

NewStar Financial, Inc.
Form 10-Q
November 03, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2010

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 001-33211

NewStar Financial, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

54-2157878
(I.R.S. Employer
Identification No.)

500 Boylston Street, Suite 1250,
Boston, MA
(Address of principal executive offices)

02116
(Zip Code)

(617) 848-2500
(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

As of November 1, 2010, 50,789,376 shares of common stock, par value of \$0.01 per share, were outstanding.

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Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q of NewStar Financial, Inc., contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These are statements that relate to future periods and include statements about our:

anticipated financial condition including estimated loan losses;

expected results of operation;

ability to meet draw requests under commitments to borrowers under certain conditions;

growth and market opportunities;

future development of our products and markets;

ability to compete; and

stock price.

Generally, the words anticipates, believes, expects, intends, estimates, projects, plans and similar expressions identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance, achievements or industry results to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other important factors include, among others:

acceleration of deterioration in credit quality that could result in levels of delinquent or non-accrual loans that would force us to realize credit losses exceeding our allowance for credit losses and deplete our cash position;

risks and uncertainties relating to the financial markets generally, including disruptions in the global financial markets;

our ability to obtain external financing;

the regulation of the commercial lending industry by federal, state and local governments;

risks and uncertainties relating to our limited operating history;

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our ability to minimize losses, achieve profitability, and realize our deferred tax asset; and

the competitive nature of the commercial lending industry and our ability to effectively compete.

For a further description of these and other risks and uncertainties, we encourage you to carefully read section Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2009.

The forward-looking statements contained in this Quarterly Report on Form 10-Q speak only as of the date of this report. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained in this Quarterly Report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based, except as may be required by law.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****NEWSTAR FINANCIAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2010	December 31, 2009
	(\$ in thousands, except share and par value amounts)	
Assets:		
Cash and cash equivalents	\$ 29,360	\$ 39,848
Restricted cash	154,505	136,884
Investments in debt securities, available-for-sale	4,036	4,183
Loans held-for-sale, net	21,302	15,736
Loans, net	1,646,891	1,878,978
Deferred financing costs, net	17,683	18,557
Interest receivable	6,873	7,949
Property and equipment, net	760	976
Deferred income taxes, net	50,178	56,449
Income tax receivable	11,850	7,260
Other assets	20,868	33,252
Total assets	\$ 1,964,306	\$ 2,200,072
Liabilities:		
Credit facilities	\$ 57,823	\$ 91,890
Term debt	1,309,162	1,523,052
Accrued interest payable	2,893	2,774
Accounts payable	240	645
Other liabilities	47,334	31,591
Total liabilities	1,417,452	1,649,952
Stockholders equity and noncontrolling interest:		
Preferred stock, par value \$0.01 per share (5,000,000 shares authorized; no shares outstanding)		
Common stock, par value \$0.01 per share:		
Shares authorized: 145,000,000 in 2010 and 2009;		
Shares outstanding 50,928,682 in 2010 and 49,994,858 in 2009	509	500
Additional paid-in capital	623,669	616,762
Accumulated deficit	(68,224)	(69,083)
Common stock held in treasury, at cost \$0.01 par value; 1,329,207 in 2010 and 257,392 in 2009	(8,586)	(1,331)
Accumulated other comprehensive loss, net	(514)	(786)
Total NewStar Financial, Inc. stockholders equity	546,854	546,062
Noncontrolling interest		4,058

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Total stockholders equity	546,854	550,120
Total liabilities and stockholders equity	\$ 1,964,306	\$ 2,200,072

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NEWSTAR FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(\$ in thousands, except per share amounts)			
Net interest income:				
Interest income	\$ 27,022	\$ 33,675	\$ 84,343	\$ 104,626
Interest expense	9,257	9,197	31,466	34,374
Net interest income	17,765	24,478	52,877	70,252
Provision for credit losses	1,176	32,577	33,765	94,061
Net interest income (loss) after provision for credit losses	16,589	(8,099)	19,112	(23,809)
Non-interest income:				
Fee income	702	388	1,426	1,242
Asset management income related party	876	758	2,208	2,218
Gain (loss) on derivatives	(23)	126	120	492
Loss on sale of loans			(113)	
Other income (expense)	949	(1,139)	8,197	2,255
Total non-interest income	2,504	133	11,838	6,207
Operating expenses:				
Compensation and benefits	6,357	7,578	18,923	19,891
Occupancy and equipment	457	769	1,551	2,330
General and administrative expenses	3,233	2,580	8,909	10,654
Total operating expenses	10,047	10,927	29,383	32,875
Income (loss) before income taxes	9,046	(18,893)	1,567	(50,477)
Income tax expense (benefit)	3,583	(6,957)	520	(17,948)
Net income (loss) before noncontrolling interest	5,463	(11,936)	1,047	(32,529)
Net loss (income) attributable to noncontrolling interest		1,674	(187)	1,674
Net income (loss) attributable to NewStar Financial, Inc. common stockholders	\$ 5,463	\$ (10,262)	\$ 860	\$ (30,855)
Basic income (loss) per share	\$ 0.11	\$ (0.21)	\$ 0.02	\$ (0.63)
Diluted income (loss) per share	0.11	(0.21)	0.02	(0.63)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NEWSTAR FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Unaudited

	NewStar Financial, Inc. Stockholders Equity						
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock (\$ in thousands)	Accumulated Other Comprehensive Loss, net	Common Stockholders Equity	Noncontrolling Interest
Balance at January 1, 2010	\$ 500	\$ 616,762	\$ (69,083)	\$ (1,331)	\$ (786)	\$ 546,062	\$ 4,058
Net income			860			860	187
Other comprehensive income:							