

NewStar Financial, Inc.
Form PRE 14A
December 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))

Definitive proxy statement

Definitive additional materials

Soliciting material pursuant to §240.14a-12

NEWSTAR FINANCIAL, INC.

(Name of Registrant as Specified in Its Charter)

Edgar Filing: NewStar Financial, Inc. - Form PRE 14A

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transactions applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Edgar Filing: NewStar Financial, Inc. - Form PRE 14A

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Timothy J. Conway

Chairman of the Board

and Chief Executive Officer

December [], 2008

Dear Stockholder:

You are cordially invited to attend a Special Meeting of Stockholders of NewStar Financial, Inc., which will be held on January [], 2009, at 10:00 a.m. at the offices of Edwards Angell Palmer & Dodge LLP at 111 Huntington Avenue, 20th Floor, Boston, MA 02199.

Our Board of Directors has fixed the close of business on December 8, 2008, as the record date for the determination of stockholders entitled to notice of, and to vote at, the Special Meeting and any postponements or adjournments thereof.

The matter to be considered and voted on at the Special Meeting is set forth in the Proxy Statement. All stockholders are encouraged to carefully review the Proxy Statement and attend the Special Meeting in person. Whether or not you plan to attend the Special Meeting, we hope you will vote as soon as possible. If you cannot attend the Special Meeting in person, please be sure to sign, date and return the enclosed proxy card in the accompanying reply envelope so that your shares will be represented at the Special Meeting. Returning your proxy card does not deprive you of your right to attend the Special Meeting and vote your shares in person.

Thank you for your continued support.

Cordially,

Timothy J. Conway

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

Time and Date: 10:00 a.m., Eastern Standard Time, on January [], 2009.

Place: The offices of Edwards Angell Palmer & Dodge LLP at 111 Huntington Avenue, 20th Floor, Boston, Massachusetts.

Item of Business: To consider and approve the Amended and Restated 2006 Incentive Plan (the Plan).

Adjournments and Postponements:

The item of business described above may be considered at the Special Meeting at the time and on the date specified above or at any time and date to which the Special Meeting may be properly adjourned or postponed.

Record Date: You are entitled to vote only if you were a stockholder of NewStar Financial, Inc. as of the close of business on December 8, 2008, the record date for the Special Meeting.

Meeting Admission: You are entitled to attend the Special Meeting only if you were a NewStar Financial stockholder as of the close of business on the record date or hold a valid proxy for the Special Meeting. You should be prepared to present photo identification for admittance to the Special Meeting. If you are not a stockholder of record but hold shares through a broker or nominee (*i.e.*, in street name), you should provide proof of beneficial ownership as of the record date, such as your most recent account statement dated on or prior to December 8, 2008 a copy of the voting instruction card provided by your broker, trustee or nominee, or other similar evidence of ownership. If, upon request, you do not provide photo identification or comply with the other procedures outlined above, you will not be admitted to the Special Meeting.

Voting: **Your vote is very important. Whether or not you plan to attend the Special Meeting, we encourage you to read this Proxy Statement and submit your proxy card or voting instructions as soon as possible. You may submit your proxy card or voting instructions by completing, signing, dating and returning your proxy card or voting instruction card in the pre-addressed envelope provided, or by following the instructions on your proxy card. For specific instructions on how to vote, please refer to the Questions and Answers section beginning on page 1 of this Proxy Statement.**

By order of the Board of Directors,

Robert K. Brown

Secretary

Dated: December [], 2008

NEWSTAR FINANCIAL, INC.

PROXY STATEMENT FOR THE

SPECIAL MEETING OF STOCKHOLDERS TO BE HELD ON JANUARY [], 2009

QUESTIONS AND ANSWERS ABOUT

THE PROXY MATERIALS AND THE SPECIAL MEETING OF STOCKHOLDERS

Q: Why am I receiving these materials?

A: The compensation committee (the Compensation Committee) of the Board of Directors (the Board) of NewStar Financial, Inc., a Delaware corporation (which may be referred to in this proxy statement as NewStar or the Company) is providing these proxy materials to you in connection with a special meeting of our stockholders (the Special Meeting), which will take place on January [], 2009. As a stockholder, you are invited to attend the Special Meeting and are entitled and requested to vote on the item of business described in this proxy statement (the Proxy Statement). This Proxy Statement and accompanying proxy card or voting instruction card are being mailed on or about December [], 2008 to all holders of our common stock, par value \$0.01 per share (the Common Stock) entitled to vote at the Special Meeting.

Q: What information is contained in this Proxy Statement?

A: The information included in this Proxy Statement relates to the proposal to be voted on at the Special Meeting, the voting process, beneficial ownership of the Company, and certain other required information. It is important to note that the compensation information contained in this Proxy Statement is for the fiscal years ending on December 31st of 2006 and 2007.

Q: What items of business will be voted on at the Special Meeting?

A: The sole item of business scheduled to be voted on at the Special Meeting is the approval of the Company's Amended and Restated 2006 Incentive Plan (the Plan).

Q: Why is the Company seeking stockholder approval for the Plan?

A: The Compensation Committee has approved the amendment and restatement of the Plan to (i) increase the number of shares available for awards under the Plan from 2,346,970 to 6,900,000 and (ii) make certain revisions to the Plan so that it is compliant with Section 162(m) (Section 162(m)) of the Internal Revenue Code of 1986, as amended (the Code). Under the terms of the existing 2006 Incentive Plan, stockholder approval must be obtained for any amendment to the Plan that increases the limits on the maximum number of shares that may be issued under the Plan.

Q: How does the Board recommend that I vote?

A: The Board recommends that you vote your shares FOR the Proposal.

Q: Why is the Board in favor of the Proposal?

A: Our Compensation Committee recommends approving the Plan because they believe that it is advisable for us to increase the shares of Common Stock available for issuance under the existing plan to allow us to continue to provide Awards (as defined in the Proposal) to our officers, independent directors and employees, motivate their performance by granting them an equity stake in the Company, foster employee retention by granting Awards that are subject to vesting, where applicable, and provide an incentive for them to achieve long-range performance goals to the extent that they retain the equity granted under the Plan.

In addition, our Compensation Committee recommends approving the Plan so that certain Awards under the Plan will be performance-based Awards intended to qualify for the performance-based compensation exception under Section 162(m).

Q: Who is entitled to vote at the Special Meeting?

A: Only stockholders of record at the close of business on December 8, 2008 are entitled to vote at the Special Meeting. We refer to this date as our Record Date. On the Record Date [] shares of our Common Stock were issued and outstanding. Each other outstanding share of our Common Stock on the Record Date will be entitled to one vote on the matter considered at the Special Meeting.

You may vote all shares of the Company's Common Stock owned by you as of the Record Date, including (1) shares that are held directly in your name as the stockholder of record, and (2) shares held for you as the beneficial owner through a broker, trustee or other nominee, such as a bank.

Q: What happens if the Proposal is not approved?

A: If the Proposal is not approved, the Plan will not be amended and no additional shares will be available for award under the Plan.

Q: What is the difference between holding shares as a stockholder of record and holding shares as a beneficial owner?

A: Most of our stockholders hold their shares through a broker or other nominee rather than directly in their own name. We have summarized below some of the distinctions between being a stockholder of record and being a beneficial owner:

Stockholder of Record

If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Co., you are considered, with respect to those shares, the stockholder of record, and these proxy materials are being sent to you directly by NewStar Financial, Inc. As a stockholder of record, you have the right to grant your voting proxy directly to us or to vote in person at the Special Meeting. We have enclosed a proxy card for you to use.

Beneficial Owner

If your shares are held in a brokerage account or by another nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials, together with a voting instruction card, are being forwarded to you by your broker or other nominee. As a beneficial owner, you have the right to direct your broker, trustee or nominee how to vote and are also invited to attend the Special Meeting.

Since a beneficial owner is not the stockholder of record, you may not vote these shares in person at the meeting unless you obtain a legal proxy from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the Special Meeting. Your broker, trustee or nominee has enclosed or has previously provided voting instructions for you to use in directing the broker, trustee or nominee how to vote your shares.

Q: How can I vote?

A: Whether you hold shares directly as a stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the Special Meeting.

You may vote by mail: If you are a stockholder of record of our Common Stock, you may submit your proxy by completing, signing and dating the enclosed proxy card and mailing it in the accompanying pre-addressed envelope. If you are a stockholder who holds shares beneficially in street name, you may vote by mail by completing, signing and dating the enclosed voting instruction card provided by your broker, trustee or nominee and mailing it in the accompanying pre-addressed envelope.

You may vote in person at the Special Meeting: Shares held in your name as the stockholder of record may be voted in person at the Special Meeting. Shares held beneficially in street name may be voted in person only if you obtain a legal proxy from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares. *Even if you plan to attend the Special Meeting, we recommend that you also submit your proxy or voting instructions as described above so that your vote will be counted if you later decide not to attend the Special Meeting.*

Q: How are my votes cast when I return a proxy card?

A: When you sign the proxy card, you appoint Timothy J. Conway, our Chief Executive Officer, and John K. Bray, our Chief Financial Officer, as your representatives at the Special Meeting. Messrs. Conway and Bray will vote your shares at the Special Meeting as you have instructed them on the proxy card. If no instructions are given, your shares will be voted **FOR** the Proposal. Messrs. Conway and Bray are also entitled to appoint a substitute to act on their behalf.

Q: Can I change my vote?

A: Yes. You may change your vote at any time prior to the vote at the Special Meeting. If you are the stockholder of record, you may change your vote by granting a new proxy bearing a later date (which automatically revokes the earlier proxy), by providing a written notice of revocation to Robert K. Brown, our Secretary, prior to your shares being voted, or by attending the Special Meeting and voting in person. Attendance at the Special Meeting will not cause your previously granted proxy to be revoked unless you specifically so request or if you cast a new vote. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, trustee or nominee, or, if you have obtained a legal proxy from your broker, trustee or nominee giving you the right to vote your shares, by attending the Special Meeting and voting in person.

Q: How can I attend the Special Meeting?

A: You are entitled to attend the Special Meeting only if you were a stockholder or joint holder of our Common Stock as of the close of business on the Record Date or if you hold a valid proxy for the Special Meeting. You should be prepared to present photo identification for admittance to the Special Meeting. A list of stockholders eligible to vote at the Special Meeting will be available for inspection at the Special Meeting and for a period of ten days prior to the Special Meeting, during regular business hours, at our principal executive office, which is located at 500 Boylston St., Suite 1600, Boston, MA 02116.

If you are not a stockholder of record but hold shares through a broker or nominee (*i.e.*, in street name), you should provide proof of beneficial ownership on the Record Date, such as your most recent account statement dated on or prior to December 8, 2008, a copy of the voting instruction card provided by your broker, trustee or nominee, or other similar evidence of ownership. If, upon request, you do not provide photo identification or comply with the other procedures outlined above, you will not be admitted to the Special Meeting.

The Special Meeting will begin promptly at 10:00 a.m., Eastern Standard Time. Check-in will begin at 9:00 a.m., Eastern Standard Time, and you should allow ample time for the check-in procedures.

Q: Who will serve as inspector of elections?

A: The inspector of elections will be a representative of the Company.

Q: How many shares must be present or represented to conduct business at the Special Meeting?

A: The quorum requirement for holding the Special Meeting and transacting business is the presence in person or by proxy of holders of a majority of the shares of our Common Stock entitled to vote at the Special Meeting. Both abstentions and broker non-votes are counted for the purpose of determining the presence of a quorum.

Q: What if a quorum is not present at the Special Meeting?

A: If a quorum is not present or represented at the Special Meeting, the meeting may be adjourned, either by the chairman of the meeting or by vote of the holders of a majority of the shares represented at the meeting, but no other business shall be transacted at the Special Meeting. The time and place of the adjourned meeting will be announced at the time the adjournment is taken at the Special Meeting and no other notice will be given, unless the adjournment is for more than 30 days from the date of the original meeting or a new record date is set for the adjourned meeting.

Q: How are votes counted?

A: You may vote FOR, AGAINST or ABSTAIN. If you vote to ABSTAIN such abstention will have the same effect as vote against the proposal. If you sign your proxy card or voting instruction card without giving specific instructions, your shares will be voted FOR the Proposal.

If you hold shares beneficially in street name and do not provide your broker with voting instructions, your shares may constitute broker non-votes. Generally, broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and such instructions are not given. In tabulating the voting result for any particular proposal, shares that constitute broker non-votes are not considered entitled to vote on that proposal. Thus, broker non-votes will not affect the outcome of the matter being voted on at the meeting, assuming that a quorum is obtained.

Q: What vote is required to approve the Proposal?

A: The affirmative vote of a majority of the total votes cast on the Proposal is required for approval of the Proposal.

Q: What happens if additional matters are presented at the Special Meeting?

A: Our by-laws provide that business transacted at a special meeting of stockholders be limited to matters relating to the purpose or purposes stated in the notice of meeting, and accordingly, no matters other than the Proposal will be considered at the Special Meeting.

Q: What should I do if I receive more than one set of voting materials?

Edgar Filing: NewStar Financial, Inc. - Form PRE 14A

- A:** You may receive more than one set of voting materials, including multiple copies of this Proxy Statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive.

Q: Who will bear the cost of soliciting votes for the Special Meeting?

A: NewStar is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communication by our directors, officers and employees. These individuals will not receive any additional compensation for such solicitation activities. We will also furnish copies of these proxy materials to banks, brokerage houses, fiduciaries and custodians holding in their names shares of Common Stock beneficially owned by others so that they can forward the materials to these beneficial owners. We may reimburse persons representing beneficial owners of Common Stock for their costs of forwarding these proxy materials to the beneficial owners.

Q: Who can help answer my questions?

A: If you have any questions about the Special Meeting or how to vote or revoke your proxy, you should contact Robert K. Brown, our corporate secretary, at (617) 848-2500.

PROPOSAL

APPROVAL OF THE AMENDED AND RESTATED 2006 INCENTIVE PLAN

We are asking our stockholders to consider and approve the Amended and Restated 2006 Incentive Plan.

2006 Incentive Plan

The Board adopted the existing NewStar Financial, Inc. 2006 Incentive Plan on November 16, 2006, and the existing plan was approved by the Company stockholders on December 13, 2006. The Plan is intended to provide incentives that will attract, retain and motivate highly competent persons as independent directors, officers and employees of, and consultants and advisors to, us and our subsidiaries, by granting them stock options, stock appreciation rights, restricted stock, restricted stock units, stock payments, dividend equivalents, deferred stock, performance awards and cash awards pursuant to Awards (as defined in the section titled "Types of Awards" below).

Reasons for the Changes to the Plan

The primary reasons that we are amending and restating the existing plan are to:

add 4,553,030 shares of our Common Stock to the reserve of shares available for issuance under the Plan; and

make certain revisions to the existing plan so that the Plan is compliant with Section 162(m).

Increase in the Number of Shares Available for Issuance under the Plan. Our Compensation Committee recommends approving the Plan because they believe that it is advisable for us to increase the shares of Common Stock available for issuance under the existing plan to allow us to continue to provide Awards to our officers, independent directors and employees, motivate their performance by granting them an equity stake in the Company, foster employee retention by granting Awards that are subject to vesting, where applicable, and provide an incentive for them to achieve long-range performance goals to the extent that they retain the equity granted under the Plan. As of December 1, 2008 the total number of shares available for issuance under the existing plan was only 617,987 shares.

Revisions to Comply with Section 162(m). We are currently in the transition relief period provided to newly-public companies and are not required to comply with Section 162(m). Our Compensation Committee recommends approving the Plan so that certain Awards under the Plan will be performance-based Awards intended to qualify for the performance-based compensation exception under Section 162(m). Accordingly, if the amendment and restatement of the existing plan is approved by our stockholders, the Compensation Committee may condition an Award upon the achievement of an objectively determinable performance goal. Additionally, the Plan would provide for the following limitations on individual grants in order to comply with Section 162(m):

No participant may receive in any calendar year Awards covering more than 6,900,000 shares; and

For performance-based Awards under the Plan, no individual may receive more than \$4,000,000 in any 12 month period. The description below summarizes the material provisions of the Plan. This summary is qualified in its entirety by reference to the full text of the Plan, as amended and restated, which is marked to show the proposed changes and attached as *Annex A* to this Proxy Statement.

Shares Available

If the Plan is approved the aggregate number of such shares of Common Stock that may be issued upon exercise of options or stock appreciation rights or other Awards under the Plan will be 6,900,000 shares, subject to adjustment as provided in the Plan. If the Plan is approved, the maximum number of shares of Common Stock

that may be issued pursuant to incentive stock options under the Plan will be 6,000,000 shares. The shares of Common Stock issuable upon exercise of options or other Awards or upon grant of any other Award may be either previously authorized but unissued shares or treasury shares. Any shares of Common Stock related to Awards under the Plan that are not issued or are no longer issuable will be available again for grant under the Plan. Moreover, if the exercise price of any option granted under the Plan or the tax withholding requirements with respect to any Award granted under the Plan is satisfied by tendering shares of Common Stock to us, such tendered shares of Common Stock will again be available for grant under the Plan. Furthermore, if a stock appreciation right is exercised and settled in shares of Common Stock, only the number of shares of Common Stock issued upon exercise of a stock appreciation right are counted against the shares available.

Administration

The Plan is administered by the Compensation Committee, which is comprised of three directors who are outside directors as defined under Section 162(m). In addition, to be considered independent, directors must meet, and our independent director do meet, the independence requirements of Rule 16b-3 (or any successor rule) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. The Board may at any time and from time to time exercise any and all rights and duties of the Compensation Committee under the Plan except with respect to matters which under Rule 16b-3 of the Exchange Act or Section 162(m), or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Compensation Committee.

Eligibility for Participation

Officers, independent directors and employees of, and consultants and advisors to, us or any of our subsidiaries are eligible to participate in the Plan. As of December 1, 2008 we had approximately 94 employees and 6 independent directors eligible to participate in the existing plan.

Types of Awards

The Plan provides for the grant of any or all of the following types of awards (Awards):

stock options;

stock appreciation rights;

restricted stock;

restricted stock units;

stock payments;

dividend equivalents;

deferred stock;

performance awards; and

cash awards.

Under the Plan, the Compensation Committee may grant options to purchase shares of Common Stock. Stock options may either be incentive stock options, or ISOs, or non-qualified stock options. ISOs may only be granted to officers and employees. The Compensation Committee will,

Edgar Filing: NewStar Financial, Inc. - Form PRE 14A

with regard to each stock option, determine the number of shares subject to the stock option, the manner and time of exercise, vesting schedule, and the exercise price. The exercise price of each such option will not be less than 100% of the fair market value of the Common Stock on the date of the grant.

Under the Plan, the Compensation Committee may also grant restricted stock awards or restricted stock units. The Compensation Committee will determine the purchase price, if any, and the form of payment for the restricted stock or restricted stock units. Such grants may be subject to such terms and conditions as the Compensation Committee determines is appropriate.

Under the Plan, the Compensation Committee may also grant stock appreciation rights, or SARs. An SAR is a right to receive any excess in value of shares of Common Stock over the exercise price, provided that such exercise price will not be less than 100% of the fair market value of a share of Common Stock on the date the right is granted as determined by the Compensation Committee. Such grants may be subject to such terms and conditions as the Compensation Committee determines is appropriate.

Under the Plan, the Compensation Committee may also grant stock payments, dividend equivalent rights, deferred stock and other stock-based awards. Such grants may be subject to such terms and conditions as the Compensation Committee determines is appropriate.

Performance-Based Awards

The right of a participant to exercise or receive an Award may be subject to performance conditions specified by the Compensation Committee. The Compensation Committee may use such business criteria and other performance measures as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to reduce the amounts payable under any Award subject to performance conditions. Performance goals will be based upon a variety of financial metrics, business metrics and market metrics and material corporate events as determined by the Compensation Committee from time to time, including the achievement of an objectively determinable performance goal. Under the Plan such performance goals may include:

sales;

revenues;

assets;

expenses;

earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization;

return on equity, investment, capital or assets;

one or more operating ratios;

borrowing levels, leverage ratios or credit rating;

market share;

capital expenditures;

cash flow;

stock price;

stockholder return;

sales of particular products or services;

customer acquisition or retention;

acquisitions and divestitures (in whole or in part);

joint ventures and strategic alliances;

spin-offs and split-ups;

reorganizations; or

recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings.

Under the Plan, the Compensation Committee may grant cash bonus, stock bonus or other performance or incentive awards that are paid in cash, Common Stock or a combination of both (Performance Awards). The Compensation Committee in its discretion may grant Performance Awards that are intended to qualify for the performance-based compensation exception under Section 162(m) and Performance Awards that are not intended to so qualify.

Parachute Limitations

If the recipient of an Award is a disqualified individual, as defined in section 280G(c) of the Code, any Award held by that person and any right to receive any payment or other benefit under the Plan will not become exercisable or vested (i) to the extent that such right to exercise, vesting, payment, or benefit, taking into account all other rights, payments, or benefits to or for the participant under the Plan or any other agreement or arrangement would cause any payment or benefit to the participant under the Plan to be considered a parachute payment within the meaning of section 280G(b)(2) of the Code as then in effect (a Parachute Payment) and (ii) if, as a result of receiving a Parachute Payment, the aggregate after-tax amounts received by the participant from the Company or any other agreement or arrangement would be less than the maximum after-tax amount that could be received by the participant without causing any such payment or benefit to be considered a Parachute Payment. In that event the recipient will have the right, in the recipient's sole discretion, to designate those rights, payments, or benefits that should be reduced or eliminated so as to avoid having the payment or benefit under the Plan be deemed to be a Parachute Payment.

Change in Control

In the event of any change in control, the Board may (i) accelerate the exercisability of any outstanding stock options and SARs (and terminate the restrictions applicable to restricted stock units and any shares of restricted stock), (ii) provide that any outstanding stock options and SARs must be exercised within a specified period or it will terminate, (iii) cause the surviving entity to grant replacement awards, (iv) terminate any outstanding Awards and make such payments as the Board determines to be appropriate, and/or (v) repurchase (or cause the surviving entity to purchase) any shares of restricted stock for such amounts as the Board determines to be appropriate.

Deferred Compensation

The Compensation Committee may amend the Plan or applicable Award Agreement or provide a substitute Award of comparable economic value so that the Award as modified or substituted and/or the Plan as modified, remains exempt from, or complies with, the requirements applicable to deferred compensation under Section 409A of the Code, and the Compensation Committee may take no action that would cause an Award to be treated as, or no longer comply with the requirements applicable to, deferred compensation within the meaning of Section 409A of the Code.

Other Terms of Awards

The Awards are generally not transferable other than by will or the laws of descent. The Plan does not prevent the designation of a beneficiary to exercise any option or other right or Award (or any portion thereof) granted under the Plan after the participant's death. After the death of the participant, any exercisable portion of an option or other Award may be exercised by the participant's personal representative or by any person empowered to do so under a beneficiary designation, under a will or under the then applicable laws of descent and distribution (subject to the terms of the option or other Award).

The Plan will terminate on the 10th anniversary of the Board's adoption of the Plan. The Plan may be amended, suspended or terminated at any time by the Compensation Committee. However, the Compensation Committee may not increase the aggregate amount of shares of Common Stock that may be issued under the Plan without stockholder approval. Such amendments, suspensions or terminations will not affect an existing Award unless the Award expressly so provides.

The Plan contains provisions for equitable adjustment of Awards in the event of a merger, consolidation, reorganization, recapitalization, stock dividend, stock split, reverse stock split, split up, combination or other similar events.

Certain Federal Income Tax Consequences

The statements in the following paragraphs describe the principal federal income tax consequences of certain Awards. The law is technical and complex, and the discussion below represents only a general summary. Due to the complexity of the applicable provisions of the Code, the following sets forth only general tax principles affecting Awards which may be granted under the Plan. The general tax principles discussed below are subject to changes that may be brought about by future legislation or by regulations and administrative rulings, which may be applied on a retroactive basis. Participants receiving Awards may be subject to state or local income taxes and should refer to the applicable laws in those jurisdictions. Each person receiving an Award should consult his or her own tax counsel on questions regarding tax liability upon the receipt or exercise of such Award or the subsequent disposition of shares received pursuant to the Award or upon exercise thereof.

Incentive Stock Options. ISOs granted under the Plan are intended to meet the definitional requirements of Section 422(b) of the Code for incentive stock options.

An employee who receives an ISO does not recognize any taxable income upon the grant of such ISO. Similarly, the exercise of an ISO generally does not give rise to federal income tax to the employee, provided that (i) the federal alternative minimum tax, which depends on the employee's particular tax situation, does not apply, and (ii) the employee is employed by us from the date of grant of the option until three months prior to the exercise thereof, except where such employment terminates by reason of disability (where the three month period is extended to one year) or death (where this requirement does not apply). If an employee exercises an ISO, after these requisite periods, the ISO will be treated as an NSO (as defined below) and will be subject to the rules set forth below under the caption *Non-Qualified Stock Options*.

Further, if after exercising an ISO, an employee disposes of the Common Stock so acquired more than two years from the date of grant and more than one year from the date of transfer of the Common Stock pursuant to the exercise of such ISO (the applicable holding period), the employee will generally recognize a long-term capital gain or loss equal to the difference, if any, between the amount received for the shares and the exercise price. If, however, an employee does not hold the shares so acquired for the applicable holding period thereby making a disqualifying disposition, the employee would recognize ordinary income equal to the excess of the fair market value of the shares at the time the ISO was exercised over the exercise price and the balance, if any, would be long-term capital gain (provided the holding period for the shares exceeded one year and the employee held such shares as a capital asset at such time). If the disqualifying disposition is a sale or exchange that would permit a loss to be recognized under the Code (were a loss in fact to be realized), and the sales proceeds are less than the fair market value of the shares on the date of exercise, the employee's ordinary income therefrom would be limited to the gain (if any) realized on the sale.

We will not be allowed a federal income tax deduction upon the grant or exercise of an ISO or the disposition, after the applicable holding period, of the Common Stock acquired upon exercise of an ISO. In the event of a disqualifying disposition, we generally will be entitled to a deduction in an amount equal to the ordinary income included by the employee.

Non-Qualified Stock Options. Non-qualified stock options, or NSOs, granted under the Plan are options that do not qualify as ISOs. An employee who receives an NSO will not recognize any taxable income upon the grant of such NSO. However, the employee generally will recognize ordinary income upon exercise of an NSO in an amount equal to the excess of the fair market value of the shares of Common Stock at the time of exercise over the exercise price.

The ordinary income recognized with respect to the receipt of shares upon exercise of an NSO will be subject to both wage withholding and other employment taxes.

A federal income tax deduction generally will be allowed to us in an amount equal to the ordinary income included by the individual with respect to his or her NSO.

Restricted Stock. At the end of the restricted period, the holder of restricted stock will be able to sell, exchange or otherwise dispose of the shares issued in connection with the award. If the holder has not made a Section 83(b) election as described below, the holder will recognize ordinary income equal to the fair market value of the shares at the time the restrictions lapse minus the purchase price of shares paid by the holder. The holder will have a basis in the shares received equal to their fair market value at the time the holder recognizes ordinary income as a result of the lapse of the restrictions. Any additional gain recognized on a subsequent sale or exchange of the shares will not be ordinary income but will qualify as a capital gain. The holding period for shares acquired in connection with a restricted stock award, for purposes of determining whether any capital gain or loss on their subsequent sale is long-term or short-term, depending upon whether the holding period is more or less than one year, will begin when the holder recognizes ordinary income.

Section 83(b) of the Code also provides that a holder may elect, not later than 30 days after the date the restricted stock is originally transferred, to include as ordinary income the fair market value of the shares at the time of transfer of such shares (minus the purchase price, if any). In that case, the holder's basis in the shares will equal its fair market value at such time. Any future appreciation in the fair market value of the shares will be a capital gain as described above. If the shares are subsequently forfeited under the terms of the restricted stock, the holder will not be allowed an ordinary income tax deduction with respect to such forfeiture.

Subject to the general rules concerning deductibility of compensation, we will be allowed an income tax deduction in the amount that the holder recognizes in ordinary income in connection with an award of restricted stock, and in the same year as the holder recognizes such income.

Dividends, if any, received by the holder before the end of the restricted period will be taxed as ordinary income to the holder and also will be deductible by us subject to the foregoing general rules concerning deductibility of compensation. However, in the event of an election by the holder under Section 83(b) of the Code, dividends, if any, will be treated as dividend income to the holder and non-deductible to us.

Change of Control. In general, if the total amount of payments to certain individuals that are contingent upon a change of control of a corporation (as determined for purposes of Section 280G of the Code), including the value attributed to the acceleration of vesting on Awards under the Plan, equals or exceeds three times the individual's base amount (generally, such individual's average annual compensation for the five calendar years preceding the year in which the change of control occurs or, if such individual has been employed for fewer than five calendar years, the number of years of employment prior to the year in which the change of control occurs), then, subject to certain exceptions, such compensation exceeding the base amount may be treated as excess parachute payments under Section 280G of the Code. Excess parachute payments are subject to a 20% excise tax to the individual and would be non-deductible to us.

Deferred Compensation. Although the Plan is generally designed as an incentive and not a deferred compensation plan, depending on the terms and conditions and type of Award, some of these Awards may be considered to involve deferred compensation arrangements that are subject to the requirements of Section 409A of the Code. Section 409A may modify the tax treatment of existing and future Awards under the Plan and may require conforming changes in the Plan and/or Awards, including Awards already made under the Plan, to satisfy these tax requirements. The general tax principles described above for Awards do not reflect the requirements of Section 409A of the Code and the regulations thereunder. Failure of deferred compensation arrangements to comply with the requirements of Section 409A can subject the recipient of the deferred compensation (but not us) to income tax at an earlier time than provided by pre-existing tax law and/or to a 20% penalty tax (in addition to normal income tax levies).

Interests of Officers and Directors

Our officers and independent directors are eligible to receive Awards under the existing plan, have received Awards under the existing plan in the past and will be eligible to receive Awards under the Plan in the future. As described in more detail above, the amounts of any Awards under the Plan are within the Compensation Committee's discretion.

Quorum and Voting Requirements

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of our Common Stock entitled to vote at the Special Meeting is necessary to constitute a quorum for the transaction of business at the Special Meeting. On the Record Date, we had [] shares of Common Stock issued and outstanding. Accordingly, a total of at least [] shares of our Common Stock must be present at the Special Meeting in person or by proxy to constitute a quorum.

At the Special Meeting, the affirmative vote of a majority of the total votes cast on the Proposal is required for approval of the Proposal.

Appraisal Rights

Under Delaware law, our stockholders are not entitled to appraisal rights or other similar rights in connection with the approval of the Plan.

New Plan Benefits

If the Plan is approved, the Compensation Committee will be able to grant Awards to eligible participants at its discretion. Consequently, with the exception noted below, it is not possible to determine at this time the amount or dollar value of Awards to be provided under the Plan. As of the date of this Proxy Statement, the Compensation Committee has not granted any Awards that are contingent upon stockholder approval of the Plan.

In May 2008 the Compensation Committee adopted a proposal to grant to each individual who may thereafter become a non-employee director of the Company, automatically upon his or her election or reelection to a one-year term as a non-employee director of the Company at the Annual Meeting of Stockholders (commencing with the 2008 Annual Meeting of Stockholders) non-qualified stock options and restricted stock. Each such qualifying director will be awarded non-qualified stock options to purchase (i) 5,000 shares of Common Stock, and (ii) non-qualified stock options to purchase an additional 10,000 shares of Common Stock if such director is also appointed to serve as the Chair of a committee of the Board at a price per share equal to the closing price on the grant date. Each such qualifying director will also be awarded 5,000 shares of restricted Common Stock. Under this standing resolution, each non-employee director who is elected or reelected as a director will be granted such Awards. The following table illustrates the total amount of such Awards that will be

granted annually upon such election or reelection (assuming that the number of non-employee directors on the Board remains constant), but omits the value of the Awards because such value is based on the closing price of our Common Stock on the date of grant and, therefore, is not presently determinable:

New Plan Benefits

Name and Position	Non-qualified Stock Options	Restricted Stock
Non-Executive Director Group	70,000 shares	30,000 shares

Plan Information

The number of shares of Common Stock issuable upon exercise of outstanding options granted to employees and non-employee directors, as well as the number of shares remaining available for future issuance under the existing plan at December 31, 2007 is summarized in the following table:

Plan category	(a) Number of shares to be issued upon exercise of outstanding options	(b) Weighted-average exercise price of outstanding options	(c) Number of additional shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	666,250	\$ 14.63	1,680,720
Equity compensation plans not approved by stockholders			
Total	666,250	\$ 14.63	1,680,720

The table above does not reflect any Awards made to our eligible employees or non-employee directors in fiscal year 2008. As of December 1, 2008, the total number of additional shares remaining available for future issuance under the existing Plan was only 617,987 shares.

Principal Effects of Approval or Non-Approval of the Proposal

While the Compensation Committee has approved the Plan, and has resolved that the amendment and restatement of the existing plan is in our best interest and the best interest of our stockholders, our stockholders should consider the information contained in the Proxy Statement in evaluating the Proposal. If our stockholders approve the Proposal, we will adopt the Plan. If our stockholders do not approve the Proposal, we will not adopt the Plan and we will not increase the number of shares available for award under the existing plan or make the changes to the existing plan to make the existing plan compliant with Section 162(m).

Recommendation of the Board of Directors

The Board of Directors unanimously recommends that you vote FOR the Proposal. Proxies solicited by the Board will be voted in favor thereof unless a stockholder has indicated otherwise in the proxy.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

It is important to note that the compensation information contained in this Proxy Statement is for the fiscal years ending on December 31st of 2006 and 2007.

Executive Compensation Philosophy

As a high-growth firm operating in an extremely competitive market, the Company believes its success is highly correlated to its ability to continue to attract and retain top-tier talent. The Company believes that executive compensation should enable the Company to attract, motivate, reward and retain superior management talent and should reflect the following core principles:

Executive compensation should be externally competitive within the industries in which the Company competes for talent.

Executive compensation should emphasize pay for performance and be based on results at the Company, line of business and individual levels. As such, significant portions of total compensation are designed to be variable based on performance and results.

Executive compensation should support the achievement of specific strategic and business objectives and closely align the interests of executive officers with those of shareholders over the long-term.

The following discussion addresses the Company's executive compensation program generally, with particular focus on the executive officers whose compensation for 2007 is shown in the Summary Compensation Table below (the "named executive officers").

Comparable Market Analysis

In June of 2007, the Compensation Committee engaged Towers Perrin as its compensation consultant. As a result of this engagement, the Compensation Committee requested that Towers Perrin conduct a comprehensive executive compensation program assessment, assist management in establishing a formal executive compensation philosophy, and evaluate whether the company's executive compensation programs and corresponding pay levels were aligned with the organization's compensation philosophy within the competitive market. This study included:

Identification of the compensation comparator peer group;

A competitive market assessment of executive compensation levels for the Company's top twelve executive positions, based on the results of a formal benchmarking survey conducted through McLagan Partners, and supplemented with other financial services survey sources, as well as publicly available information; and

An evaluation of the Company's current compensation program design against industry best practice.

The results of this assessment were completed late in 2007 for use by the Compensation Committee in determining executive compensation beginning in fiscal 2008. This assessment did not affect the structure of executive compensation for 2007, which was determined early in 2007, or the ultimate incentive payments made in early 2008 based on performance in fiscal 2007. Competitive market rates for executive positions were determined for 2007 based in part on information gathered during the recruiting process, as well as other publicly available information.

Elements of Executive Compensation

The following chart details the current executive compensation program:

	Compensation Component	Description	Strategic Rationale
<i>Base Salary</i>	Base salary	Stable component of compensation based on competitive environment and experience in executive role.	Consistent with market practice.
<i>Short-Term Incentives</i>	Annual Incentive	Variable annual compensation tied to established Company, Line of Business and Individual goals and objectives.	<p>Consistent with market practice.</p> <p>Provides incentive for achievement of objectives.</p> <p>Provides variable component of pay closely linked to Company performance.</p>
<i>Long-Term Incentives</i>	Stock Option Awards	Grants of options to purchase shares at a specified price, which rewards share price appreciation.	<p>Focus executive officers on value creation and increasing shareholder value over long-term.</p> <p>Promotes long-term retention.</p> <p>Align executive officers with shareholders.</p>
	Stock Ownership Requirements	To complement the long-term incentive program, the Company requires its executive officers to hold a percentage of equity grants. Certain executives, including all of our named	Fosters long-term stock ownership, and focuses executive officers on long-term performance.

Edgar Filing: NewStar Financial, Inc. - Form PRE 14A

executive officers, are required to hold at least 25% of their net vested equity holdings during the term of their employment with the Company. In connection with the Company's Initial Public Offering, this hold requirement was increased to 90% for the one-year period following the June 14, 2007 expiration of the Underwriters Lock-Up. Any shares purchased outside of the Company's Equity Compensation Program are not subject to any lock-up restrictions.

Benefits

Retirement Benefits

Executive officers participate in employee benefit plans that are generally available to all employees of the Company, including 401(k) savings and tax-qualified retirement plans.

Consistent with market practice.

Consistent with the programs provided to all employees.

Welfare Benefits

Executive officers participate in employee benefit plans that are generally available to all employees of the Company, including medical, health, life insurance and disability plans. Upon retirement, executive officers are eligible to participate in Company-sponsored healthcare plans at their sole expense.

Consistent with market practice.

Consistent with the programs provided to all employees.

Compensation

	Component	Description	Strategic Rationale
<i>Perquisites</i>	Additional Benefits and Perquisites	We attempt to minimize the use of additional executive officer benefits or perquisites. The only on-going perquisite provided to executive officers is reimbursement of office parking in selected geographies.	Parking is provided in select locations in order to be market-competitive when recruiting talent. Parking is subsidized in these locations at some level for all employees.
<i>Employment Agreements</i>	Employment Agreements	The Company entered into employment agreements with each named executive officer in December 2006. These agreements specify the terms of employment and provide severance pay in the event of certain terminations of employment, including a change-in-control. Severance arrangements are subject to non-compete and non-solicitation provisions. For additional detail, please refer to the sections entitled, <i>Employment Agreements</i> and <i>Potential Payments Upon Termination or Change-in-Control</i> below.	Employment agreements provide for market-competitive severance in the event of involuntary termination without cause. Restrictive covenants prevent against direct competition and solicitation of talent. Change-in-control arrangements are intended to align executive officers and shareholders in the event of a potential change-in-control, and to provide continuity of management during a transition. Restrictive covenants prevent against direct competition and solicitation of talent.

Base Salary

Base salaries represent the fixed component of each executive officer's compensation and are determined primarily by:

Level of responsibility associated with the position/title;

Experience and tenure in the position; and

Balance of fixed versus variable compensation.

The following chart sets forth base salary as a percentage of total target cash compensation and illustrates that base salary is set with the intention that base salary will not represent the largest part of a named executive officer's total cash compensation.

Base Salary as % of Total 2007 Target Cash Compensation Package

Edgar Filing: NewStar Financial, Inc. - Form PRE 14A

	Mr. Conway	Mr. Bray	Mr. Schmidt-Fellner	Mr. Burnaman	Mr. Dobies	Mr. Shoyer
Executive Salary	26%	33%	28%	30%	30%	30%

The Compensation Committee reviews the base salaries for the named executive officers on a regular basis (at least annually). The base salaries of Messrs. Conway, Schmidt-Fellner, Burnaman, and Bray did not change in 2007. The base salaries of Messrs. Shoyer and Dobies were increased from \$250,000 to \$300,000 on May 15, 2007. This increase was awarded to Mr. Shoyer and Mr. Dobies due to significant increases in their responsibilities as co-Heads of the Middle Market Origination team and their increased role in the operation of the business during the course of 2006 and 2007.

Incentive Compensation Program*Principles and Philosophy*

In accordance with the Company's belief that executive compensation should emphasize pay for performance, significant portions of total compensation are designed to be variable based on performance. The bonus plan is based on achievement of specific business goals and rewards performance at the Company, line of business and individual level.

The first step in the bonus process is the establishment of Company goals and objectives for each fiscal year. The Board and its various committees, based on input from management, establishes an operating plan for the year that contains both quantitative and qualitative goals and objectives. These goals and objectives include adjusted earnings, growth and return measures and the credit quality of the portfolio. Performance measures are then established for each executive officer. These objectives support the achievement of the Company's annual plan. Performance goals include company, line of business and individual goals, and are weighted by position as illustrated in the chart below. The emphasis placed on the achievement of business line and individual goals is higher for executive officers with production responsibilities while there is a higher emphasis placed on Company performance for those executive officers with primarily corporate responsibilities.

	% of Bonus Weighting					
	Mr. Conway	Mr. Bray	Mr. Schmidt-Fellner	Mr. Burnaman	Mr. Dobies	Mr. Shoyer
Performance Goals						
NewStar (Corporate)	75%	75%	75%	33.3%	33.3%	33.3%
Line of Business				33.3%	33.3%	33.3%
Individual	25%	25%	25%	33.3%	33.3%	33.3%

Establishing Incentive Compensation Targets

The target bonus pool is established by the Compensation Committee early in the year by determining an appropriate payout ratio of incentive compensation as a percentage of corporate pre-tax, pre-incentive adjusted earnings. The payout ratio represents a balance which enables the Company to attract, motivate, reward and retain superior management talent while providing for an appropriate level of shareholder return. Individual incentive compensation targets for executive officers are then determined based on a number of factors including the size of the overall pool (the budget), the individual's position, and an assessment of the relative aggressiveness of plan objectives. The goal is to establish targets that reward, retain and motivate top performers while driving profitability within the Company's business plan.

The 2007 incentive compensation targets for the named executive officers are detailed below.

	2007 Target Bonus (\$) Opportunity					
	Mr. Conway	Mr. Bray	Mr. Schmidt-Fellner	Mr. Burnaman	Mr. Dobies	Mr. Shoyer
Executive Bonus	1,100,000	600,000	1,000,000	700,000	700,000	700,000

Measurement of performance against targets and allocation of incentive compensation pool

In January 2007, the Compensation Committee established target corporate pre-tax, pre-incentive adjusted earnings of \$72.9 million, which the Compensation Committee considered an aggressive but attainable growth goal for the Company at that time. The bonus payout ratio for the named executive officers as a percentage of that target was then set at 6.6% or \$4.8 million. The Compensation Committee felt that this 6.6% ratio represented a balance between management and shareholder return in light of the Company's relatively early development stage.

At the end of the year, the Compensation Committee discusses the performance of the Company and reviews the performance and compensation of each of the named executive officers. The CEO provides the Compensation Committee with a detailed performance assessment and compensation recommendation for each named executive officer (other than himself). The assessment includes a summary of how the Company performed against the stated plan objectives, and how each named executive officer performed against the agreed upon qualitative and quantitative goals and objectives such as origination volume, fee income, and credit measures as well as strategic growth and marketing initiatives. The recommendations are then considered by the Compensation Committee and in turn, discussed in executive session with the other independent directors of the Board. With respect to the CEO, the independent directors of the Compensation Committee meet in executive session under the direction of the Compensation Committee Chairman to conduct a performance review of the CEO based on his performance against the agreed-upon objectives, contribution to the Company's performance and other growth and/or leadership accomplishments. The Compensation Committee then presents their recommendation for CEO pay to the other independent Directors of the Board. The CEO and/or the Head of Human Resources generally attend Compensation Committee meetings but are not present for the executive sessions or for any discussion of their own compensation.

In determining 2007 executive incentive compensation, the Compensation Committee considered the Company's 88% achievement to plan resulting from actual pre-tax, pre-incentive adjusted earnings for fiscal 2007 of \$64.1 million; the successful completion of a \$125 million private placement of the Company's Common Stock; and the efforts of the executive management team in managing the Company through deteriorating market conditions in the latter part of 2007. In making its determination the Compensation Committee weighed the Company's performance relative to the plan and the significant reduction in the Company's stock price during the course of the year against the goals of retention and motivation of a top-tier management team. The Compensation Committee also considered the relative weighting for each named executive officer of the Company, line of business and individual performance goals as detailed in the chart above. With respect to Messrs. Conway, Schmidt-Fellner and Bray, the Compensation Committee focused consideration on the overall performance of the Company including capital raising initiatives, management of liquidity levels during the year, earnings and the overall credit quality of the Company's portfolio. With respect to Messrs. Dobies and Shoyer, individual and line of business production levels related to origination volume and generation of fee income were also taken into consideration. Mr. Burnaman was paid severance in accordance with his separation agreement as detailed below. The Compensation Committee did not apply a formula or assign these performance measures relative weights. Instead, the Compensation Committee made a determination after considering such measures collectively. Based on this assessment, the Compensation Committee approved 6.4% of pre-tax, pre-incentive earnings (\$4.1 million) be paid to the named executive officers in accordance with the terms and conditions of the Company's 2006 Incentive Plan as detailed in the Summary Compensation Table below. This level of payout constituted a 14% decrease in the target incentive bonus pool for the named executive officers and a 23% decrease as compared to 2006 actual bonus payments received.

Equity Incentives

The Company believes that equity ownership is a critical component of executive compensation as it aligns management and shareholder interests, focuses executive officers on increasing franchise value over the long-term and promotes long-term retention. All of the named executive officers are eligible for annual equity awards. Due to the timing of the performance assessments, the Company's annual granting practices and a review of the equity grants made to the named executive officers in conjunction with the Company's IPO in December 2006, no equity awards were made to the named executive officers in 2007.

Stock Ownership Requirements

Upon consummation of our Initial Public Offering in December 2006, each executive officer entered into a stock ownership agreement whereby the executive officer agreed that for a period of one year following any underwriters' lock-up imposed in connection with the IPO he would hold 90% of his transferable incentive

equity (all vested options and shares of restricted stock that are no longer subject to forfeiture) and after such time and for a period of one year following termination of employment, he would hold 25% of his transferable incentive equity. If, during the one year following termination, he were to violate the covenant not to compete with the Company, the amount of transferable stock that he is then obligated to hold would be forfeited. The lock-up applies only to those shares received by the executive officer as equity compensation during his employment with the Company and does not apply to any personal investment in NewStar stock. The Company believes the stock ownership requirements ensure that executive officers have a significant long-term ownership stake in the Company and that they are aligned with shareholders' interests. In addition, the Company has adopted a policy on hedging under which executive officers are prohibited from hedging their economic exposures to the NewStar stock that they own.

Deductibility Cap on Executive Compensation

U.S. federal income tax law (Section 162(m)) prohibits public companies from taking a tax deduction for certain compensation paid in excess of \$1,000,000 to the company's CEO and four other most highly compensated employees. However, the statute exempts qualifying performance-based compensation from the deduction limit provided certain requirements are met. While the Company was not subject to Section 162(m) for 2007, the Company's policy is to qualify incentive compensation programs for full corporate deductibility to the extent feasible and consistent with the Company's overall compensation goals and objectives.

Employment Agreements

In December 2006, the Company entered into employment agreements with each of the named executive officers. The named executive officer employment agreements reflect a balance between the interests of shareholders and management, and are intended to support the retention and sustained high morale of the executive team. In determining the elements of the named executive officer employment agreements, the Compensation Committee considered the costs associated with each term and condition, and balanced the financial cost against the intrinsic benefit of retaining a highly-cohesive management team. Each of the employment agreements has substantially similar terms, which reflect the following elements:

Each executive officer agreed that during the term of the agreement and for a period of one to two years thereafter, he will not directly or indirectly (i) solicit or engage any of the Company's employees, consultants or contractors, (ii) cause or encourage any of the Company's suppliers, licensors or any entity with which the Company has a material relationship to terminate or modify that relationship or (iii) compete with the Company's business.

The agreement sets a minimum base salary for the executive officer that may be subject to increase on an annual basis as determined by the Board.

Each executive officer is entitled to participate in incentive bonus programs the Board may adopt from time to time and is eligible for equity grants periodically.

Each executive officer is entitled to a severance payment and acceleration of equity vesting in the event of a termination without cause or for "good reason"; and acceleration of vesting but no further severance payment upon the Company's failure to renew the agreement (provisions differ based on job title/level of responsibility as discussed in "Potential Payments Upon Termination of Employment or Change in Control" below).

The agreements provide for graduated benefits, including acceleration of vesting, in the event that the executive officer chooses to retire from the Company, dependent upon the length of service at the time of retirement. Given the relatively young life of the Company, the retirement provisions are intended to provide market benefits to retain an experienced executive team with an emphasis placed upon years of service post-IPO.

Depending on the level of job responsibility, the initial term of each agreement varied from one to two years with automatic yearly renewal provisions. Beginning in December 2008, all employment agreements will be subject to the automatic yearly renewal provision.

The named executive officer employment agreements also contain change-in-control provisions for the named executive officers. In addition to preserving productivity and retention in a change-of-control of the Company, the provisions are intended to align executive officer and shareholder interests by enabling executive officers to consider corporate transactions that are in the best interest of the shareholders without undue concern over whether such transactions may jeopardize the executive officer's own employment. The benefits provided under the change-in-control agreements mimic those described above with the following exceptions:

Change-in control payments require a double-trigger in order to qualify for compensation, a change of control alone is not sufficient but rather, must be followed by an involuntary loss of employment within two years thereafter. This is consistent with the overall purpose of the plan to provide financial protection upon an involuntary loss of employment.

Severance periods, and therefore benefits, are extended from one to two years as detailed above, to two to three years. Vesting of all equity is immediately accelerated.

The employment agreements of Messrs. Conway, Schmidt-Fellner and Bray provide that, for so long as the Company's stock is traded on an established securities market, if any of the payments, awards or benefits payable to the executive officer are subject to a golden parachute excise tax under Sections 280G and 4999 of the Internal Revenue Code (IRC), the Company will provide the executive officer with a gross-up payment so that the executive officer will receive the same economic terms he would have received if there were no excise tax. The effects of Sections 280G and 4999 generally are unpredictable and can have widely divergent and unexpected effects based on an executive officer's personal compensation history. Therefore, to provide a predictable and equal level of benefit across individuals without regard to the effect of the excise tax, the Compensation Committee determined that it was appropriate to pay the cost of this excise tax plus an amount needed to pay income taxes due on such additional payment. This practice is consistent with competitive pay packages and ensures the executive officer will receive the three years base salary and estimated cash incentive less only ordinary income taxes on that amount. The amounts payable under these agreements, calculated as if termination has occurred on December 31, 2007, are shown under Potential Payments upon Termination of Employment or Change-in-Control, below.

Executive Compensation

The following table sets forth information concerning compensation awarded to, earned by or paid during the year ended December 31, 2007 to the Company's (i) Chief Executive Officer and President, (ii) Chief Financial Officer, (iii) the three other most highly compensated executive officers and (iv) an additional individual (Mr. Burnaman) for whom disclosure is required but who was not serving as an executive officer of the Company at December 31, 2007. These six officers are referred to as the named executive officers in this proxy statement.

It is important to note that that the compensation information contained in this Proxy Statement is for the fiscal years ending on December 31st of 2006 and 2007.

Summary Compensation Table for Fiscal 2007 and 2006

Name and Principal Position	Year	Salary (\$) (1)	Bonus (\$)	Stock	Option	All Other	Total (\$)
				Awards (\$) (2)	Awards (\$) (3)	Compensation (\$ (4)	
Timothy J. Conway Chief Executive Officer and President	2007	400,000	1,000,000	2,961,797	317,767	22,018	4,701,582
	2006	400,000	1,300,000	6,771,570	4,171,342	31,258	12,674,170
John K. Bray Chief Financial Officer	2007	300,000	550,000	643,446	27,874	13,500	1,534,820
	2006	252,083	600,000	593,997	365,907	16,700	1,828,687
Peter Schmidt-Fellner Chief Investment Officer	2007	350,000	900,000	2,077,848	222,994	13,500	3,564,342
	2006	350,000	1,150,000	4,751,979	2,297,257	25,033	9,204,269
Philip R. Burnaman II Group Head and Managing Director	2007	275,000		878,701 (5)	298,631	786,557 (6)	2,238,889
	2006	300,000	625,000	3,326,385	2,049,080	21,533	6,321,998
David R. Dobies Group Head and Managing Director	2007	281,250	750,000	677,702	44,599	19,494	1,773,045
	2006	250,000	1,000,000	950,396	585,451	21,125	2,806,972
Timothy C. Shoyer Group Head and Managing Director	2007	281,250	450,000	677,702	44,599	19,494	1,473,045
	2006	250,000	700,000	950,396	585,451	21,125	2,506,972

- (1) Each named executive officer's minimum base salary is set pursuant to his Employment Agreement, as follows: Mr. Conway, \$400,000, Mr. Bray, \$300,000, Mr. Schmidt-Fellner, \$350,000, Mr. Burnaman, \$300,000, Mr. Dobies, \$250,000, Mr. Shoyer, \$250,000. Mr. Burnaman's salary reflects 22 pay periods at a base salary of \$300,000 paid prior to the effective date of his separation from the Company on 12/1/2007. The base salaries of Mr. Dobies and Mr. Shoyer reflect 8 pay periods at a base salary rate of \$250,000 and 16 pay periods at an increased base salary of \$300,000.
- (2) Amounts shown do not reflect compensation actually received by each named executive officer. Instead, the amounts shown represent the compensation expense incurred by the Company relating to stock awards held by the named executive officer during 2007, determined in accordance with FAS 123(R), using the assumptions described in Note 12 to the Company's Financials Statements included in the Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on March 10, 2008 (the "FY 2007 10-K").
- (3) Amounts shown do not reflect compensation actually received by each named executive officer. Instead, the amounts shown represent the compensation expense incurred by the Company relating to option awards held by the named executive officer during 2007, determined in accordance with FAS 123(R), using the assumptions described in Note 12 to the Company's Financials Statements included in the FY 2007 10-K.
- (4) Amount reflects matching contributions of \$13,500 to each named executive officer made by NewStar under the tax-qualified 401(k) plan, which provides for broad-based employee participation. The named executive officers received no benefit from NewStar under defined pension or defined contribution plans other than the 401(k) plan. In addition, the amount for Messrs. Conway, Dobies and Shoyer reflects company-provided parking at the company's office in Boston (\$14,512).
- (5) Amount excludes 60,044 shares of restricted stock forfeited by Mr. Burnaman pursuant to his separation agreement with the Company, which shares have no value at December 31, 2007 under FAS 123(R).
- (6) Amounts detailed under "All Other Compensation" for Mr. Burnaman reflect compensation due under a separation agreement that includes one year of base salary (\$300,000); a one-time lump sum bonus payment (\$450,000) to be made on June 2, 2008; outplacement service fees (\$10,000); and continued company-subsidized health care for a period of one year (\$13,057).

Grants of Plan-Based Awards during 2007

None of the named executive officers received grants of plan-based awards during 2007.

Outstanding Equity Awards at Fiscal Year-End for Fiscal 2007

The following table details the outstanding holdings of each named executive officer at December 31, 2007.

		Option Award				Stock Awards			Equity Incentive Plan Awards: Market Value of Unearned Shares, or Other Rights That Have Not Vested (\$)
		Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) (2) (3)	Market Value of Unearned Shares, or Other Rights That Have Not Vested (\$)	
Timothy J. Conway Chief Executive Officer and President	6/17/2004 12/13/2006 12/13/2006	534,786	229,194		17.00	12/13/2016	91,570 305,315	758,200 2,528,008	
John K. Bray Chief Financial Officer	1/10/2005 12/13/2006 12/13/2006	46,910	20,105		17.00	12/13/2016	8,033 77,468	66,513 641,435	
Peter Schmidt-Fellner Chief Investment Officer	6/17/2004 12/13/2006 12/13/2006	375,288	160,838		17.00	12/13/2016	64,260 214,176	532,073 1,773,377	
Philip R. Burnaman II Group Head and Managing Director (5)	12/13/2006	375,288			17.00	03/01/2009			
David R. Dobies Group Head and Managing Director	6/17/2004 12/13/2006 12/13/2006	75,057	32,168		17.00	12/13/2016	12,851 77,468	106,406 641,435	
Timothy C. Shoyer Group Head and Managing Director	6/17/2004 12/13/2006 12/13/2006	75,057	32,168		17.00	12/13/2016	12,851 77,468	106,406 641,435	

- (1) Assuming continued employment with NewStar, options granted on 12/13/2006 vest according to the following schedule: 60% upon date of grant and an additional 10% on each of the first four anniversaries of the date of grant.
- (2) Assuming continued employment with NewStar, restricted stock awards granted on 12/13/2006 vest according to the following schedule: 15% of the restricted stock will cease to be subject to forfeiture on the second anniversary of the grant, an additional 20% will cease to be subject to forfeiture on the third anniversary of the grant and 25% will cease to be subject to forfeiture on each of the fourth and fifth anniversaries of the grant.
- (3) Assuming continued employment with NewStar, the restricted stock awards granted on 06/17/2004 that have not yet vested will vest on June 17, 2008.
- (4) Value is based on the closing price of NewStar common stock of \$8.28 on December 31, 2007, as reported on Nasdaq.
- (5) Pursuant to his separation agreement, Mr. Burnaman did not have any outstanding equity awards at fiscal year-end as all unvested equity awards still outstanding after taking into consideration the terms of the separation agreement were forfeited. Mr. Burnaman has an exercise period of one year plus 90 days beyond his separation date of December 1, 2007 in which to exercise vested stock options as detailed above.

Option Exercises and Stock Vested for Fiscal 2007

The following table details the number of restricted shares that vested and the value realized upon vesting in 2007 for each named executive officer. None of the named executive officers exercised any stock options during 2007.

Name and Principal Position	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Timothy J. Conway Chief Executive Officer and President			91,569	1,314,015 (1)
			53,878	448,804 (2)
John K. Bray Chief Financial Officer			8,032	115,259 (1)
			13,670	113,871 (2)
Peter Schmidt-Fellner Chief Investment Officer			64,259	922,117 (1)
			37,795	314,832 (2)
Philip R. Burnaman II Group Head and Managing Director			44,981	645,477 (1)
			70,715	649,164 (3)
David R. Dobies				