s obligations under the credit line (including the possible expanded facility), (2) Newtek conform to maximum debt and minimum equity requirements, (3) Newtek not pay dividends for the one year term of the facility and (4) in the absence of funding from other sources, Newtek make a debt or equity infusion of at least $10 million to support the lending activities of NSBF. While there can be no assurance that the additional third party funding will be available, NSBF has had numerous discussions with additional lenders and has signed a non-binding letter of intent with one possible lender for $12 million. The failure to arrange the additional funding would be treated as a default under the credit line. However Newtek currently anticipates that NSBF will be able to enter into a third party loan agreement on or before August 2, 2004 or , alternatively, secure from Newtek the required debt or equity infusion by that date, the funds for which may come, in whole or in part, from the proceeds of this offering.

In the absence of NSBF s warehouse line of credit, or some other comparable credit facility, NSBF would be unable to make any material number of loans without finding a replacement lending facility. Furthermore, our interest spread and net earnings from this segment of our business would be directly effected by the terms and conditions of the replacement lending facilities.

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

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

Risks Relating to Our Electronic Payment Processing Business

We rely currently on a single bank sponsor, which has substantial discretion with respect to certain elements of our business practices, in order to process bankcard transactions. If this sponsorship is terminated and we are not able to secure or migrate merchant portfolios to new bank sponsors, we will not be able to conduct our electronic payment processing business.

Because we are not a bank, we are unable to belong to and directly access the Visa and MasterCard bankcard associations. The Visa and MasterCard operating regulations require us to be sponsored by a bank in order to process bankcard transactions. We are currently registered with Visa and MasterCard through the sponsorship of one bank that is a member of the card associations. If this sponsorship is terminated and we are unable to secure a bank sponsor, we will not be able to process bankcard transactions. Furthermore, our agreement with our sponsoring bank gives the sponsoring bank substantial discretion in approving certain elements of our business practices, including our solicitation, application and qualification procedures for merchants, the terms of our agreements with merchants, the processing fees that we charge, our customer service levels and our use of independent sales organizations. We cannot guarantee that our sponsoring bank s actions under these agreements will not be detrimental to us.

If we or our bank sponsor fail to adhere to the standards of the Visa and MasterCard credit card associations, our registrations with these associations could be terminated and we could be required to stop providing payment processing services for Visa and MasterCard.

Substantially all of the transactions we process involve Visa or MasterCard. If we or our bank sponsor fail to comply with the applicable requirements of the Visa and MasterCard credit card associations, Visa or MasterCard could suspend or terminate our registration. The termination of our registration or any changes in the

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Visa or MasterCard rules that would impair our registration could require us to stop providing payment processing services, which would have a material adverse effect on our business.

We and our electronic payment processing subsidiaries rely on other card payment processors and service providers. If they no longer agree to, or are unable to, provide their services, our merchant relationships could be adversely affected and we could lose business.

Our electronic payment processing business relies on agreements with several other large payment processing organizations to enable us to provide card authorization, data capture, settlement and merchant accounting services and access to various reporting tools for the merchants we serve. We also rely on third parties to whom we outsource specific services, such as reorganizing and accumulating daily transaction data on a merchant-by-merchant and card issuer-by-card issuer basis and forwarding the accumulated data to the relevant bankcard associations. Many of these organizations and service providers are our competitors. The termination by our service providers of these arrangements with us or their failure to perform these services efficiently and effectively may adversely affect our relationships with the merchants whose accounts we serve and may cause those merchants to terminate their processing agreements with us.

On occasion, we experience increases in interchange and sponsorship fees. If we cannot pass these increases along to our merchants, our profit margins will be reduced.

Our electronic payment processing subsidiaries pay interchange fees or assessments to card associations for each transaction we process using their credit, debit and gift cards. From time to time, the card associations increase the interchange fees that they charge processors and the sponsoring banks. At their sole discretion, our sponsoring banks have the right to pass any increases in interchange fees on to us. In addition, our sponsoring banks may increase their Visa and MasterCard sponsorship fees, all of which are based upon the dollar amount of the payment transactions we process. If we are not able to pass these fee increases along to merchants through corresponding increases in our processing fees, our profit margins in this line of business will be reduced.

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

Through our electronic payment processing subsidiaries, we collect and store sensitive data about merchants and cardholders and we maintain a database of cardholder data relating to specific transactions, including payment, card numbers and cardholder addresses, in order to process the transactions and for fraud prevention and other internal processes. If anyone penetrates our network security or otherwise misappropriates sensitive merchant or cardholder data, we could be subject to liability or business interruption. We cannot guarantee that our systems will not be penetrated in the future. If a breach of our system occurs, we may be subject to liability, including claims for unauthorized purchases with misappropriated card information, impersonation or other similar fraud claims.

We have potential liability if our merchants refuse or cannot reimburse charge-backs resolved in favor of their customers.

If a billing dispute between a merchant and a cardholder is not ultimately resolved in favor of the merchant, the disputed transaction is charged back to the merchant s bank and credited to the account of the cardholder. If we or our processing banks are unable to collect the charge-back from the merchant s account, or if the merchant refuses or is financially unable due to bankruptcy or other reasons to reimburse the merchant s bank for the charge-back, we bear the loss for the amount of the refund paid to the cardholder s bank.

We face potential liability for customer or merchant fraud.

Credit card fraud occurs when a merchant s customer uses a stolen card (or a stolen card number in a card-not-present transaction) to purchase merchandise or services. In a traditional card-present transaction, if the

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merchant swipes the card, receives authorization for the transaction from the card issuing bank and verifies the signature on the back of the card against the paper receipt signed by the customer, the card issuing bank remains liable for any loss. In a fraudulent card-not-present transaction, even if the merchant receives authorization for the transaction, the merchant is liable for any loss arising from the transaction. Many of our business customers are small and transact a substantial percentage of their sales over the Internet or by telephone or mail orders. Because their sales are card-not-present transactions, these merchants are more vulnerable to customer fraud than larger merchants and we could experience charge-backs arising from cardholder fraud more frequently with these merchants.

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

Risks Relating to Our Acquisition and Operation of a Website Hosting Business

The closing of the CrystalTech acquisition is contingent on our receiving net proceeds from this offering or a similar financing. Even if this offering is completed, we may still not be able to consummate the acquisition. In such a case, we would not be able to acquire the website hosting business.

Under the terms of our agreement with CrystalTech, our obligation to consummate this acquisition is conditioned upon our receiving sufficient financing to fund the cash portion of the purchase price of $10,000,000 plus an additional amount of $2,000,000. Moreover, some of the other closing conditions are not within our control, such as obtaining the consent of CrystalTech s landlord. Absent fulfillment of all material conditions, we may be unable to complete the transaction. In addition, we have agreed with the underwriters for this offering that we will use our commercially reasonable best efforts to consummate the transaction with CrystalTech within eight days of closing this offering.

CrystalTech operates in a competitive industry where technological change can be rapid.

The website hosting business and its related technology involve a broad range of rapidly changing technologies. CrystalTech s equipment and the technologies on which it is based may not remain competitive over time, and others may develop superior technologies that render CrystalTech s products non-competitive without significant additional capital expenditures.

CrystalTech s website hosting business depends on the efficient and uninterrupted operation of its computer and communications hardware systems and infrastructure.

Despite precautions taken by CrystalTech against possible failure of its systems, interruptions could result from natural disasters, power loss, the inability to acquire fuel for our backup generators, telecommunications failure, terrorist attacks and similar events. CrystalTech also leases telecommunications lines from local, regional and national carriers whose service may be interrupted. Our business, financial condition and results of operations could be harmed after our acquisition of CrystalTech by any damage or failure that interrupts or delays our operations.

Of primary importance to CrystalTech s website hosting customers is the integrity of its infrastructure and the privacy of confidential information.

CrystalTech s infrastructure is potentially vulnerable to physical or electronic break-ins, viruses or similar problems. If a person circumvents CrystalTech s security measures, he or she could jeopardize the security of confidential information stored on CrystalTech s systems, misappropriate proprietary information or cause interruptions in CrystalTech s operations. We may be required to make significant additional investments and

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efforts to protect against or remedy security breaches. Security breaches that result in access to confidential information could damage our reputation and expose us to a risk of loss or liability. The security services that CrystalTech offers in connection with customers networks cannot assure complete protection from computer viruses, break-ins and other disruptive problems. Although CrystalTech attempts to limit contractually its liability in such instances, the occurrence of these problems may result in claims against CrystalTech or us or liability on our part. These claims, regardless of their ultimate outcome, could result in costly litigation and could harm our business and reputation and impair CrystalTech s ability to attract and retain customers.

CrystalTech s business depends on Microsoft Corporation for the license to use software as well as other intellectual property in its website hosting business.

CrystalTech s website hosting business is built on a technological platform relying on the Microsoft Windows® products that CrystalTech currently licenses. As a result, if we are unable to continue to have the benefit of that licensing arrangement or if the Microsoft Windows® products upon which CrystalTech s platform is built become obsolete, our business could be materially and adversely affected.

CrystalTech depends on the services of a few key personnel in managing its website hosting business, and the loss of one or more of them could materially impair its ability to maintain current levels of customer service and the proper technical operations of its business.

After we acquire CrystalTech we will depend upon the continued management by Tim Uzzanti of the operations of CrystalTech s website hosting business, along with two or three other individuals to supervise CrystalTech s technical operations and the customer technical service response. If we were to lose the services of one or more of these persons, our website hosting business could be significantly diminished.

RISKS RELATING TO OUR NEW BUSINESSES

The new businesses we plan to develop or organize, namely insurance sales, tax preparation services and financial information services will be businesses which are new to us and we may incur significant losses prior to becoming profitable if ever.

We do not have any experience in conducting our proposed new businesses in any meaningful manner in the past. Our investment in and operation of these businesses may result in losses due to our lack of knowledge and experience.

We cannot assure that the insurance, tax preparation or financial information services we plan to offer will be price competitive or accepted by our customers.

Despite our efforts to design, market and deliver integrated services to our customers, our proposed new services may not be widely accepted and we may not be able to compete with other larger and better capitalized providers of such services.

We will depend on third parties, particularly property and casualty insurance companies, to supply the products marketed by our agents.

Our future contracts with property and casualty insurance companies typically will provide that the contracts can be terminated by the supplier without cause. Our inability to enter into satisfactory arrangements with these suppliers or the loss of these relationships for any reason would adversely affect the results of our new insurance business.

Termination of our professional liability insurance policy may adversely impact our financial prospects and our ability to continue our relationships with insurance companies.

We will need to obtain professional liability insurance in connection with the operation of this business. If we are unable to obtain or if we lose such insurance after we obtain it, it is unlikely that our relationships with

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insurance companies would continue. We are currently in the process of obtaining professional liability insurance to cover the operations of the insurance agency and meet applicable state licensing requirements but no assurances can be given that we will be able to obtain such insurance. Once obtained, our failure to maintain this insurance would have a material adverse impact on the business.

If we fail to comply with government regulations, our insurance agency business could be adversely affected.

Our insurance agency business will be subject to comprehensive regulation in the various states in which we plan to conduct business. Our success will depend in part upon our ability to satisfy these regulations and to obtain and maintain all required licenses and permits. Our failure to comply with any statutes and regulations could have a material adverse effect on us. Furthermore, the adoption of additional statutes and regulations, changes in the interpretation and enforcement of current statutes and regulations or the expansion of our business into jurisdictions that have adopted more stringent regulatory requirements than those in which we currently conduct business could have a material adverse effect on us.

We do not have any control over the commissions our insurance agency expects to earn on the sale of insurance products which are based on premiums and commission rates set by insurers and the conditions prevalent in the insurance market.

Our insurance agency expects to earn commissions on the sale of insurance products. Commission rates and premiums can change based on the prevailing economic and competitive factors that affect insurance underwriters. In addition, the insurance industry has been characterized by periods of intense price competition due to excessive underwriting capacity and periods of favorable premium levels due to shortages of capacity. We cannot predict the timing or extent of future changes in commission rates or premiums or the effect any of these changes will have on the operations of our insurance agency.

RISKS RELATING TO OUR COMMON STOCK AND THIS OFFERING

Three of our shareholders, all of whom are executive officers and directors, will beneficially own approximately 42% of our common stock after completion of this offering (including the exercise of the over-allotment option) and the acquisition of Crystal Tech (assuming all contingent share payments are earned and issued), and will be able to control the outcome of most shareholder actions.

Because of their ownership of our stock, Messrs. Sloane, Wasserman and Rubin will be able to control or have significant influence over all actions requiring shareholder approval, including the election of directors, the adoption of amendments to the certificate of incorporation, approval of stock incentive plans and approval of major transactions such as a merger or sale of assets. This could delay or prevent a change in control of our company, deprive our shareholders of an opportunity to receive a premium for their shares of common stock as part of a change in control and have a negative effect on the market price of our common stock.

There is a limited trading market for our common stock, and you may not be able to resell your shares at or above the price you pay for them.

The price of our common stock is subject to fluctuations based on, among other things, economic and market conditions for companies in similar industries to ours and the stock market in general, as well as changes in investor perceptions of us. While we are a publicly-traded company, the volume of trading activity in our stock is relatively small. The current public float of our common stock is approximately 11,600,000 shares, and the average daily trading volume of our common stock from January 1, 2004 through March 31, 2004 was approximately 63,000 shares. Even if a more active market develops, there can be no assurance that such a market will continue or that our shareholders will be able to sell their shares at or above the offering price.

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Our management will have broad discretion over the use of the net proceeds of this offering, and you may not agree with the way the proceeds are used.

While we currently intend to use the net proceeds of this offering for the CrystalTech acquisition, capital or liquidity in connection with NSBF s warehouse credit facility, potential future acquisitions, working capital and other general purposes, we may subsequently choose to use the net offering proceeds for different purposes or not at all. In addition, the CrystalTech acquisition may fail to close for a reason or reasons which we cannot now contemplate. The effect of the offering will be to increase capital resources available to our management, and our management will allocate these capital resources as it determines is necessary. You will be relying on the judgment of our management with regard to the use of the net proceeds of this offering. See Use of Proceeds.

Future issuances of our common stock or other securities, including preferred stock, may dilute the per share book value of our common stock or have other adverse consequences to our common shareholders.

Following the completion of this offering, our board of directors has the authority, without the action or vote of our shareholders, to issue all or part of the approximately 5,800,000 authorized but unissued shares of our common stock. If issued, these common shares would represent approximately 17% of our outstanding common stock. Our business strategy relies upon investment in and acquisition of businesses using the resources available to us, including our common stock. We have made acquisitions during 2002 and 2003 involving the issuance of our common stock, and we expect to make additional acquisitions in the future using our common stock. Additionally, we anticipate granting additional options or restricted stock awards to our employees and directors in the future. We may also issue additional securities, through public or private offerings, in order to raise capital to support our growth, including in connection with possible acquisitions or in connection with purchases of minority interests in affiliated companies or capcos. Future issuances of our common stock will dilute the percentage of ownership interest of current shareholders and could decrease the per share book value of our common stock. In addition, option holders may exercise their options at a time when we would otherwise be able to obtain additional equity capital on more favorable terms.

Pursuant to our certificate of incorporation, our board of directors is authorized to issue, without action or vote of our shareholders, up to 1,000,000 shares of blank check preferred stock, meaning that our board of directors may, in its discretion, cause the issuance of one or more series of preferred stock and fix the designations, preferences, powers and relative participating, optional and other rights, qualifications, limitations and restrictions thereof, including the dividend rate, conversion rights, voting rights, redemption rights and liquidation preference, and to fix the number of shares to be included in any such series. The preferred stock so issued may rank superior to the common stock with respect to the payment of dividends or amounts upon liquidation, dissolution or winding-up, or both. In addition, the shares of preferred stock may have class or series voting rights.

The authorization and issuance of blank check preferred stock could have an anti-takeover effect detrimental to the interests of our shareholders.

Our certificate of incorporation allows our board of directors to issue preferred stock with rights and preferences set by the board without further shareholder approval. The issuance of shares of this blank check preferred stock could have an anti-takeover effect detrimental to the interests of our shareholders. For example, in the event of a hostile takeover attempt, it may be possible for management and the board to impede the attempt by issuing the preferred shares, thereby diluting or impairing the voting power of the other outstanding shares of common stock and increasing the potential costs to acquire control of us. Our board has the right to issue any new shares, including preferred shares, without first offering them to the holders of common stock as they have no preemptive rights.

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We know of no other publicly-held company that sponsors and operates capcos as a material part of its business. As such, there are, to our knowledge, no other companies against which investors may compare our capco business, operations, results of operations and financial and accounting structures.

In the absence of any meaningful peer group comparisons for our capco business, investors may have a difficult time understanding and judging the strength of our business. This, in turn, may have a depressing effect on the value of our stock.

Substantial sales of shares may impact the market price of our common stock.

If our shareholders sell substantial amounts of our common stock, the market price of our common stock may decline. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. We are unable to predict the effect that sales may have on the then prevailing market price of our common stock. This risk is compounded by the fact that three of our executive officers and directors will own approximately 42% of our common stock after completion of this offering (including the exercise of the over-allotment option) and the acquisition of CrystalTech (assuming all contingent share payments are earned and issued), and sales by any one of them of substantial numbers of shares, or the perception that such sales could occur, could adversely affect the market price. Further, these three shareholders, as well as all of our other directors, have entered into lock-up agreements with the underwriters in which they have agreed to refrain from selling their shares for a period of 180 days after the date of this prospectus. Increased sales of our common stock in the market after the expiration of these lock up agreements could exert significant downward pressure on our stock price.

Provisions of our certificate of incorporation and New York law place restrictions on our shareholders ability to recover from our directors.

As permitted by New York law, our amended and restated certificate of incorporation limits the liability of our directors for monetary damages for breach of a director s fiduciary duty except for liability in certain instances. As a result of these provisions and New York law, shareholders have restrictions and limitations upon their rights to recover from directors for breaches of their duties. In addition, our certificate of incorporation provides that we must indemnify our directors and officers to the fullest extent permitted by law.

We may not be able to comply in a timely manner with all of the recently enacted or proposed corporate governance requirements.

Beginning with the enactment of the Sarbanes-Oxley Act of 2002, in July 2002, a significant number of new corporate governance requirements have been adopted or proposed by the SEC and the Nasdaq Stock Market. Although we currently expect to comply with all current and future requirements, we may not be successful in complying with these requirements in the future. In addition, certain of these requirements may require us to make changes to our corporate governance.

There are risks associated with one of our underwriter s lack of recent experience in public offerings.

Although certain principals of Maxim Group LLC have extensive experience in the securities industry, Maxim Group LLC itself is newly formed and has acted as an underwriter in only one prior public offering. This lack of operating history may have an adverse effect on this offering. Maxim Group LLC was formed in October 2002 and is a member of the National Association of Securities Dealers and the Securities Investor Protection Corporation.

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NOTE ON FORWARD-LOOKING STATEMENTS

Certain statements included in this prospectus reflect assumptions, expectations, projections, intentions or beliefs about future events. These statements, which may relate to such matters as the CrystalTech acquisition, other potential acquisitions and current and potential joint ventures, industry conditions, revenue and net income, future capital expenditures, fulfillment of working capital needs and future acquisition plans, are forward-looking statements within the meaning of the federal securities laws. These statements are not statements of historical fact. The words anticipate, estimate, expect, forecast, goal, objective, projection, or similar words are intended to identify forward-looking statements. Forward-looking statements are based on our management s beliefs, assumptions and expectations of our future economic performance, taking into account the information currently available to them. Forward-looking statements involve risks and uncertainties that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. In addition to the specific factors we discuss in the Risk Factors section of this prospectus, the following are among the important factors that could cause our actual results, performance or financial condition to differ materially from the forward-looking statements:

The performance of our subsidiaries, including NSBF, and affiliated companies, aspects of which are outside our control.

Losses by the capcos due to investments in riskier early-stage and start up businesses which could make it significantly more difficult for the capcos to meet minimum state statutory investment benchmarks and thus subject the capcos to decertification and further financial loss.

The degree and nature of our competition and that of our affiliated companies.

The lack of widespread acceptance of the commercial use of the Internet, which may be material to one or more of our affiliated companies.

Our ability, and that of our affiliated companies, to attract and retain key managerial and technical personnel.

Changes in government regulation of our business and those of our affiliated companies.

Any forward-looking statements should be considered in light of such important factors.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of 6,000,000 shares of common stock by us in this offering will be approximately $, based on an assumed public offering price of $5.00 per share. We expect to use the net proceeds as follows:

- $10,000,000 to pay the cash portion of the purchase price of CrystalTech; and

- the balance for working capital and general corporate purposes, including potential future acquisitions of complementary businesses and technologies and providing additional capital or liquidity to our current or future operating subsidiaries. We are not currently engaged in any material discussions regarding any material or significant potential acquisitions other than the CrystalTech acquisition. See CrystalTech Acquisition.

On April 28, 2004, we signed a definitive agreement to acquire CrystalTech. In the event that the CrystalTech acquisition fails to close, the $10,000,000 in proceeds allocated for the CrystalTech purchase price will be used for working capital and general corporate purposes as described above and we will have full discretion over the use of this portion of the proceeds as well as the balance of the proceeds. As part of our agreement with the underwriters of this offering, we have agreed to use our commercially reasonable best efforts to consummate this transaction within eight days of the closing of the offering.

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CAPITALIZATION

The following table describes our capitalization as of March 31, 2004:

- on an actual basis;
- on an as adjusted basis to reflect our sale of 6,000,000 shares of common stock in this offering at an assumed public offering price of $5.00 per share, after deducting the underwriters discount and the underwriters expenses but excluding all other offering-related and acquisition expenses; and
- on a pro forma as adjusted basis to reflect our sale of 6,000,000 shares of common stock in this offering at an assumed public offering price of $5.00 per share and the application of the estimated net proceeds as described in Use of Proceeds, after deducting the underwriters discount, the underwriters expenses and all other offering-related acquisition and after an assumed issuance of 50,000 shares of common stock in connection with the CrystalTech acquisition (but does not include 350,000 shares which may be earned as contingent consideration).

You should read the following table in conjunction with our consolidated financial statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere in this prospectus.

	As of March 31, 2004		
	Actual	As Adjusted (2)	Pro Forma As Adjusted (3)
Cash and cash equivalents	$ 42,564,071	$ 70,014,071	$ 59,362,764
Notes payable and acquisition related payable	136,411,346	136,411,346	139,411,346
Stockholders equity:			
Preferred stock, $.02 par value; 1,000,000 shares authorized; no shares issued and outstanding, actual and as adjusted			
Common stock, $.02 par value; 39,000,000 shares authorized; 26,651,976 shares issued and outstanding actual(1); 32,651,976 shares issued and outstanding as adjusted(2); 32,701,976 shares issued and outstanding proforma as adjusted(3)	533,040	653,040	654,040
Additional paid-in capital	28,449,520	55,779,520	56,278,520
Unearned compensation	(1,867,315)	(1,867,315)	(2,117,315)
Retained earnings	13,537,370	13,537,370	13,537,370
Total stockholders equity	40,652,615	68,102,615	68,352,615
Total capitalization	$ 177,063,961	$ 204,513,961	$ 207,763,961

(1) The number of actual and as adjusted outstanding shares of common stock as of March 31, 2004 excludes 1,642,379 shares reserved for issuance under our stock option plans, at a weighted average exercise price of $4.51 per share, and also excludes 430,149 shares of restricted stock previously issued to employees and the shares issuable to the underwriters in the over-allotment option. See Underwriting.

(2) Assumes the completion of this offering.

(3) Assumes the completion of this offering and that CrystalTech was acquired at March 31, 2004, not including 350,000 contingently issuable shares.

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DILUTION

If you invest in our common stock, your investment will be diluted to the extent of the excess of the offering price per share of our common stock over the net tangible book value per share of our common stock immediately after this offering and the completion of the CrystalTech acquisition.

The net tangible book value of our common stock at March 31, 2004 was approximately $37,891,536 or $1.42 per share. The net tangible book value per share represents the amount of our total tangible assets less our liabilities.

After giving effect to the assumed issuance and sale of 6,000,000 shares of our common stock in this offering and our receipt of approximately $27,450,000 in net proceeds from that sale, based on an assumed public offering price of $5.00 per share and after deducting the underwriters discount and the underwriters expenses but excluding all other offering-related and acquisition expenses (estimated to be $955,000), and after giving effect to the assumed acquisition of CrystalTech (payment of the cash purchase price and the allocation of tangible and intangible assets and the issuance of 50,000 shares of common stock in connection therewith (but excluding 350,000 shares which may be earned as contingent consideration)), our as adjusted net tangible book value as of March 31, 2004 would have been approximately $51,423,224, or $1.57 per share. This amount represents an assumed immediate increase in the net tangible book value of $0.15 to existing shareholders and an assumed immediate dilution of $3.43 per share to purchasers of our common stock in this offering. Dilution is determined by subtracting the net tangible book value per share as adjusted for this offering and the acquisition of CrystalTech from the amount of cash paid by a new investor for a share of our common stock. The following table illustrates the per share dilution.

Public offering price per share		$ 5.00
Pro forma net tangible book value per share as of March 31, 2004 assuming completion of this offering	$ 2.00	
Decrease in pro forma net tangible book value per share assuming acquisition of CrystalTech	$ (0.43)	
Pro forma net tangible book value per share assuming completion of this offering and the CrystalTech acquisition		$ 1.57
Pro forma dilution per share to investors in this offering		$ 3.43

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PRICE RANGE OF COMMON STOCK

Our common stock has been traded on the Nasdaq National Market under the symbol NKBS since December 30, 2003. Our common stock previously traded on the American Stock Exchange. The following table sets forth, for the periods indicated, the high and low closing sale prices of our common stock as reported on the American Stock Exchange (under the symbol NKC) and, since December 30, 2003, on the Nasdaq National Market.

	Common Stock Price Per Share	
Year ended December 31, 2002:	**High**	**Low**
First Quarter:	$ 3.95	$ 3.00
Second Quarter:	$ 5.20	$ 3.20
Third Quarter:	$ 4.24	$ 3.15
Fourth Quarter:	$ 4.39	$ 3.20
Year ended December 31, 2003:		
First Quarter:	$ 5.30	$ 3.80
Second Quarter:	$ 6.29	$ 3.90
Third Quarter:	$ 5.75	$ 4.65
Fourth Quarter:	$ 7.00	$ 4.83
Year ending December 31, 2004:		
First Quarter:	$ 7.95	$ 4.34
Second Quarter (through June 24, 2004):	$ 6.15	$ 4.03

On June 24, 2004, the last sale price of our common stock on the Nasdaq National Market was $4.14 per share. As of June 24, 2004, there were approximately 265 record holders and approximately 1,211 beneficial owners of our common stock, which excludes the shares to be issued pursuant to this offering and the CrystalTech transaction.

DIVIDEND POLICY

We have not declared or paid any dividends on our common stock since our inception in 1998. We currently anticipate that we will retain all of our earnings for the continued development and expansion of our business and do not anticipate declaring or paying any cash or non-cash dividends in the foreseeable future. In addition, terms of the June 22, 2004 extension of NSBF s credit line with Deutsche Bank requires that we agree to a limitation on our ability to pay dividends through June 30, 2005. See Business Our Principal Operating Businesses Small Business Lending.

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SELECTED CONSOLIDATED FINANCIAL DATA

We derived the following selected consolidated financial data from our consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP, independent accountants and from our unaudited consolidated financial statements as of March 31, 2004. In the opinion of management, the unaudited financial data for the three month periods ended March 31, 2004 and 2003 includes all adjustments (consisting of any normal recurring adjustments) necessary to present the financial data for such periods. Historical results are not necessarily indicative of the results to be expected in the future. You should read the selected consolidated financial data presented below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes to those financial statements appearing elsewhere in this prospectus. For a review of the possible effect of the acquisition of CrystalTech, see the Pro Forma Financial Information section of this prospectus.

	Years Ended December 31,					Three Months Ended March 31, (unaudited)	
	1999	2000	2001	2002	2003	2003	2004
				(in thousands)			
Statement of Operations Data:							
Revenue:							
Income from tax credits	$ 10,964	$ 6,533	$ 21,498	$ 30,603	$ 44,933	$ 10,389	$ 2,024
Electronic payment processing			121	1,584	6,297	848	3,233
Servicing fee and premium income					2,702	368	1,112
Recovery of investment			105	29	350		
Interest and dividend income		2,118	1,845	900	4,059	1,059	1,029
Gain on sale of property				16			
Other income	918	59	336	1,538	2,152	255	472
Total revenue	11,882	8,710	23,905	34,670	60,493	12,919	7,870
Expenses:							
Interest	2,439	7,280	11,577	11,485	13,879	3,718	3,764
Payroll and consulting fees	254	1,294	2,665	4,565	8,407	1,664	2,185
Electronic payment processing costs			42	632	3,685	1,120	2,101
Professional fees	460	1,844	2,061	3,145	5,328	916	995
Insurance	410	1,006	1,530	1,951	2,469	573	715
Write-down of asset held for sale to net realizable value			168				
Other than temporary decline in value of investments		1,232	477	1,602	1,996	1,713	
Provision for loan losses					473		105
Goodwill impairment					1,435		
Equity in net losses of affiliates		163	2,280	729		55	
Other	296	772	1,132	3,043	4,751	707	1,194
Total expenses	3,859	13,591	21,932	27,152	42,423	10,466	11,059
Income (loss) before minority interest, (provision) benefit for income taxes and extraordinary items	8,023	(4,881)	1,973	7,518	18,070	2,453	(3,189)
Minority interest	(3,521)	2,234	(509)	(335)	(1,598)	288	300
Income (loss) before (provision) benefit for income taxes and extraordinary items	4,502	(2,647)	1,464	7,183	16,472	2,741	(2,889)
(Provision) benefit for income taxes		(1,140)	(534)	(2,658)	(7,090)	(1,069)	1,185

Income (loss) before extraordinary items	4,502	(3,787)	930	4,525	9,382	1,672	(1,704)
Extraordinary gain on acquisition of minority interests				908			
Extraordinary gain on acquisition of a business	924	362		2,735	187	187	
Net income (loss)	$ 5,426	$ (3,425)	$ 930	$ 8,168	$ 9,569	$ 1,859	$ (1,704)

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	Years ended December 31,					Three Months Ended March 31, (unaudited)	
	1999	2000	2001	2002	2003	2003	2004
	(In thousands except per share data)						
Weighted average common shares outstanding:							
Basic	18,250	19,310	21,890	24,184	25,777	25,410	26,471
Diluted	18,250	19,310	21,910	24,294	26,177	25,661	26,471
Income (loss) per share after extraordinary gain:							
Basic	$ .30	$ (.18)	$ .04	$ .34	$ .37	$ .07	$ (.06)
Diluted	$ .30	$ (.18)	$ .04	$ .34	$ .37	$ .07	$ (.06)
Income (loss) per share before extraordinary gain:							
Basic	$ .25	$ (.20)	$ .04	$ .19	$ .36	$ .07	$ (.06)
Diluted	$ .25	$ (.20)	$ .04	$ .19	$ .36	$ .07	$ (.06)

	As of December 31,					As of March 31, (unaudited)
	1999	2000	2001	2002	2003	2004
Balance Sheet Data:						
Cash	$ 25,454,016	$ 34,697,081	$ 31,171,966	$ 41,171,358	$ 33,444,611	$ 42,564,071
Total Assets	$ 54,645,029	$ 83,538,926	$ 83,362,802	$		