

NewStar Financial, Inc.
Form DEF 14A
April 05, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

**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)

(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.

(1) Amount previously paid:

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

(3) Filing Party:

(4) Date Filed:

Table of Contents

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS to be held May 7, 2013

The 2013 annual meeting of the stockholders of NewStar Financial, Inc., a Delaware corporation, will be held at the offices of Edwards Wildman Palmer LLP at 111 Huntington Avenue, 20th floor, Boston Massachusetts 02199, on May 7, 2013 at 10:00 a.m. local time for the following purposes:

1. To elect eight (8) directors to serve until the 2014 annual meeting of stockholders;
 2. To approve, on an advisory basis, the compensation of our named executive officers;
 3. To ratify the Audit Committee's appointment of KPMG LLP as the Company's independent registered public accounting firm for the 2013 fiscal year; and
 4. To transact such other business as may properly come before the meeting or any adjournment thereof.
- Only stockholders of record at the close of business on March 25, 2013 will be entitled to vote at the annual meeting or at any adjournment.

It is important that your shares be represented at the meeting. Therefore, whether or not you plan to attend the meeting, please complete your proxy card and return it in the enclosed envelope, which requires no postage if mailed in the United States, or vote using the Internet by following the Internet voting instructions. If you attend the meeting and wish to vote in person, your proxy will not be used.

By order of the Board of Directors,

Robert K. Brown

Secretary

Dated: April 5, 2013

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING
TO BE HELD ON MAY 7, 2013.**

This proxy statement and our annual report to security holders are available at

www.rrdezproxy.com/2013/NewStarFinancial.

Table of Contents

PROXY STATEMENT

TABLE OF CONTENTS

	Page
<u>GENERAL INFORMATION ABOUT VOTING</u>	1
<u>CORPORATE GOVERNANCE</u>	4
<u>Corporate Governance Guidelines</u>	4
<u>Board Leadership Structure</u>	4
<u>Board and Director Independence</u>	4
<u>Board Risk Oversight</u>	5
<u>Board Committees</u>	5
<u>Code of Ethics</u>	9
<u>Certain Relationships and Transactions</u>	9
<u>Stockholder Communications to the Directors</u>	10
<u>SHARES HELD BY PRINCIPAL STOCKHOLDERS AND MANAGEMENT</u>	11
<u>PROPOSAL 1: ELECTION OF DIRECTORS</u>	14
<u>PROPOSAL 2: ADVISORY VOTE ON EXECUTIVE COMPENSATION</u>	20
<u>PROPOSAL 3: RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	21
<u>Interests of Directors and Executive Officers</u>	21
<u>Recommendation of the Board of Directors</u>	21
<u>EXECUTIVE COMPENSATION</u>	22
<u>OTHER MATTERS</u>	47
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	47
<u>Deadlines for Stockholder Proposals</u>	47

Table of Contents

GENERAL INFORMATION ABOUT VOTING

The Board of Directors of NewStar Financial, Inc. (NewStar or the Company) is soliciting your proxy for use at the 2013 annual meeting of stockholders to be held on Tuesday, May 7, 2013 and at any adjournment of the meeting. This proxy statement and the accompanying proxy card are first being sent or given to stockholders of NewStar on or about April 5, 2013.

Who can vote. You may vote your shares of NewStar common stock at the annual meeting if you were a stockholder of record at the close of business on March 25, 2013. On that date, there were 49,396,338 shares of common stock outstanding. You are entitled to one vote for each share of common stock that you held on the record date.

How to vote your shares

Stockholder of Record: Shares Registered in Your Name

If on March 25, 2013 your shares were registered directly in your name with our transfer agent, then you are a stockholder of record. If you are a stockholder of record, you may vote in person at the annual meeting, by mail or over the Internet. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person if you have already voted by proxy. Voting in person will revoke your proxy. There are three ways to vote:

To vote in person, come to the annual meeting and we will give you a ballot when you arrive. If you plan to attend the annual meeting in person, please plan to arrive no later than ten minutes in advance of the start time of the meeting to allow access to the building facilities.

To vote using the proxy card, complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the annual meeting, we will vote your shares as you direct.

To vote over the Internet, access our secure website registration page through the Internet at www.voteproxy.com and follow the instructions. You will need to have the control number that appears on your proxy card available when voting. Please note that the Internet voting facilities for registered stockholders will close at 11:59 p.m., EDT, on May 6, 2013.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If on March 25, 2013 your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by that organization. If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from us. Complete and mail the proxy card to ensure that your vote is counted. Alternatively, you may vote over the Internet, as instructed by your broker or bank. To vote in person at the annual meeting, you must obtain a valid proxy from your broker, bank or other agent. Follow the instructions from your broker or bank included with these proxy materials or contact your broker or bank to request a proxy form.

Proposals to be considered at the annual meeting. The principal business expected to be transacted at the meeting will be:

1. To elect eight (8) directors to serve until the 2014 annual meeting of stockholders;
2. To approve, on an advisory basis, the compensation of our named executive officers;

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

3. To ratify the Audit Committee's appointment of KPMG LLP as the Company's independent registered public accounting firm for the 2013 fiscal year; and

Table of Contents

4. To transact such other business as may properly come before the meeting or any adjournment thereof.

Quorum. A quorum of stockholders is required to transact business at the meeting. A majority of the outstanding shares of common stock entitled to vote, represented at the meeting in person or by proxy, constitutes a quorum for the transaction of business.

Number of votes required. The required vote for each of the proposals for consideration at the annual meeting is as follows:

Proposal	Number of votes required
Proposal 1	Each director nominee must receive a plurality of the votes cast to be elected.
Proposal 2	The affirmative vote of a majority of the total votes cast, present or represented by a proxy, will be required for the approval, on an advisory basis, of the compensation of our named executive officers.
Proposal 3	The proposal to ratify our independent auditors must receive the affirmative vote of a majority of the total votes cast, present or represented by proxy, to be approved.

Abstentions and broker non-votes. Abstentions and broker non-votes will be counted in determining a quorum for the transaction of business at the annual meeting. A broker non-vote on a proposal results from a proxy submitted by a broker that does not indicate a vote for one or more proposals because the broker does not have discretionary voting authority and the broker's customer did not send the broker instructions on how to vote on the proposal. If the broker does not have instructions on certain matters, and the broker is barred by law or the broker regulations of the New York Stock Exchange from exercising its discretionary voting authority in the particular matter, then the shares will not be voted on the matter. The impact of abstentions and broker non-votes on the proposals scheduled to be presented at the meeting is as follows:

Proposal	Impact of Abstentions and Broker Non-Votes
Proposal 1	Abstentions and broker non-votes will not be treated as votes cast and, therefore, will not affect the outcome of the election of each director.
Proposal 2	Broker non-votes will not be treated as votes cast and, therefore, will not affect the outcome of the advisory vote on executive compensation. Abstentions will be counted as present and entitled to vote and, accordingly, will have the effect of a negative vote.
Proposal 3	Broker non-votes will not be treated as votes cast and, therefore, will not affect the outcome of the proposal to ratify the appointment of KPMG as our independent auditors. Abstentions will be counted as present and entitled to vote and, accordingly, will have the effect of a negative vote.

Discretionary voting by proxies on other matters. We do not know of any other proposals, other than the proposals described above, that may be presented at the 2013 annual meeting. If another matter is properly presented for consideration at the meeting, the persons named in the accompanying proxy card will exercise their discretion in voting on the matter.

How you may revoke your proxy. You may revoke the authority granted by your executed proxy card at any time before we exercise it by either (i) filing by 5:00 p.m. Eastern Daylight Time the business day prior to the annual meeting with our Corporate Secretary, Robert K. Brown, a written revocation or a duly executed proxy card bearing a later date, or (ii) by voting in person at the meeting. If your shares are held in a brokerage account, you must make arrangements with your broker or bank to revoke your proxy.

Expenses of solicitation. We will bear all costs of soliciting proxies. We will, upon request, reimburse brokers, custodians and fiduciaries for out-of-pocket expenses incurred in forwarding proxy solicitation materials to the beneficial owners of stock held in their names. In addition to solicitations by mail, our directors, officers

Table of Contents

and employees may solicit proxies from stockholders in person or by other means of communication, including telephone, facsimile and e-mail, without additional remuneration. We may retain a proxy solicitation firm to assist in the solicitation of proxies. We will bear all reasonable fees and expenses if such a firm is retained.

Householding of Annual Meeting Materials. Some banks, brokers and other nominee record holders may be householding our proxy statements and annual reports. This means that only one copy of our proxy statement and annual report to stockholders may have been sent to multiple stockholders in your household. If you want to receive separate copies of the proxy statement or annual report to stockholders in the future, or if you are receiving multiple copies and would like to receive only one copy per household, you should contact your bank, broker, or other nominee record holder, or you may contact us at the address and telephone number set forth below. Our annual report is also available on our website at www.newstarfin.com.

Annual Report on Form 10-K. We will promptly deliver to you a copy of our annual report on Form 10-K for the year ended December 31, 2012 and additional copies of our proxy statement and annual report to stockholders, without charge, if you call or write us at the following address or telephone number: NewStar Financial, Inc., 500 Boylston St., Suite 1250, Boston, MA 02116, Attn: Corporate Secretary, telephone: (617) 848-2500.

No Appraisal Rights. There are no appraisal rights associated with any of the proposals being considered at the annual meeting.

Table of Contents

CORPORATE GOVERNANCE

NewStar Financial, Inc. is committed to sound corporate governance practices that support the high standard the Company has established for the way in which its employees, officers and directors pursue the Company's business objectives. It is the duty of the Board of Directors to serve as a prudent fiduciary for shareholders and to oversee the management of the Company's business. To fulfill its responsibilities, the Board of Directors follows the procedures and standards that are set forth in the guidelines below.

Corporate Governance Guidelines

Our corporate governance practices are documented in Corporate Governance Guidelines and Principles that are adopted by the Board of Directors and that are updated from time to time as recommended by the Company's Nominating and Governance Committee. Other corporate governance practices may be found in the charters of the various committees of the NewStar Board of Directors which are posted on our website at www.newstarfin.com.

Board Leadership Structure

Chairman of the Board

The primary duty of the Chairman is to preside over meetings of the Board of Directors. The Chairman also establishes the agenda for Board meetings, designates members of management to be present at Board meetings and is consulted regarding members of management who are present at Board committee meetings. The Chairman has the authority to call regular and special meetings of the Board and is consulted regarding nominees for the Board and the composition and chairmanship of Board committees.

Timothy J. Conway serves as both our Chairman and CEO. The Company does not have a stated policy with respect to the separation of the positions of Chairman and CEO. As the original founder of the Company, and the individual ultimately responsible for the implementation of the Company's strategy and day-to-day operations, the Board believes that Mr. Conway's detailed knowledge of the business and industry in which we operate makes him the director best qualified to act as Chairman of the Board.

Lead Director

The primary role of the lead director is to provide independent leadership to the Board in circumstances where the joint roles of Chairman and CEO could potentially be in conflict and to ensure that the Board operates independently of management. Among other things, the lead director acts as a liaison between the Chairman and the directors and has the authority to call special meetings of the independent directors and to convene executive sessions of the independent directors during regularly scheduled Board meeting. Richard E. Thornburgh currently serves as our independent lead director. The lead director does not serve for a specified term and may be replaced if and when the Board determines that such a change is warranted.

Board and Director Independence

The Board of Directors has determined that all of our directors, other than Messrs. Conway and Schmidt-Fellner, are independent under the criteria established by NASDAQ, and that all the members of the Audit Committee also meet the additional independence requirements of the Securities and Exchange Commission. None of these directors have a relationship which, in the opinion of our board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

The Board of Directors held seven meetings during 2012. Independent directors regularly meet in executive session in which only independent directors are present. During 2012, each of our incumbent directors attended at least 75% of the aggregate of all meetings of the Board of Directors and all meetings of the committees of the

Table of Contents

Board of Directors on which such director served. All Board members who are up for reelection at the annual meeting of stockholders are expected to attend the annual meeting of stockholders, subject to special circumstances. Each member of our Board of Directors attended our 2012 annual meeting.

Board Risk Oversight

As part of their oversight functions, the Board of Directors generally oversees the Company's risk management policies and programs, and allocates certain specific responsibilities to various committees, consistent with the substantive scope of each Committee's charter. As described below, the Risk Policy Committee is primarily responsible for monitoring our credit risk.

Board Committees

The Board has standing Audit, Compensation, Nominating and Corporate Governance and Risk Policy Committees. The Company has adopted a formal charter for each of the Board committees, which sets forth that committee's duties and responsibilities. These committee charters are available in the Corporate Governance section of the Company's website at www.newstarfin.com. The role of each Committee in assisting the Board in fulfilling its fiduciary responsibilities to shareholders is described below.

The following table depicts the current composition of our Board Committees:

Risk Policy Committee

The Risk Policy Committee reports to and assists the Board of Directors in overseeing and reviewing information regarding our credit risk management framework, including the significant policies, procedures and practices employed to manage credit risk. Its members are Messrs. Thornburgh (Chair), Conway and Bralver. The Committee met five times in 2012 and is charged with assisting the Board with its oversight of the Company's credit practices and procedures; monitoring the performance of the Company's portfolio from a credit perspective; reviewing recommendations of management; and considering, evaluating and approving on behalf of the Board, specified lending transactions above the hold limits established by the Committee as a ceiling on the approval authority of management's credit committee. In addition, the Committee retains the ability to authorize management to develop and implement any additional policies relating to risk assessment and risk management.

Table of Contents

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee assists the Board of Directors in identifying and reviewing individuals qualified to serve as directors and recommending candidates for election to the Board and in developing and overseeing implementation of our corporate governance. Its members are Ms. O Hara (Chair) and Mr. Cooper. Mr. Brooker was a member of the committee until his departure in May 2012. In 2012, the Nominating and Corporate Governance Committee met three times.

The Nominating and Corporate Governance Committee will seek new nominees for election to the Board, when necessary, through a variety of channels, including the engagement of director search firms and less formal recommendations through business and personal contacts. Director search firms engaged by the Committee will generally be paid a retainer to identify and screen candidates meeting specifications established by the Committee for a particular Board nominee search. Such specifications will change from one search to another based on the Committee's determination of the Board composition needs at the time a particular search is initiated.

The Nominating and Corporate Governance Committee will evaluate any candidate recommended for nomination as a director, whether proposed by a stockholder or identified through the Committee's own search processes, about whom it is provided appropriate information. The Committee will determine whether the particular nomination would be consistent with our governance policies and criteria, including without limitation the following: the candidate's current level of, and on-going commitment to, education regarding the responsibilities of a member of a Board of Directors; whether the candidate has the time available to commit to his or her responsibilities as a member of the Board; and the existence of any financial relationship with the Company other than that as an employee, Board member or stockholder.

If a candidate is presented to the Nominating and Corporate Governance Committee at a time when it has established specifications for a particular Board search, the Committee will consider whether the candidate satisfies the established specifications. While the Committee does not have a formal policy for considering diversity in identifying nominees, it seeks individuals who represent a range of relevant experiences and considers the impact each nominee would have in increasing the diversity of perspectives, expertise, background and skills of the Board. In evaluating a candidate, the Committee must, at a minimum, determine that the candidate is capable of discharging his or her fiduciary duties to the stockholders of the Company. More generally, the Committee will consider a candidate's skills, character, leadership experience, business experience and judgment, and familiarity with relevant industry, national and international issues in light of the backgrounds, skills and characteristics of the current Board and the needs of the Company's business. Finally, the Committee must consider whether a nominee (in conjunction with the existing Board members) will assist the Company in meeting the requirements of applicable law, the rules of the Securities and Exchange Commission, the NASDAQ Global Market listing standards, and the Internal Revenue Code regarding the independence, sophistication and skills of the members of the Board of Directors and the Audit, Compensation and Nominating and Corporate Governance Committees.

In order to recommend a candidate for consideration by the Nominating and Corporate Governance Committee, a stockholder must provide the Committee with the candidate's name, background and relationship with the proposing stockholder, a brief statement outlining the reasons the candidate would be an effective director and information relevant to the considerations described above. Such information should be sent to the Nominating and Corporate Governance Committee of NewStar Financial, Inc., 500 Boylston Street, Boston, MA 02116, Attn: Corporate Secretary. In addition to the above, the Committee may request further information, in its discretion.

On January 16, 2013, the Company received from Capital Z Partners III, L.P. their nomination of Bradley E. Cooper as a director pursuant to the nomination rights that the Company had previously granted to Capital Z Partners III, L.P. The Committee has nominated Mr. Cooper for reelection as a director.

Table of Contents***Audit Committee***

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities for accounting and financial reporting compliance, including reviewing the financial information provided to the stockholders and others, our accounting policies, disclosure controls and procedures and internal accounting and financial controls and the audit process. In undertaking these responsibilities, the Committee meets with management and with the independent auditor (including meeting privately, without management present) to discuss the financial statements, our financial reporting policies and procedures, and our internal control over financial reporting. The Committee reports on such matters to our Board. The Committee reviews the performance of the independent registered public accounting firm in the annual financial statement audit and assesses the independence of the registered public accounting firm. The Committee is directly responsible for the appointment (and where appropriate, replacement), evaluation and compensation of the independent registered public accounting firm.

The Audit Committee operates under a written charter, which is available on our website at www.newstarfin.com. It has adopted procedures for the handling of complaints regarding accounting, internal controls and auditing matters. The Audit Committee consists of Messrs. Noonan (Chair), and Fallon and Ms. O Hara. Mr. Noonan and Ms. O Hara each qualify as an audit committee financial expert, as defined in Securities and Exchange Commission rules. The Audit Committee met five times during 2012.

Independent Registered Public Accountants Fees and Other Matters

Upon the recommendation of the Audit Committee, the Board of Directors appointed the independent registered public accounting firm of KPMG LLP as independent auditor to conduct the annual audit of our financial statements for 2012. KPMG LLP is an internationally recognized independent registered public accounting firm that has audited the Company's financial statements since the Company's inception in 2004. Representatives of KPMG LLP are expected to attend the annual meeting and be available to respond to appropriate questions. They will also have the opportunity to make a statement if they desire.

The aggregate fees billed for each of the last two fiscal years for professional services rendered by KPMG LLP were as follows:

	2012	2011
Audit Fees	\$ 946,100	\$ 938,000
Audit Related Fees	\$ 82,500	\$ 64,500
Tax Fees	\$ 144,310	\$ 526,873
All Other Fees	\$ 86,047	\$
Total Fees	\$ 1,258,957	\$ 1,529,373

Our Audit Committee must pre-approve all audit-related and non-audit (including tax) services performed by the independent auditor in order to assure that these services do not impair the auditor's independence. Certain types of services may not be performed by the independent auditor at all, as they are inconsistent with independence. Any such approval must be given by the Audit Committee or by any member or members to whom the Committee has delegated that authority. The Audit Committee does not delegate its responsibility to approve services performed by the independent auditor to any member of management.

The standard applied by the Audit Committee in determining whether to grant approval of any type of non-audit service, or of any specific engagement to perform a non-audit service, is whether the services to be performed, the compensation to be paid therefore and other related factors are consistent with the independent auditor's independence under guidelines of the Securities and Exchange Commission, the Public Company Accounting Oversight Board and applicable professional standards. Relevant considerations include whether the work product is likely to be subject to, or implicated in, audit procedures during the audit of our financial statements, whether the independent auditor would be functioning in the role of management or in an advocacy

Table of Contents

role, whether the independent auditor's performance of the service would enhance our ability to manage or control risk or improve audit quality, whether such performance would increase efficiency because of the independent auditor's familiarity with our business, personnel, culture, systems, risk profile and other factors, and whether the amount of fees involved, or the proportion of the total fees payable to the independent auditor in the period that is for non-audit services, would tend to reduce the independent auditor's ability to exercise independent judgment in performing the audit.

Taking into consideration these fees and services, KPMG LLP has informed the Company that they are not aware of any relationship with the Company that, in their professional judgment, may reasonably be thought to bear on the independence of KPMG LLP.

2012 Audit Committee Report

The Committee reviewed and discussed the audited consolidated financial statements for 2012 with management and with KPMG LLP. In this process, the Committee met with KPMG LLP, with and without management present, to discuss the results of their examinations, our critical accounting policies and the overall quality of our financial reporting, as well as our internal control over financial reporting.

The Committee discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended. In addition, the Committee discussed with the independent auditors their independence from us and our management, including the matters in the letter and written disclosures received from KPMG LLP as required by applicable requirements of the Public Company Oversight Board. The Audit Committee also considered whether the independent auditors' provision of non-audit services is compatible with maintaining the independent auditors' independence.

Based on the Committee's discussions with management and the independent auditors and the Committee's review of KPMG LLP's report to the Committee, the Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ending December 31, 2012 for filing with the Securities and Exchange Commission.

By the Audit Committee,

Frank R. Noonan, Chair

Brian L.P. Fallon

Maureen P. O'Hara

Compensation Committee

The Compensation Committee establishes our compensation philosophy and assists the Board in overseeing our compensation policies and practices. The Compensation Committee consists solely of independent directors. The Committee determines and approves the compensation of our executive officers, reviews and approves management incentive compensation policies and programs and equity compensation programs for employees, and administers those policies and programs. Its responsibilities include setting corporate goals and objectives relevant to compensation of executive officers, evaluating the executive officers' performance against those goals and objectives at least annually, approving all grants of awards, including the award of shares or share options, under our equity incentive plan, and reviewing the form and amount of director compensation at least annually.

The Compensation Committee operates under a written charter, which is available on our website at www.newstarfin.com. For additional information about the Compensation Committee's activities, please see the section titled "Compensation Discussion and Analysis" below.

The Compensation Committee currently consists of Brian L.P. Fallon (Chair), Charles N. Bralver, and Frank R. Noonan. Mr. Brooker was a member of the committee until his departure in May 2012. The Compensation Committee met five times during 2012.

Table of Contents

Compensation Committee Interlocks and Insider Participation

None of the members of our Compensation Committee during 2012 served or has ever served as an officer or employee of NewStar.

None of our executive officers serves on the compensation committee or board of directors of any other company of which any of our directors is an executive officer.

Code of Ethics

We have adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, and other senior financial officers. This code sets forth written standards that are reasonably designed to deter wrongdoing and to promote: honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in our other public communications; compliance with applicable governmental laws, rules and regulations; the prompt internal reporting of violations of the code to an appropriate person or persons; and accountability for adherence to the code. The text of this code of ethics is posted on our website at www.newstarfin.com in the Investor Relations section, under the Corporate Governance subsection under the heading Committees and Charters, where we may also disclose any amendments to, and waivers of, the code. At the same location on our website, we have also posted our Code of Business Conduct and Ethics, which applies to all our employees and directors.

Certain Relationships and Transactions

The governance rules of the NASDAQ Global Market require us to conduct an appropriate review of any transactions and relationships with the Company in which any of the following have a direct or indirect material interest: any of our directors or executive officers, any nominee for director, and any of the members of their immediate families. In addition, Item 404(a) of Regulation S-K requires us to disclose any transaction or proposed transaction in excess of \$120,000 in which any person who is an executive officer, director, or nominee for director of the Company or the beneficial owner of more than five percent of our voting securities (including their immediate family members) has or will have a direct or indirect material interest. The Audit Committee of our Board of Directors has the responsibility of reviewing and approving any such related person transactions and relationships.

Our Chief Financial Officer is primarily responsible for the development and implementation of processes and controls to obtain information from the directors, executive officers and greater than five percent holders of our voting securities with respect to related person transactions and for then determining, based on the facts and circumstances, whether the Company or a related person has a direct or indirect material interest in the transaction. The Audit Committee will review all such transactions and relationships of which it has knowledge and will approve or ratify those it considers appropriate. Transactions that are determined to be directly or indirectly material to the Company or a related person will be disclosed in our proxy statement. In the course of its review of a disclosable related person transaction, the Audit Committee will consider the nature of the related person's interest in the transaction, the material terms of the transaction, including, without limitation, the amount and type of transaction, the importance of the transaction to the related person, the importance of the transaction to the Company, whether the transaction would impair the judgment of a director or executive officer to act in the best interest of the Company, and any other matters the Committee deems appropriate. Any member of the Audit Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote respecting approval or ratification of the transaction, although such director may be counted in determining the presence of a quorum at a meeting of the Committee that considers the transaction.

During 2006, the Company made a loan in the aggregate amount of \$16.0 million based on market terms to Advantage Business Media LLC, a company whose Board of Directors includes Blair Schmidt-Fellner, the brother of Peter Schmidt-Fellner, our Chief Investment Officer and member of our Board of Directors. At

Table of Contents

December 31, 2012, the loan balance outstanding and amount of committed funds were \$4.6 million and \$6.6 million respectively. The largest aggregate amount of principal outstanding under this loan during 2012 was \$6.0 million. The interest rate on the loan is 6.50%, and Advantage Business Media LLC paid \$1.6 million in aggregate principal payments and \$0.4 million in aggregate interest payments during 2012.

Pursuant to an Investment Management Agreement dated August 3, 2005, the Company serves as investment manager of the NewStar Credit Opportunities Fund, Ltd. (the Fund), a Cayman Islands exempted company limited by shares incorporated under the provisions of The Companies Law of the Cayman Islands. The Fund pays the Company a management fee, payable monthly in arrears, based on the carrying value of the total gross assets attributable to the applicable series of each class of shares at the end of each month. For the years ended December 31, 2012, 2011 and 2010 the Fund paid the Company asset management fees of \$3.0 million, \$2.6 million and \$2.9 million, respectively.

In March of 2011, the Company made a loan in the aggregate amount of \$13.5 million based on market terms to SPARTA Insurance Holdings, Inc. (SPARTA), a company that is 39.6% owned by Corsair Capital, a major stockholder of the Company. In addition, two of the seven members of SPARTA's Board of Directors are employees of Corsair Capital, and Richard Thornburgh, a member of our Board of Directors, previously served as a director of SPARTA Insurance Holdings, Inc. At December 31, 2012, the loan balance outstanding and amount of committed funds were \$12.2 million and \$13.2 million, respectively. The largest aggregate principal amount outstanding under this loan during 2012 was \$12.2 million. The interest rate on the loan is 9.50%, and SPARTA paid \$1.6 million in aggregate principal payments and \$1.1 in aggregate interest payments during 2012.

All of the foregoing relationships and transactions were approved by the Audit Committee of our Board of Directors.

Stockholder Communications to the Directors

Security holders may communicate with the NewStar Board of Directors by mailing a communication to the entire Board or to one or more individual directors in care of the Corporate Secretary, NewStar Financial, Inc., 500 Boylston St., Suite 1250, Boston, MA 02116. All communications from security holders to Board members (other than communications soliciting the purchase of products and services) will be promptly relayed to the Board members to whom the communication is addressed.

Table of Contents**SHARES HELD BY PRINCIPAL STOCKHOLDERS AND MANAGEMENT**

The following table shows the amount of our Common Stock beneficially owned as of March 25, 2013 by (i) each person or group who is known by us to own beneficially more than 5% of our Common Stock, (ii) each current member of our Board and each of the executive officers named in the Summary Compensation Table in the Executive Compensation Section of this Proxy Statement below, and (iii) all current members of our Board and our current executive officers as a group. Percentage calculations are based off of the 49,396,338 shares of Common Stock that were outstanding on March 25, 2013.

	Shares Owned	Percent of Class
Principal Stockholders		
Capital Z Partners, Ltd. (1)(2)	9,751,615	19.65%
Capital Z Partners, L.P.		
Capital Z Financial Services Fund II, L.P.		
Capital Z Financial Services Private Fund II, L.P.		
Capital Z Partners III GP, Ltd. (3)(2)		
Capital Z Partners III GP, L.P.		
Capital Z Partners III, L.P.		
230 Park Avenue South		
New York, NY 10003		
J.P. Morgan Corsair II Capital Partners, L.P. (4)	9,704,972	19.57%
Corsair III Financial Services Capital Partners, L.P.		
Corsair III Financial Services Offshore 892 Partners, L.P.		
717 Fifth Avenue New York, NY 10022		
Second Curve Capital, LLC (8)	4,385,706	8.88%
237 Park Avenue, 9th Floor		
New York, New York 10017		
Timothy E. Moriarty (5)	3,637,234	7.36%
c/o McGrath, Doyle & Phair		
150 Broadway-Suite 1915		
New York, NY 10038		
Swiss Reinsurance Company (6)	3,000,000	6.07%
Mythenquai 50/60		
CH-8022		

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

Zurich, Switzerland

The Northwestern Mutual Life Insurance Company (7)	1,647,206	3.33%
--	-----------	-------

720 East Wisconsin Avenue

Milwaukee, Wisconsin 53202

Directors and Executive Officers

Charles N. Bralver (9)	141,272	*
Timothy J. Conway (10)	2,486,576	4.92%
Bradley E. Cooper (11)	86,891	*
Brian L.P. Fallon (12)	78,802	*
Frank R. Noonan (13)	106,802	*
Maureen P. O Hara (14)	113,311	*
Peter A. Schmidt-Fellner (15)	1,874,986	3.73%
Richard E. Thornburgh (16)	113,802	*
John K. Bray (17)	1,077,665	2.16%
Robert T. Clemmens (18)	805,061	1.62%
Patrick F. McAuliffe (19)	213,221	*
All current executive officers and directors as a Group (13 persons) (20)	7,882,905	15.96%

* Less than 1%.

(1) Includes 200,174 shares issuable upon the exercise of a warrant, 25,000 shares issuable upon the exercise of options and 5,526,441 shares of Common Stock held directly. As reported in a Schedule 13D/A filed with the SEC on January 22, 2008, Capital Z Partners, Ltd. (Capital Z Ltd) is the general partner of Capital Z Partners, L.P. (Capital Z LP), which is the general partner of Capital Z Financial Services Fund II, L.P. (Capital Z) and Capital Z Financial Services Private Fund II, L.P. (Capital Z Private Fund), investment funds located at the same address that hold the shares shown. All four entities report shared voting and investment power over all such shares.

Table of Contents

- (2) As reported in a Schedule 13D/A filed with the SEC on January 22, 2008, Capital Z Partners III GP, Ltd., Capital Z Partners III, L.P., Capital Z Partners III GP, L.P., Capital Z Partners, Ltd., Capital Z Partners, L.P., Capital Z Financial Services Fund II, L.P., and Capital Z Financial Services Private Fund II, L.P. may be deemed to constitute a group (within the meaning of Rule 13d-5(b) under the Securities Exchange Act of 1934). As a result, and on that basis, the entities in the preceding sentence may be deemed to beneficially own shares of Common Stock that may be beneficially owned by such persons. Bradley E. Cooper is a Senior Vice President and Director of Capital Z Partners, Ltd. and Capital Z Partners III GP, Ltd. and also a director of the Company (See Footnote 11 below). Robert Spass and Bradley E. Cooper are the natural persons who exercise sole or shared voting and/or dispositive powers over the Company's securities held by Capital Z Partners, Ltd. and Capital Z Partners III GP, Ltd. The address of each of these individuals is c/o Capital Z Partners L.P. 230 Park Avenue South, New York, NY 10003.
- (3) Consists of 4,000,000 shares directly owned by Capital Z Partners III, L.P. (Capital Z III) and indirectly owned by Capital Z Partners III GP, L.P. (Capital Z III LP) and Capital Z Partners III GP, Ltd. (Capital Z III GP). Capital Z III LP is the general partner of Capital Z III. Capital Z III GP is the general partner of Capital Z III LP and the ultimate general partner of Capital Z III. Capital Z III LP and Capital Z III GP may be deemed to be the beneficial owners of the securities held by Capital Z III, although Capital Z III LP and Capital Z III GP disclaim beneficial ownership of such securities except to the extent of any indirect pecuniary interest therein (within the meaning of Rule 16a-1 of the Exchange Act). As reported in a Schedule 13D/A filed with the SEC on January 22, 2008, Capital Z III GP and Capital Z III LP share voting and investment power over all such shares.
- (4) Includes 200,174 shares issuable upon the exercise of a warrant. J.P. Morgan Corsair II Capital Partners, L.P., Corsair III Financial Services Capital Partners, L.P. and Corsair III Financial Services Offshore 892 Partners, L.P. are controlled by Corsair Capital LLC. Corsair Capital LLC is the manager of Corsair PTJB, LLC, which is the managing member of Corsair II, L.L.C. Corsair II, L.L.C. is the general partner of Corsair II, L.P., which is the general partner of J.P. Morgan Corsair II Capital Partners, L.P. Corsair Capital LLC is also the general partner of Corsair III Management, L.P., which is the general partner of Corsair III Financial Services Capital Partners, L.P. and Corsair III Financial Services Offshore 892 Partners, L.P. Richard E. Thornburgh is an officer of both Corsair Capital LLC and Corsair II, L.L.C. and is also a director of the Company (See Footnote 17 below). Nicholas B. Paumgarten, the Chairman of Corsair Capital LLC, is the natural person who exercises sole or shared voting and/or dispositive powers over the Company's securities held by J.P. Morgan Corsair II Capital Partners, L.P. Mr. Paumgarten's address is c/o Corsair Capital LLC, 717 Fifth Avenue, New York, NY 10022.
- (5) As reported in a Schedule 13D/A filed with the SEC on October 6, 2010.
- (6) As reported in a Schedule 13G filed with the SEC on January 28, 2008.
- (7) Includes 91,747 shares issuable upon the exercise of a warrant. As reported in a Schedule 13G filed with the SEC on February 5, 2013, Northwestern Mutual Capital, LLC (NMC), a wholly owned company of The Northwestern Mutual Life Insurance Company (Northwestern Mutual) and a registered investment adviser, serves as an investment adviser to Northwestern Mutual, and it shares voting and investment power with respect to the aforementioned holdings. NMC therefore may be deemed to be an indirect beneficial owner with shared voting power/investment power with respect to such shares. Richard A. Strait is a portfolio manager for NMC and manages the portfolio which holds the shares and therefore may be deemed to be an indirect beneficial owner with shared voting power/investment power with respect to such shares. However, pursuant to Rule 13d-4 under the Securities Exchange Act of 1934 (the Act), the immediately preceding sentence shall not be construed as an admission that Mr. Strait is, for the purposes of section 13(d) or 13(g) of the Act, the beneficial owner of any securities covered by the statement. In the ordinary course of business, broker-dealer affiliates of Northwestern Mutual may, from time to time, have acquired or disposed of, or may in the future acquire or dispose of, our securities, for such broker-dealers' own accounts or for the accounts of others. Other affiliates of Northwestern Mutual, including investment adviser affiliates, may in the ordinary course of business, effect transactions in our securities.
- (8) As reported in a Schedule 13G filed with the SEC on January 23, 2013. Voting and dispositive power of the 4,385,706 shares shown as beneficially owned by Second Curve Capital, LLC (Second Curve) is shared with Thomas K. Brown, the Managing Member of Second Curve, who also claims beneficial ownership of such shares.
- (9) Includes 16,250 shares issuable upon the exercise of options.
- (10) Includes 21,789 shares issuable upon the exercise of warrants and 1,150,000 shares issuable upon the exercise of options.
- (11) Includes 83,576 shares issuable upon the exercise of a warrant. Mr. Cooper's beneficial ownership shown in the table excludes (i) the 5,526,441 shares held by Capital Z, Capital Z Private Fund and Capital Z Management, LLC (CZM), as well as shares owned by Capital Z III. The sole general partner of Capital Z and Capital Z Private Fund is Capital Z LP, and the sole general partner of Capital Z LP is Capital Z Ltd and (ii) the 4,000,000 shares held by Capital Z III LP is the general partner of Capital Z III. Capital Z III GP is the general partner of Capital Z III LP and the ultimate general partner of Capital Z III. Capital Z Partners Management, LLC (CZPM) is the investment authority for Capital Z, Capital Z Private Fund and Capital Z III, and its principal business is performing investment management services for Capital Z, Capital Z Private Fund and Capital Z III. Mr. Cooper is a shareholder of Capital Z Ltd and CZM and an officer and co-owner of CZPM. Mr. Cooper may be deemed to be part of a group along with Capital Z, Capital Z Private Fund, Capital Z LP, Capital Z Ltd, CZM, Capital Z III GP, Capital Z III LP, Capital Z III

Table of Contents

and CZPM and may be deemed to be the beneficial owner of the securities held by such entities, although Mr. Cooper disclaims beneficial ownership of such securities except to the extent of any indirect pecuniary interest therein (within the meaning of Rule 16a-1 of the Exchange Act) in an indeterminate portion of the securities beneficially owned by Capital Z, Capital Z Private Fund, Capital Z LP, Capital Z Ltd, Capital Z III GP, Capital Z III LP, Capital Z III and CZPM.

- (12) Includes 42,500 shares issuable upon the exercise of options.
- (13) Includes 70,000 shares issuable upon the exercise of options.
- (14) Includes 30,313 shares issuable upon the exercise of options.
- (15) Includes 12,997 shares issuable upon the exercise of warrants and 875,000 shares issuable upon the exercise of options.
- (16) Includes 10,000 shares issuable upon the exercise of options. Mr. Thornburgh's beneficial ownership shown in the table excludes the 9,704,972 shares shown as beneficially owned by J.P. Morgan Corsair II Capital Partners, L.P., Corsair III Financial Services Capital Partners, L.P. and Corsair III Financial Services Offshore 892 Partners, L.P. Mr. Thornburgh is an indirect participant in, and an officer of Corsair II, L.L.C. and Corsair Capital LLC, which has investment authority over such shares, but he disclaims beneficial ownership of such shares.
- (17) Includes 600,000 shares issuable upon the exercise of options.
- (18) Includes 3,746 shares issuable upon the exercise of warrants and 325,000 shares issuable upon the exercise of options. Mr. Clemmens retired from the Chief Credit Officer position effective March 25, 2013, but will remain employed by the Company through at least May 2013.
- (19) Includes 120,210 shares issuable upon the exercise of options.
- (20) Includes a total of 128,300 shares issuable upon the exercise of warrants and 3,620,657 shares issuable upon the exercise of options.

Table of Contents

PROPOSAL 1: ELECTION OF DIRECTORS

Our Board of Directors has fixed the number of directors at eight. These eight members are listed below and are nominees for reelection at the annual meeting. You may only vote for eight persons for election as directors.

Among the investors in a private placement transaction that closed in two separate tranches on November 29, 2007 and January 18, 2008 was Union Square Partners, L.P. (now known as Capital Z Partners III, L.P.). As part of the private placement transaction, we entered into a side letter agreement dated November 12, 2007 with Union Square Partners, L.P. in which we granted Union Square Partners, L.P. the right to nominate one member to our Board of Directors, so long as they meet certain requirements. On January 16, 2013 Capital Z Partners III, L.P. informed us that they have nominated Bradley E. Cooper, one of our incumbent directors, as their Board nominee for the term expiring in 2014.

The number of directors is subject to increase or decrease by action of the Board. All directors are elected to serve one-year terms and until their successors are elected and qualified. Each of the incumbent directors has been nominated for reelection by the Board of Directors, and each has consented to serve if elected. However, if any nominee is unable to serve, proxies will be voted for any other candidate nominated by the Board.

Our Board recommends a vote FOR each of the nominees.

The following table contains biographical information about the nominees for director. All of our directors possess the minimum qualifications detailed in the Nominating and Corporate Governance Committee section above and have demonstrated a commitment of service to the company, sound business judgment and a willingness to ask difficult questions to critically evaluate the strategies proposed by management. In addition to having a reputation for adherence to the highest ethical standards, each of our directors possesses specific expertise, qualifications, and skills or attributes, as noted below, that make him or her qualified to serve on the Board.

Table of Contents

Name	Age (as of April 1, 2013)	Business Experience, Other Directorships and Qualifications	Director Since	Annual Meeting at Which the Present Term Expires
Charles N. Bralver(1)(2)	58	<p>Charles N. Bralver joined our Board of Directors on February 5, 2009. Mr. Bralver is a corporate director and advisor. He served as a partner with Massif Partners, LLP, an asset management firm, from 2010 to 2012. From May 2007 to September 2010, Mr. Bralver was the Senior Associate Dean for International Business and Finance at the Fletcher School at Tufts University. Mr. Bralver was a founding partner of Oliver Wyman & Company where from 1984 through 2007 he held several positions, including Vice Chairman, Head of Europe, Head of North America, and Head of Capital Markets. From 2007 to 2009 he served as a strategic advisor to the Financial Services Practice at Warburg Pincus LLC. He also serves on the Senior Advisory Board of Oliver Wyman and Bema Capital Partners, as a member of the Board of Visitors of The Fletcher School, and of the John Sloan Dickey Center for International Affairs at Dartmouth College. In 2010, Mr. Bralver joined the Board of Directors of Canaccord Financial, Inc., a Canadian investment bank.</p> <p>Mr. Bralver is an experienced executive and has been nominated to serve on the Board because of his extensive financial services, international business and corporate strategy experience.</p>	2009	2013
Timothy J. Conway(1)	58	<p>Mr. Conway has been our Chief Executive Officer and President, and has served on our Board of Directors since our inception in June 2004. He was elected Chairman of the Board in September 2006. From July 2002 to June 2004, Mr. Conway worked full-time on our founding. From 1996 to July 2002, Mr. Conway was a Managing Director at FleetBoston Financial Corporation or its predecessors responsible for Corporate Finance and Capital Markets. He previously held various senior management positions at Citicorp Securities, Inc., where he was a Managing Director and Senior Securities Officer, responsible for the bank's private placement, loan syndication and acquisition finance businesses.</p>	2004	2013

Table of Contents

Name	Age (as of April 1, 2013)	Business Experience, Other Directorships and Qualifications	Director Since	Annual Meeting at Which the Present Term Expires
Bradley E. Cooper(3)	46	An experienced financial services professional, Mr. Conway has been nominated to serve on the Board because of his broad business and management skills and deep industry expertise, including his seven years of experience as our founder and CEO.	2006	2013
Brian L. P. Fallon(2)(4)	62	Mr. Cooper is a private equity investor and has been nominated to serve on the Board of because of his financial services experience, detailed understanding of the Company's core business and strategic objectives based on his involvement with the firm since its inception, and his external board experience.	2008	2013
		Brian L.P. Fallon joined our Board on November 21, 2008. Mr. Fallon is a Partner of O'Connor Capital Partners. Prior to joining O'Connor Capital Partners in September of 2007, Mr. Fallon was a Managing Director and Principal of Extell Development Company from 2002 to 2007. From 1982 to 2002, Mr. Fallon held numerous positions, including Partner, at Meredith & Grew, Inc. and served on the Board of Directors. Mr. Fallon is involved in various non-profit boards and activities and currently serves as a Director on the Advisory Council of the Robert F. Kennedy Children's Action Corps as well as The Community Builders, Inc.		

Table of Contents

Name	Age (as of April 1, 2013)	Business Experience, Other Directorships and Qualifications	Director Since	Annual Meeting at Which the Present Term Expires
Frank R. Noonan(2)(4)	70	Mr. Fallon is an experienced real estate executive and has been nominated to serve on the board because of his detailed understanding of commercial real estate, operational and financial expertise and experience serving on other external boards.	2006	2013
Maureen P. O Hara (3)(4)	59	Mr. Noonan is a seasoned financial services executive and has been nominated to serve on the board because of his extensive experience in the areas of financial reporting, compliance, corporate governance and risk management.	2006	2013
		Ms. O Hara is the Robert W. Purcell Professor of Finance at the Johnson Graduate School of Management, Cornell University, where she joined the faculty in 1979. Ms. O Hara currently serves on the Board of Directors of Investment Technology Group, Inc., where she has been Chairman of the Board since May 2007 and where she has served on the Compensation Committee, Audit Committee and Nominating Committee. Ms. O Hara also serves on the Board of Trustees of TIAA-CREF, where she is on the Investment Committee, the Nominating Committee and she chairs the Diversified Business Committee.		

Table of Contents

Name	Age (as of April 1, 2013)	Business Experience, Other Directorships and Qualifications	Director Since	Annual Meeting at Which the Present Term Expires
Peter A. Schmidt-Fellner	56	Ms. O Hara is an accomplished academic and has been nominated to serve on the board because of her extensive understanding of the financial services industry and in-depth corporate governance, compensation and financial reporting experience through her other board responsibilities.	2006	2013
Richard E. Thornburgh(1)	59	A seasoned financial services professional, Mr. Schmidt-Fellner has been nominated to serve on the board because of his deep credit and risk management skills and extensive industry background, including his seven years of experience as a founding member and CIO of the Company.	2006	2013
		Mr. Thornburgh is an experienced financial services executive and has been nominated to the board because of his extensive skills and		

experience in the areas of credit and risk management, regulatory compliance, corporate strategy, international business and service on other public company boards.

Table of Contents

- (1) Member of the Risk Policy Committee
- (2) Member of the Compensation Committee
- (3) Member of the Nominating and Corporate Governance Committee
- (4) Member of the Audit Committee
- * Denotes that the entity may be deemed to be an affiliate of the Company.

Table of Contents

PROPOSAL 2: ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Company is seeking the approval of its stockholders of the compensation of its named executive officers, as disclosed in this proxy statement pursuant to Item 402 of Regulation S-K, under the section titled Executive Compensation. While this stockholder vote on executive compensation is only an advisory vote that is not binding on the Company or the Board of Directors, the Company values the opinions of its stockholders and will consider the outcome of the vote when making future compensation decisions.

As described more fully in the Compensation Discussion and Analysis section, the Company believes that an effective leadership team plays a critical role in the creation of sustained shareholder value and believes its success in the highly-competitive financial services marketplace is directly 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 support the achievement of specific strategic business objectives and closely align the interests of executive officers with those of shareholders over the long-term.

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. We urge stockholders to read the Compensation Discussion and Analysis section below, which describes in more detail how our executive compensation policies and procedures operate and are designed to achieve our compensation objectives, as well as the Summary Compensation Table and related compensation tables and narrative below which provide detailed information on the compensation of our named executive officers.

In light of the above, the Compensation Committee and the Board of Directors believe that the policies and procedures articulated in the Compensation Discussion and Analysis are effective in achieving our goals and that the compensation of our named executive officers reported in this proxy statement has supported and contributed to the Company's success.

Principal Effects of Approval or Non-Approval of the Proposal

The approval of the compensation of the named executive officers, commonly known as say-on-pay, is non-binding on the Board of Directors. As stated above, although non-binding, the Board and the Compensation Committee will review and consider the voting results when making future decisions regarding our executive compensation program.

Recommendation of the Board of Directors

Our Board recommends a vote FOR the non-binding, advisory proposal to approve the executive compensation of our named executive officers, as disclosed in this proxy statement. Proxies solicited by the Board will be voted in favor thereof unless a stockholder has indicated otherwise in the proxy.

Table of Contents

PROPOSAL 3: RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The firm of KPMG LLP, an independent registered public accounting firm, has audited our financial statements for each of the last five fiscal years, through and including the year ended December 31, 2012. Our Audit Committee has appointed them to serve as our auditors for the fiscal year ending December 31, 2013. Detailed disclosure of the audit and tax fees we paid to KPMG LLP in 2012 and 2011 may be found above in the section titled "Independent Registered Public Accountants Fees and Other Matters". Based on these disclosures and information in the Audit Committee Report provided elsewhere in this proxy statement, our Audit Committee is satisfied that KPMG LLP is sufficiently independent of management to perform its duties properly. Although not legally required to do so, our Board considers it desirable to seek, and recommends, stockholder ratification of our selection of KPMG LLP as our independent registered public accounting firm for fiscal year 2013. If the stockholders fail to ratify our selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the best interests of our Company and our stockholders.

Interests of Directors and Executive Officers

Our directors and executive officers have no substantial interests, directly or indirectly, in the matters set forth in this proposal.

Recommendation of the Board of Directors

Our Board recommends a vote FOR the proposal to ratify the appointment of KPMG LLP as our independent public accounting firm. Proxies solicited by the Board will be voted in favor thereof unless a stockholder has indicated otherwise in the proxy.

Table of Contents

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following discussion addresses the Company's executive compensation program generally, with particular focus on the executive officers whose compensation for 2012 is shown in the Summary Compensation Table on page 32, which are referred to herein as the named executive officers.

Executive Summary

The Company's 2012 Executive Compensation Program largely reflects the final phase of a three-year, three-part compensation strategy implemented by the Compensation Committee in late 2009.

At the time the strategy was designed, the Company faced significant uncertainty due to the continuing impact of the U.S. recession and the difficulties in the global financial markets. The Compensation Committee's three-year compensation strategy was adopted in response to these uncertain economic conditions and was intended to provide long-term awards to retain top management talent, while providing appropriate incentives to align management's interests with those of our shareholders and drive future returns.

The strategy contained three core components: the renewal of executive employment agreements; the issuance of certain performance-based stock awards to both drive future performance against the Company's targeted operating objectives through 2012 and to retain and motivate our executives; and the establishment of annual incentive targets aligned to targeted growth goals in each of the three years. Each of these components and their impact on the 2012 compensation outcomes for each of our named executive officers, other than Mr. McAuliffe, is briefly described below. Mr. McAuliffe, who became an executive officer in May 2012 upon his appointment as Co-Head, Leveraged Finance Origination, was not an executive officer at the time the three-year strategy was implemented. His compensation arrangements are described in further detail under the heading Employment Agreements below.

Renewal of Executive Employment Agreements

As the first step in implementing the Compensation Committee's three-year strategy, the Company completed the renewal of executive employment agreements for the management team, which otherwise would have expired by their terms in December 2009. The amended agreements, which are described in detail under the heading Employment Agreements below, extended the employment period by three years to December 2012, and provided an option to renew automatically under the same terms and conditions for one additional one-year period. In December 2012, the employment agreements between the Company and each of its executive officers automatically renewed in accordance with their terms. During the contract renewal notice period, Mr. Clemmens, the Company's Chief Credit Officer, notified the Company of his intent to retire in 2013. Mr. Clemmens has been employed by NewStar in his role as Chief Credit Officer since 2004 and is expected to remain employed by the Company through at least May of 2013.

Performance-based Equity Award Program

Next, the Committee approved a long-term, performance-based equity award program. The program was designed to drive future performance by setting long-term performance goals for the executive team that were aligned with the interests of our shareholders but did not promote excessive risk-taking. The awards, which were granted to each of the Company's named executive officers in May 2010, were granted in lieu of the annual equity awards that would otherwise have been issued to management for 2010, 2011 and 2012. By tying a greater portion of total compensation directly to the Company's stock price performance over an extended period of time, the performance-based awards reinforced the importance of long-term retention and further underscored the named executive officer's accountability for the Company's long-term and strategic goals. As a result, no

Table of Contents

additional equity awards were issued to the Company's named executive officers in 2012, other than a promotion award granted to Mr. McAuliffe. Mr. McAuliffe, who was not eligible to participate in the performance-based awards program in 2010, received an equity award upon his promotion to Co-Head Leveraged Finance Origination in May 2012, the details of which can be found under "Grants of Plan-Based Equity Awards" below.

Target Annual Cash Incentives

Finally, the Committee determined that a target annual cash incentive pool should be established for the named executive officers for each of the three performance years, which should provide an appropriate level of reward to retain top management talent and motivate performance against the Company's annual targeted operating objectives. The 2012 operating objectives were considered ambitious by the Committee in light of the continued uncertainty in the economic environment.

The Company's operating plan detailed a strategy focused on improving the Company's bottom-line financial performance, growth and strategic initiatives through a continued emphasis on increasing origination volume at attractive spreads; enhancing liquidity to provide the necessary funding for growth and new initiatives; and continuing to expand and diversify the operating platform in businesses and markets consistent with the Company's core strengths in direct origination and credit management.

The Committee's executive compensation decisions for 2012 were greatly influenced by the management team's execution against the company's targeted annual operating objectives and, specifically, their performance in these focus areas, which are discussed below in greater detail.

Financial Performance

The Company delivered strong results in 2012. The Company reported net income of \$24.0 million for 2012, up 68% versus 2011. The Company's book value increased by \$.64 per share to \$12.06 in 2012 and the Company's stock price increased by more than 37% to close the year at \$14.01 per share.

In addition, credit trends within the Company's portfolio showed continued improvement. The Company has originated almost \$5 billion of leveraged loans since its inception in June 2004 with annual default and credit loss rates of approximately 0.8% and 0.4%, respectively, through December 31, 2012, which the Company believes compares favorably with market performance for comparable companies during the credit cycle.

Growth and Strategic Initiatives

The Company completed a series of significant debt financing transactions in 2012 to fund growth and new initiatives, including the closing of a \$326 million CLO, the Company's sixth term debt securitization; the addition of a new \$150 million term warehouse financing to fund growth in new loan origination; the addition of a \$75 million warehouse line to support continued growth in asset-based lending and the replacement of a \$75 million credit facility to partially fund equipment lease and loan origination with a new facility on more favorable terms.

Despite market headwinds, the Company experienced substantial growth in new loan origination in 2012, as volume for the year exceeded \$1.0 billion, which was up approximately 20% as compared to 2011, and yields on new loan origination were 6.6% for the year. The business credit and equipment finance businesses grew by \$85 million or 76% in the year and the contributions from these new businesses made up more than 15% of total volume retained on the balance sheet in 2012.

In its assessment, the Committee considered how the actions taken by the Company's Chief Executive Officer and the other named executive officers throughout 2012 resulted in the Company's strong performance.

Table of Contents

The executive compensation decisions in 2012 recognize the achievements noted above as well as an increased emphasis on pay for longer-term performance of the Company. Specifically:

Base salaries for the named executive officers remained unchanged at 2008 levels, reinforcing a balance of fixed compensation with variable compensation tied to performance;

Annual cash incentive payments made to named executive officers for 2012 in the aggregate were up less than 9% versus 2011 levels, well below the increase in net income and other performance factors noted above; and

No additional equity awards were issued to the named executive officers other than Mr. McAuliffe in 2012. The Committee concluded that the long-term, performance-based awards issued in May 2010, which were intended to replace annual equity grants through 2012, were sufficient to encourage long-term retention of top-tier management talent and further enhance the link between pay and the creation of shareholder value over time.

Each of these factors, as well as the other elements of the Company's executive compensation program, is discussed in greater detail below.

Executive Compensation Philosophy

The Company believes that an effective leadership team plays a critical role in the creation of sustained shareholder value and that its success in the highly-competitive financial services marketplace is directly correlated to its ability to continue to attract and retain top-tier talent. The Company also believes that the executive compensation program should enable the Company to attract, motivate, reward and retain superior management talent and should reflect the following core principles:

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

Executive compensation should be externally competitive within the segments 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.

Table of Contents

Executive Compensation Program

The following chart details the elements of our current executive compensation program:

	Compensation Component	Description	Strategic Rationale
Base Salary	Base salary	Fixed component of compensation based on individual's role, responsibilities, skills and experience.	<p>Provide competitive pay based on individual's role, responsibilities, skills and experience.</p> <p>Discourages inappropriate risk-taking.</p> <p>Consistent with market practice.</p>
Short-Term Incentives	Annual Incentive	Variable annual cash compensation tied to pre-established Company, line of business and individual goals and strategic objectives.	<p>Provides incentive for achievement of annual objectives.</p> <p>Variable nature of award allows for pay close link to Company performance.</p> <p>Consistent with market practice.</p>
Long-Term Incentives	Stock Awards	<p><i>Stock Options</i></p> <p>Grants of options to purchase shares at a specified price, which rewards share price appreciation.</p> <p><i>Restricted Stock</i></p> <p>Grants of restricted shares of stock subject to multi-year vesting provisions</p> <p><i>Performance-Based Restricted Stock</i></p>	<p>Focuses executive officers on long-term value creation</p> <p>Aligns interests of executive officers with those of shareholders.</p> <p>Promotes long-term retention.</p> <p>Discourages inappropriate risk-taking.</p>

Grants of restricted shares of stock subject to multi-year time and performance-based vesting provisions

Stock Ownership Requirements

To complement the long-term incentive program, certain executives, including all of our named executive officers, are required to hold at least 25% of certain net vested equity holdings during the term of their employment with the Company. In addition, options granted to our named executive officers in March 2009 as part of the Company's 2009 Option Exchange Program are subject to an additional restriction whereby 50% of the net proceeds from the exercise of these options and sale of the underlying shares will be held by the Company for the duration of the executives' employment with the Company and for a twelve month period thereafter.

Consistent with market practice. Fosters long-term stock ownership, and focuses executive officers on long-term performance.

Reinforces alignment of interests between executives and shareholders.

Consistent with emerging market practice.

Table of Contents

Compensation Component	Description	Strategic Rationale	
	<p>In addition to the above mentioned requirements, certain executives, including all of our named executive officers, are subject to share ownership guidelines. Each named executive is required to hold a multiple of his base salary in Company stock for the duration of his employment with the Company, with our CEO being required to hold five times his base salary, while each of our other named executive officers is required to hold two times his base salary.</p>		
Benefits	Retirement Benefits	<p>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.</p>	<p>Consistent with the programs provided to all employees.</p>
	Welfare Benefits	<p>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.</p>	<p>Consistent with market practice. Consistent with the programs provided to all employees. Consistent with market practice.</p>
Perquisites	Additional Benefits and Perquisites	<p>Limited to reimbursement of office parking provided to executive officers in selected geographies.</p>	<p>Provided in select locations in order to be market-competitive. Subsidized in these locations at some level for all employees.</p>
Employment Agreements	Employment Agreements	<p>The Company entered into amended and restated employment agreements with Messrs. Conway, Schmidt-Fellner, Bray and Clemmens in December 2009, and entered into a new agreement with Mr. McAuliffe in May 2012. The agreements specify the terms of employment and provide severance pay in the event of certain terminations of employment, including a change-in-control. Payments due subsequent to a change-in-control require a double trigger ; a change-in-control alone is not sufficient but must be followed by an involuntary termination event to qualify for compensation. All severance arrangements are subject to non-compete and non-solicitation provisions. For additional detail, please refer to the sections entitled, Employment Agreements and Potential Payments Upon Termination or Change-in-Control below.</p>	<p>Prevent against direct competition and solicitation of talent. Align executive officers and shareholders in the event of a potential change-in-control Provide continuity of management during a transition. Provide for market-competitive severance in the event of involuntary termination without cause.</p>

Table of Contents

Risk-Taking

As a financial services company, our core business inherently involves a degree of risk and it is our responsibility to ensure that we have the appropriate risk management culture and controls to manage this risk for the benefit of our shareholders. The Company has reviewed its compensation practices and determined that its programs and policies are not reasonably likely to have an adverse material impact on risk-taking. Further, the Company's compensation program is designed to discourage inappropriate risk-taking in a number of ways. First, the structure of our compensation program provides a balance of fixed and variable compensation, cash and equity-based compensation, and annual and long-term compensation. This mix encourages a balance in focus between near-term objectives and the creation of shareholder value over the long-term. Next, the Company's annual incentive compensation program is based on the Company's performance against specific, pre-established Board approved operating goals and objectives and not on a targeted level of annual stock price appreciation. In addition, determination of individual awards under the annual incentive plan is based on an evaluation of each executive's performance, both on an absolute and a relative basis, which takes into account performance against longer-term measures, such as credit quality over time.

In addition, the Company's stock ownership requirements, coupled with an emphasis on equity awards subject to multi-year vesting requirements, closely align executives' interests with those of shareholders over the long-term and further discourage those employees with greatest authority to act in a manner that would adversely impact the Company. The Company has also adopted a policy on hedging under which executive officers are prohibited from hedging their economic exposures to the Company stock that they own.

The Company has recognized the vital importance of conducting its business in accordance with the highest ethical standards and in full compliance with all applicable laws. To that end, in addition to our general Code of Conduct applicable to all employees, each named executive officer is subject to, and must annually certify compliance with, a Supplemental Code of Ethics that holds senior management to a standard that includes, among other things, the duty to provide fair, accurate and timely disclosure in reports that the Company files with the SEC or other public communications and the responsible use, and proper controls, of Company assets. A copy of both codes of conduct can be found on our website at www.newstarfin.com.

Comparable Market Analysis

The Committee reviews third-party analysis of the compensation practices of financial institutions in general, ranging from other publicly-traded competitors to private investment funds/hedge funds to business development companies and real estate investment trusts, which provide similar services to our target customers, to ensure the Company's compensation practices remain market competitive. Given the lack of publicly available data for many of the Company's direct competitors for talent, the Committee uses third-party data only for informational purposes and does not make pay decisions solely based on market data. The Committee considers a number of factors in making compensation determinations for the named executive officers including Corporate, line of business and individual performance, retention needs, relative contributions of each executive and broader economic and market conditions. Furthermore, the Committee placed heavier emphasis on both absolute and relative business performance, individual achievement of strategic objectives and longer-term retention and performance objectives in making 2012 executive compensation determinations.

Determining Executive Compensation (Roles and Process)

Role of CEO in Compensation Process

The CEO's role in the compensation process begins with the establishment of a proposed annual operating plan against which performance will be measured and against which annual incentives will be determined. Our CEO, together with our management team, formulates for consideration an annual operating plan, which includes various quantitative and qualitative goals and objectives. This operating plan is then presented to our Board of Directors for review and approval. Once approved, the CEO establishes performance goals for each business unit and executive that support the achievement of the Company's overall operating plan. These goals are linked to each executive's annual incentive award.

Table of Contents

The CEO's role in the compensation process continues with his review of our named executive officers' annual performance. Our CEO elicits self evaluations from each named executive officer and then, utilizing feedback from colleagues as well as his own experience and judgment, assimilates the content from these evaluations into a formal written evaluation of each named executive officer's performance for the year, including key accomplishments, areas of strength and areas for development. Individual performance ratings for each executive are then formulated through the annual review process, and in conjunction with an assessment of the Company's performance against its annual operating goals, the CEO forms a recommendation on each named executive's annual compensation package.

The CEO presents to the Compensation Committee comprehensive recommendations related to proposed compensation for our named executive officers with respect to any base salary changes, annual cash and equity awards, in conjunction with a summary of the individual performance measures that influenced his recommendations. At the request of the Compensation Committee, our CEO and/or the Head of Human Resources may attend all or portions of the meetings of the Compensation Committee, but neither are present for executive sessions or any meeting in which the Compensation Committee discusses his or her own compensation or performance. In addition, our Compensation Committee, with input from our Compensation Consultant, reviews the recommendations from our CEO and compares them to executive compensation trends among financial services companies, including the overall blend of salary, bonus and equity compensation within such group and his recommendations pertaining to our executive compensation program. These recommendations are reviewed and are subject to the final approval of our Compensation Committee.

Role of the Compensation Committee

The Compensation Committee, in accordance with its written charter, oversees all aspects of our compensation policies and practices. The Committee determines and approves the compensation of our CEO and other executive officers, reviews and approves management incentive compensation policies and programs and equity compensation programs for employees, and administers those policies and programs. Its responsibilities include setting corporate goals and objectives relevant to compensation of executive officers, evaluating the executive officers' performance against those goals and objectives at least annually, approving all grants of awards, including the award of shares or share options, under our equity incentive plan, and reviewing the form and amount of director compensation at least annually.

Based on the process described in *Role of CEO in Compensation Decisions*, the CEO makes a recommendation to the Compensation Committee with respect to each named executive officer's compensation. After careful deliberation, the Compensation Committee, with input from our Board of Directors, determines and approves the compensation of each named executive officer. The Compensation Committee, utilizing formal performance evaluations completed by each member of our Board of Directors in addition to his self evaluation, also evaluates our CEO's performance and determines his compensation package.

Role of Compensation Consultant

To assist the Compensation Committee in carrying out its responsibilities, the Committee has engaged TowersWatson as the Committee's compensation consultant. In appointing TowersWatson, the Committee determined that TowersWatson is independent and its engagement poses no conflict of interest. TowersWatson advises the Committee on the Company's executive compensation program, including with respect to market trends and best practices that might be considered to improve the effectiveness of the program. At the request of the Committee, TowersWatson will make specific proposals to the Committee regarding compensation for executive officers. Management works with the consultant at the direction of the Committee to provide the consultant with all information it deems necessary to advise the Committee.

As part of this process, members of the Compensation Committee reviewed materials provided by, and had the opportunity to meet independently with, TowersWatson throughout the year to discuss our executive compensation program and to receive input and advice. The Committee has the sole authority to hire and fire all outside compensation consultants providing information and advice to the Committee.

Table of Contents

Determining Executive Compensation (Key Elements)

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;

Competitive market rates for similar responsibilities;

Broader market dynamics affecting the financial services industry and the economy as a whole; and

Balance of fixed versus variable compensation.

The Compensation Committee reviews the base salaries for each named executive officer on a regular basis, and generally in conjunction with the Company's annual performance review cycle. In determining annual base salary adjustments for the named executive officers, the Committee uses its discretion based on the factors noted above as well as an assessment of each individual's contributions and any significant changes in responsibilities during the course of the year.

The Compensation Committee has not increased base salaries for the named executive officers since 2008. The Compensation Committee increased Mr. McAuliffe's base salary to \$300,000 in conjunction with his promotion to Co-Head, Leveraged Finance Origination based primarily on a review of comparable levels of pay for similar roles within the organization; the increased level of responsibility associated with the position; market data for base salary rates for like positions at comparable companies and the balance of his fixed versus variable compensation. The Committee will periodically review base salaries to ensure that they remain market competitive and in line with the overall objectives of the Company's compensation philosophy.

Annual Cash 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.

Each year, the Board of Directors and its various Committees, based on input from management, approve an operating plan for the next fiscal year that contains both quantitative and qualitative goals and objectives. Performance goals are then established for each executive officer that support the achievement of the Company's operating plan and are tied to the executive officer's annual incentive award.

Establishing Incentive Compensation Targets

For fiscal year 2012, incentive compensation targets were based primarily upon the Company's performance against planned net income, as well as subjective criteria tied to the Company's strategic operating objectives and line of business and individual performance goals.

At the start of 2012 the Company's Board of Directors approved an operating plan with targeted net income for the year of \$24.9 million, which the Committee considered an ambitious growth goal for the Company given difficult economic conditions.

Table of Contents

The Committee then established targeted incentive levels by executive, consistent with the strategic plan it put in place in late 2009. The targeted incentive levels were expressed as a percentage of the Company's pre-tax, pre-incentive earnings as a measure of core operating performance for the year. For 2012, the targeted incentive pool for our named executive officers was \$3.375 million or approximately 5.5% of targeted pre-tax, pre-incentive earnings¹, which the Committee considered to be an appropriate payout ratio of pre-tax, pre-incentive earnings that would enable the Company to motivate, reward and retain management talent while delivering an appropriate level of shareholder return.

Measurement of Performance against Target and Allocation of Incentive Compensation Pool

In determining bonuses paid to the named executive officers for 2012, the Committee measured overall Company performance by focusing primarily on financial performance and progress made in executing the strategic priorities of the Company. Although no set weight was assigned to each of these performance metrics, the Committee believed that net income was the most important measure of overall Company performance and had the greatest impact on the overall funding level of incentive compensation in 2012.

The Committee considered management's performance against the pre-established operating objectives outlined above, specifically noting the following achievements related to the Company's annual objectives:

Financial Performance

The Company reported net income of \$24.0 million, up 68% versus 2011. Book value per share increased by \$0.64 during the performance period and the Company's stock price increased by more than 37% to close the year at \$14.01 per share. In addition, the Company's credit track record through the cycle remained strong, with average annual default and loss rates comparing favorably to market indices and to those of comparable companies.

Growth and Strategic Initiatives

The Company completed a series of significant debt financing transactions in 2012 to fund growth and new initiatives, including the completion of a \$326 million CLO, the Company's sixth term debt securitization; the addition of a new \$150 million term warehouse financing to fund origination growth; the addition of a \$75 million warehouse to support continued growth in asset-based lending and the replacement of a \$75 million credit facility to partially fund equipment lease and loan origination with a new facility on more favorable terms.

Despite market headwinds, the Company experienced substantial growth in new loan origination in 2012, as volume for the year exceeded \$1.0 billion, up approximately 20% as compared to 2011, and yields on new loan origination were consistent at 6.6% for the year. Our business credit and equipment finance businesses grew by \$85 million or 76% in the year and the contributions from these new businesses made up more than 15% of total volume retained on the balance sheet in 2012.

¹ For fiscal year 2012, funding for the annual incentive program was based upon the Company's performance against pre-tax, pre-incentive earnings defined as the Company's 2012 GAAP net income before taxes (\$41.0 million) plus (i) aggregate cash incentives earned, paid or accrued during 2012 (\$11.1 million) and (ii) aggregate equity compensation expense recorded for outstanding equity awards during 2012 (\$7.2 million), resulting in actual 2012 pre-tax, pre-incentive earnings of \$59.3 million versus a target level of \$61.8 million.

Table of Contents

The Committee weighed the achievement of these objectives and the components of each executive’s incentive compensation package, including the balance between cash and long-term equity awards, against the overall compensation expense to support the Company’s incentive award program. After considering these factors, the Committee approved an aggregate incentive compensation pool for the named executive officers of \$3.375 million, a level that equates to a 8.8% increase over 2011 levels, to 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 on page 32). In making its determinations, the Committee considered the Company’s performance against targeted net income and other operating objectives including the fact that the Company established multiple new financing facilities; significantly increased origination volumes and demonstrated what the Company believes to be outstanding relative credit performance in the industry.

Once the level of incentive pool funding was established, the Committee then discussed the performance and compensation of each of the named executive officers. This past year, as is the case generally, the CEO and/or the Head of Human Resources, as applicable, attended Committee meetings but were not present for the executive sessions or for any discussion of their own compensation.

With respect to Mr. Conway, the Committee focused consideration on overall Company performance including the actions taken to improve core earnings by increasing origination volumes; progress made to further the company’s strategic objectives of expanding and diversifying its product offering; the performance of the Company’s loan portfolio and the retention and motivation of a top-tier management team despite challenging market conditions. With respect to Messrs. Schmidt-Fellner and Bray, the Committee also considered overall Company performance as well as the performance of the loan portfolio, the actions taken to enhance liquidity of the balance sheet to fund growth and on-going expense management as primary factors. Similarly, with respect to Messrs. Clemmens and McAuliffe, overall Company performance, the performance of the Middle Market portfolio, which included substantial increase in new loan origination year-over-year, and the credit quality of the loans originated in both the current and prior years, were the primary factors the Committee considered. The Committee made its determination after considering such measures collectively rather than assigning weight to any one objective.

For 2012, the bonus amounts paid to the named executive officers were determined by the Committee based on its evaluation of the Company’s financial performance, other performance factors and the individual performance of each executive, subject to the maximum incentive levels described below. The Committee considered broader market trends and the goal and objective of retention and motivation of a top-tier management team in conjunction with the aforementioned factors before making compensation decisions and used its discretion to exercise its judgment to pay appropriately for performance instead of solely relying on a formulaic structure. The 2012 incentive compensation amounts for the named executive officers are detailed below.

	Actual 2012 Bonus (\$) Payments					Total
	Mr. Conway	Mr. Bray	Mr. Schmidt-Fellner	Mr. McAuliffe	Mr. Clemmens	Named Executives
Executive Bonus	900,000	675,000	775,000	400,000	625,000	3,375,000
<i>Deductibility Cap on Executive Compensation</i>						

U.S. federal income tax law (Section 162(m) of the Internal Revenue Code) prohibits publicly-traded companies from taking a tax deduction for certain compensation paid in excess of \$1,000,000 to the company’s CEO and three other most highly compensated executive officers (other than the Chief Financial Officer). However, the statute exempts qualifying performance-based compensation from the deduction limit provided certain requirements are met. Our shareholder approved 2006 Incentive Plan meets the conditions necessary for deductibility of certain performance-based awards issued under the plan. The Company’s policy is to design its

Table of Contents

incentive compensation programs to qualify for full corporate deductibility to the extent feasible and consistent with the Company's overall compensation goals and objectives. However, the Committee may exercise its discretion to pay nondeductible compensation if following the requirements of Section 162(m) of the Code would not be in the interests of shareholders.

The Company's 2012 incentive compensation program was designed to qualify for full corporate deductibility under Section 162(m). For fiscal year 2012, funding for the annual incentive program was based upon the Company's performance against planned pre-tax, pre-incentive earnings of \$61.8 million defined as the Company's 2012 GAAP net income before taxes plus (i) aggregate cash incentives earned, paid or accrued during 2012 and (ii) aggregate equity compensation expense recorded for outstanding equity awards during 2012.

The Compensation Committee also established maximum incentive levels for each executive officer determined by and expressed as a percentage of the Company's 2012 pre-tax, pre-incentive earnings as follows: Mr. Conway (3%); Mr. Schmidt-Fellner (2.5%); Mr. Bray (2%); Mr. Clemmens (1.75%) and Mr. McAuliffe (1.75%). The Company achieved 96% of planned pre-tax, pre-incentive earnings, or \$59.3 million in 2012, and the Committee exercised downward discretion within these limits and set aggregate cash incentive compensation at \$3.375 million as noted above.

Long-term 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 retention of our executives.

All named executive officers are eligible for annual equity awards as part of total compensation. The Company has historically utilized both seven-year non-qualified stock options and restricted stock that typically vest in equal installments over a period of three years from the date of grant to support its annual award program; however the Committee may, in its discretion, also utilize other equity-based awards under the terms and conditions of the Company's 2006 Incentive Plan and has historically done so to create a balanced, risk-adjusted compensation structure for its executive officers.

In May 2010, the Company introduced restricted stock subject to performance-based and time-based vesting conditions as part of its long-term incentive program and approved grants to each of its named executive officers. As discussed above, the purpose of these awards was to emphasize retention of a top-tier management team and further reinforce the named executive officer's accountability for the Company's long-term and strategic goals by tying a greater portion of total compensation directly to the Company's stock price performance over an extended period of time.

The May 2010 grants were made pursuant to the Company's 2006 Incentive Plan and structured to be issued in lieu of the annual long-term incentive awards that would otherwise have been granted in the form of time-vested non-qualified stock options for each performance year through 2012. As a result, no additional equity awards were granted to any of the named executive officers (other than Mr. McAuliffe) in 2012. By utilizing restricted shares with performance-based vesting conditions that will only deliver value if a certain threshold of performance is attained, the structure of the awards maintained the alignment between shareholder and management interests central to the Company's long-term incentive program while enabling the Committee to utilize a smaller number of total units to deliver value than if the award had been completed exclusively with stock options. Mr. McAuliffe, who was not eligible to participate in the performance-based awards program in 2010, received an equity award upon promotion to Co-Head Leveraged Finance Origination in May 2012, comprised of restricted shares which vest in full upon the successful completion of his initial three year employment term. Further details of this award can be found under "Grants of Plan-Based Equity Awards" below.

Table of Contents

Benefits and Perquisites

The Company provides limited executive officer benefits or perquisites. 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. The only on-going perquisite provided to executive officers is reimbursement of office parking at the Company's headquarters in Boston. This parking subsidy is available at some level to all employees within the Boston office to allow the company to be market competitive when recruiting talent.

Committee Consideration of the Company's 2011 Stockholder Advisory Vote on Executive Compensation

At the Company's 2011 annual meeting of stockholders, over 99% of shares present at the meeting for purposes of the proposal were voted to approve, on an advisory basis, the compensation of our named executive officers with respect to fiscal 2010, thus ratifying our compensation philosophy and approach. Our Board of Directors has determined that an advisory vote will be conducted on a biannual basis taking in to account a number of factors, including stockholder input. As a result, stockholders did not vote on executive compensation with respect to fiscal 2011.

In light of the level of support received by stockholders in 2011, the Committee did not make any specific changes to the components of 2012 executive compensation as a result of the 2011 advisory vote. The Committee will continue to monitor stockholder feedback as it reviews and establishes future executive compensation plans and determines awards for our named executive officers.

Stock Holding Requirements

Each executive officer has entered into a stock ownership agreement with us whereby the executive officer agreed that for a period of one year following any termination of employment, he would hold 25% of all applicable transferable incentive equity (all vested options and shares of restricted stock that are no longer subject to forfeiture). 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 the Company's stock, nor to the issuance of performance-based stock awards granted in May 2010. In addition, options issued as part of the Company's 2009 option exchange program are subject to a more restrictive lock-up arrangement, whereby 50% of the net proceeds from the sale of shares resulting from the exercise of those options will be held by the Company for the duration of the executive's employment with the Company and for a twelve month period thereafter. In addition, if, during the one year following termination, an executive were to violate the covenant not to compete with, or solicit employees from, the Company, the amount of any proceeds so held by the Company would be forfeited.

Hedging Policy

The Company's Insider Trading Policy prohibits all executive officers, directors and employees from hedging their economic exposures to the Company stock they own including buying or selling derivative securities such as put and call options.

Table of Contents**Share Ownership Guidelines**

The Company maintains share ownership guidelines for the Company's directors, named executive officers and certain other executives to further strengthen the link between executive and shareholder interests and link share ownership and level of compensation. The guidelines supplement the Company's existing executive stock holding requirements and require that the following multiples of annual base salary or, in the case of our directors, annual cash retainer, be held at the close of each fiscal year:

Participants	2012	2013
	Share Ownership	Share Ownership
	Guidelines	Guidelines
	(as Multiple of Cash Base Salary	(as Multiple of Cash Base Salary
	or Annual Retainer)	or Annual Retainer)
Director	2x	3x
CEO/President	5x	5x
Named Executives	2x	2x

Shares to be counted toward ownership targets includes actual Common Stock including stock owned in street accounts, unvested and vested restricted stock units, and all shares held in estate planning vehicles. The guidelines state that required ownership must be attained within five years of hire (or plan inception, if later). To monitor progress toward meeting the guidelines, the Compensation Committee will review current executive ownership levels each year, within ninety days of the close of the fiscal year. The Nominating and Governance Committee will review director ownership levels. The dollar value of common stock holdings will be calculated using the average stock price for the ten trading days prior to the meeting. If an executive or director is not on schedule to meet guidelines, the executive or director will be required to hold 100% of the net shares resulting from any subsequent restricted stock vesting event until such time as the share ownership requirement is satisfied. All of the Company's executives and directors met or exceeded the share ownership guidelines as of March 15, 2013.

Following a review of the Company's director compensation program in early 2013, the Compensation Committee voted to increase the director share ownership guideline from two times the annual retainer to three times the annual retainer to ensure its pay practices remain consistent with the market and reflective of industry best practices. The enhanced director share ownership guideline will go into effect upon the directors election to a new term of service at the Company's annual meeting in May 2013.

Employment Agreements

In December 2009, the Company entered into amended and restated employment agreements with each of the named executive officers, other than Mr. McAuliffe, as well as four other members of its executive management team. The Company entered into an employment agreement with Mr. McAuliffe on May 9, 2012, on terms and conditions of which mirror those of the other executive officer agreements. The restated 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 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:

The term of each agreement was established for three years with one, one-year automatic renewal provision.

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 of directors.

Table of Contents

Each executive officer is entitled to participate in incentive bonus programs the board of directors 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 the Potential Payments Upon Termination of Employment section of this proxy statement on Page 35).

The agreements provide for graduated benefits, including acceleration of vesting, in the event that the executive officer chooses to retire from the Company; however the restated agreements require the executive to complete the full three-year contract term and any subsequent renewal periods to receive full retirement benefits.

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 provisions mimic those described above, which represents a one-year reduction in severance benefits from the earlier agreements. In addition, 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.

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), then 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 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 two years base salary and estimated cash incentive less only ordinary income taxes on that amount. Messrs. Clemmens and McAuliffe are not eligible for this benefit. The amounts payable under these agreements, calculated as if termination had occurred on December 31, 2012, are shown under the Potential Payments upon Termination of Employment or Change-in-Control, section of this proxy statement beginning on page 35.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis with management and, based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

By the Compensation Committee,

Brian L.P. Fallon, Chair

Charles N. Bralver

Frank R. Noonan

Table of Contents**Executive Compensation**

The following table sets forth information concerning compensation awarded to, earned by or paid during the year ended December 31, 2012 to the Company's (i) Chief Executive Officer and President, (ii) Chief Financial Officer, and (iii) the three other most highly compensated executive officers of the Company at December 31, 2012. These five officers are referred to as the named executive officers in this proxy statement.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)(2)	Stock Awards (\$)(3)	Non-Equity Incentive Plan Compensation (\$)(4)	All Other Compensation (\$)(5)	Total (\$)
Timothy J. Conway Chief Executive Officer and President	2012	475,000			900,000	25,672	1,400,672
	2011	475,000			800,000	24,460	1,299,460
	2010	475,000	675,000	2,144,210		24,164	3,318,374
John K. Bray Chief Financial Officer	2012	350,000			675,000	21,798	1,046,798
	2011	350,000			600,000	21,325	971,325
	2010	350,000	475,000	1,684,739		16,337	2,526,076
Patrick F. McAuliffe Group Co-Head and MD	2012	265,799		639,500	400,000	15,000	1,320,299
Peter Schmidt-Fellner Chief Investment Officer	2012	400,000			775,000	15,000	1,190,000
	2011	400,000			700,000	14,700	1,114,700
	2010	400,000	575,000	1,914,472		14,700	2,904,172
Robert T. Clemmens Chief Credit Officer	2012	350,000			625,000	15,000	990,000
	2011	350,000			575,000	14,700	939,700
	2010	350,000	475,000	1,455,000		14,700	2,294,700

- (1) Each officer's minimum base salary is set pursuant to his Employment Agreement. Mr. McAuliffe received a performance-based merit increase on April 1, 2012 and a base salary increase in recognition of his promotion to Co-Head, Leveraged Finance Origination on May 9, 2012. The amount shown for Mr. McAuliffe reflects approximately three months of base salary at \$200,000, one month at \$210,000 and eight months at his current base salary of \$300,000 per year.
- (2) Amounts shown reflect cash bonus payments.
- (3) Amounts shown reflect the amounts required to be recognized by the Company for accounting purposes of the aggregate grant date fair value of the awards computed in accordance with ASC Topic 718 using the assumptions described in Note 11 to the Company's Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 1, 2013 (the FY 2012 10-K). The amounts detailed for Mr. McAuliffe in the executive compensation table above reflect two separate grants of restricted shares awarded in 2012: the first award of 7,260 shares, in recognition of Mr. McAuliffe's 2011 performance, were granted on February 17, 2012 at an accounting fair market value on the date of grant of \$10.33 per share; the second for 50,000 shares of restricted stock awarded in recognition of Mr. McAuliffe's promotion to Co-Head, Leveraged Finance Origination on May 9, 2012 at an accounting fair market value on the date of grant of \$11.29 per share. The amounts detailed in the executive compensation table above for 2010 reflect the accounting fair market value on the date of grant of \$5.82 per share, which incorporates a 26% discount to the Company's closing stock price on the date of grant (\$7.88) to reflect the statistical probability that the performance threshold may not be attained.
- (4) Amounts shown reflect the cash incentive awards determined and awarded by the Compensation Committee in connection with the Company's 2012 incentive compensation program, which was designed to qualify for full corporate tax deductibility under Section 162(m). Payments made pursuant to the 2012 incentive compensation program replaced the cash bonus payments paid to our named executive officers as set forth in the Bonus column for 2010 and 2011.
- (5) Amount reflects matching contributions of \$15,000 to each named executive officer made by the Company under the tax-qualified 401(k) plan, which provides for broad-based employee participation. The named executive officers received no benefit from the Company under defined pension or defined contribution plans other than the 401(k) plan. In addition, the amounts for Messrs. Conway and Bray reflect company-provided parking at the company's office in Boston in the amounts of \$10,672 and \$6,798, respectively.

Table of Contents**Grants of Plan-Based Awards during 2012**

Name and Principal Position	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)(1)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards\$(2)
Timothy J. Conway Chief Executive Officer and President				
John Bray Chief Financial Officer				
Peter Schmidt-Fellner Chief Investment Officer				
Patrick F. McAuliffe Co-Group Head and Managing Director	2/17/2012 5/9/2012	7,260 50,000	10.33 11.29	74,996 564,500
Robert T. Clemmens Chief Credit Officer				

- (1) Assuming continued employment with the Company, restricted stock awards granted on February 17, 2012 will vest according to the following schedule: one-third of the restricted stock will cease to become subject to forfeiture upon each of the first three anniversaries of the grant date. Assuming continued employment with the Company, restricted stock awards granted on May 9, 2012 will vest in full on the third anniversary of the grant date.
- (2) The amounts detailed in the executive compensation table above reflect the fair market value of each award as determined by the closing price of the Company's stock on the grant date. The closing price of the Company's stock was \$10.33 and \$11.29 respectively for the February 17, 2012 and May 9, 2012 awards noted above.

Table of Contents**Outstanding Equity Awards at Fiscal Year-End for Fiscal 2012**

The following table details the outstanding holdings of each named executive officer at December 31, 2012.

Name	Grant Date	Option Awards				Stock Awards			
		Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable(1)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(1)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(2)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#)(2)(3)	Equity Incentive Plan Awards: Market Value of Unearned Shares, Units or Rights That Have Not Vested (\$)(2)
Timothy J. Conway Chief Executive	2/12/2008 2/4/2009 3/18/2009	150,000 150,000 850,000		7.32 2.86 2.76	2/12/2015 2/4/2016 3/18/2016				
Officer and President	5/19/2010							368,421	5,161,578
John K. Bray Chief Financial	2/12/2008 2/4/2009 3/18/2009	100,000 100,000 400,000		7.32 2.86 2.76	2/12/2015 2/4/2016 3/18/2016				
Officer	5/19/2010							289,474	4,055,531
Patrick F. McAuliffe Group Co-Head and MD	12/13/2006 2/12/2008 2/4/2009 5/12/2010 2/17/2012 5/9/2012	32,605 15,000 25,000 31,736	15,869	17.000 7.32 2.86 8.28	12/13/2016 2/18/2016 2/4/2016 5/12/2017	7,260 50,000	101,713 700,500		
Peter Schmidt-Fellner Chief Investment	2/12/2008 2/4/2009 3/18/2009	125,000 125,000 625,000		7.32 2.86 2.76	2/12/2015 2/4/2016 3/18/2016				
Officer	12/11/2009 5/19/2010							328,947	4,608,547
Robert T. Clemmens Chief Credit Officer	2/12/2008 2/4/2009 3/18/2009 12/11/2009 5/19/2010	75,000 100,000 150,000		7.32 2.86 2.76	2/12/2015 2/4/2016 3/18/2016			250,000	3,502,500

(1) Assuming continued employment with the Company, the option award granted on May 12, 2010 will vest on the third anniversary date of the grant. Assuming continued employment with the Company, one-third of the restricted stock award granted on February 17, 2012 will cease to become subject to forfeiture on the first, second and third anniversary date of the grant. Assuming continued employment with the Company, 100% of the restricted stock

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

awards granted on May 9, 2012 will cease to become subject to forfeiture upon the third anniversary of the date of grant.

- (2) Value is based on the closing price of NewStar common stock of \$14.01 on December 31, 2012, as reported on the NASDAQ Global Market.
- (3) Assuming continued employment with the Company, restricted stock awards granted on May 19, 2010 vest according to the following schedule: 100% of the award will vest on the three-year anniversary of the grant date if both a time-based and a market-based condition are met. To satisfy the time-based vesting condition, the recipient must continue to be employed by the Company on the three-year anniversary of the grant date. To satisfy the market-based condition, either (i) the volume-weighted average price (VWAP) of the Company's common stock for the period beginning on the first day following the release of our fourth quarter earnings results for the 2012 fiscal year and ending on the three-year anniversary of the issue date (the Measurement Period) must meet or exceed the closing price of our common stock on the issue date of \$7.88 (the primary market-based condition) or (ii) both (x) the VWAP of the Company's common stock for the Measurement Period is less than \$7.88 per share but greater than or equal to \$7.00 per share and (y) the Company's book value per share at March 31, 2013 is greater than or equal to the Company's book value on March 31, 2010, calculated on a pro-forma basis to include these awards (the secondary market-based condition). Unless both the time-based and market-based (either the primary or secondary) conditions are met, 100% of the restricted stock awards will be forfeited.

Table of Contents**Option Exercises and Stock Vested for Fiscal 2012**

The following table details the number of restricted shares that vested and the value realized upon vesting in 2012 for each named executive officer. None of the named executive officers exercised any stock options during 2012.

Name and Principal Position	Stock Awards	
	Number of Shares Acquired on Vesting(#)	Value Realized on Vesting\$(1)
Timothy J. Conway Chief Executive Officer and President	125,000	1,562,500
John K. Bray Chief Financial Officer	75,000	937,500
Patrick F. McAuliffe Co-Group Head and Managing Director	5,000	62,500
Peter Schmidt-Fellner Chief Investment Officer	100,000	1,250,000
Robert T. Clemmens Chief Credit Officer	75,000	937,500

(1) The vested value represents the fair market value of the shares based on the closing price of our common stock on the NASDAQ Global Market on the respective date of vesting.

Potential Payments upon Termination of Employment or Change-in-Control for Fiscal 2012

The following tables describe the potential payments and benefits under the Company's executive officer employment agreements to which each named executive officer would have been entitled upon termination of employment or change of control, calculated as if each such event had occurred on December 31, 2012.

Name of Executive: Timothy J. Conway

Type of Payments(1)	Involuntary Termination Without Cause or Resignation for					Change-in-Control
	Good Reason	Retirement	Failure to Renew	Death	Disability	
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Severance Payments	2,250,000					2,250,000
Restricted Stock Vesting Acceleration				5,161,578	5,161,578	5,161,578
Commission of Welfare Benefits	31,397					31,397
Exercise Tax & Gross-Up						3,419,519
Total	2,281,397			5,161,578	5,161,578	10,862,494

Table of Contents

Name of Executive: John K. Bray

Type of Payments(1)	Involuntary Termination Without Cause or Resignation for					Change-in-Control (\$)
	Good Reason (\$)	Retirement (\$)	Failure to Renew (\$)	Death (\$)	Disability (\$)	
Severance Payments	1,650,000					1,650,000
Restricted Stock Vesting Acceleration				4,055,531	4,055,531	4,055,531
Commission of Welfare Benefits	31,397					31,397
Exercise Tax & Gross-Up						2,963,667
Total	1,681,397			4,055,531	4,055,531	8,700,595

Name of Executive: Peter Schmidt-Fellner

Type of Payments(1)	Involuntary Termination Without Cause or Resignation for					Change-in-Control (\$)
	Good Reason (\$)	Retirement (\$)	Failure to Renew (\$)	Death (\$)	Disability (\$)	
Severance Payments	1,916,667					1,916,667
Restricted Stock Vesting Acceleration				4,608,547	4,608,547	4,608,547
Commission of Welfare Benefits	31,397					31,397
Exercise Tax & Gross-Up						3,233,088
Total	1,948,064			4,608,547	4,608,547	9,789,699

Name of Executive: Patrick F. McAuliffe

Type of Payments(1)	Involuntary Termination Without Cause or Resignation for					Change-in-Control (\$)
	Good Reason (\$)	Retirement (\$)	Failure to Renew (\$)	Death (\$)	Disability (\$)	
Severance Payments	478,667					478,667
Stock Option Vesting Acceleration	90,929		90,929	90,929	90,929	90,929
Restricted Stock Vesting Acceleration	802,213		802,213	802,213	802,213	802,213
Commission of Welfare Benefits	15,699					15,699
Total	1,387,508		893,142	893,142	893,142	1,387,508

Table of Contents

Name of Executive: Robert T. Clemmens

Type of Payments(1)	Involuntary Termination Without Cause or Resignation for					Change-in-Control
	Good Reason	Retirement	Failure to Renew	Death	Disability	
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Severance Payments	816,667					816,667
Restricted Stock Vesting Acceleration				3,502,500	3,502,500	3,502,500
Commission of Welfare Benefits	15,699					15,699
Total	832,366			3,502,500	3,502,500	4,334,866

(1) Table excludes incentive bonus that was earned on December 31, 2012. Such bonus is included in the Summary Compensation Table and would have been payable to each named executive regardless of whether he continued his employment with the Company or ceased employment on December 31, 2012 under any termination of employment or change in control scenario set forth in the table. The bonus amounts paid to each executive were as follows: Mr. Conway (\$900,000), Mr. Bray (\$675,000), Mr. Schmidt-Fellner (\$775,000); Mr. McAuliffe (\$400,000) and Mr. Clemmens (\$625,000).

As described in the Compensation Discussion and Analysis under Employment Agreements on page 30, the Company entered into amended and restated employment agreements with each of the named executive officers listed above (other than Mr. McAuliffe) on December 11, 2009. The Company entered into an employment agreement with Mr. McAuliffe on May 9, 2012 in conjunction with his appointment to Co-Head, Leveraged Finance Origination. The table above assumes a termination of employment that would trigger incremental payments or other benefits to the named executive officers under the amended and restated employment agreements, based on the named executive officer's compensation, benefits, age, and years of service as of December 31, 2012. All valuations of restricted stock are based upon the closing price (\$14.01) of NewStar stock on December 31, 2012, the last day of trading in the fiscal year. The value of the continued health benefits detailed in the table above assumes the extension of the named executive officer's current benefits election and program coverage. Circumstances in which these benefits may be paid include an involuntary termination without cause, a voluntary termination by the named executive officer for good reason, retirement, following the Company's failure to renew the employment agreement, death or disability and finally, an involuntary termination of the named executive officer following a change-in-control.

A termination of an executive officer by the Company is for cause if it is for any of the following reasons: (i) willful and continued failure of the executive officer to perform substantially the executive officer's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the executive officer by the Board of Directors, which specifically identifies the manner in which the Board of Directors believes that the executive officer has not substantially performed his duties, or (ii) willful engagement in illegal conduct or gross misconduct by the executive officer that is materially and demonstrably injurious to the Company or its affiliates, or (iii) conviction of the executive officer or a plea of guilty or *nolo contendere* by the executive officer to a felony, or (iv) a material breach of the executive officer's obligation under his confidentiality and/or non-compete obligations. No act or failure to act on the part of an executive officer is considered willful unless it is done, or omitted to be done, by the executive officer in bad faith or without reasonable belief that the executive officer's actions or omission was in the best interests of the Company.

Table of Contents

A termination by the executive officer is for "good reason" if it results from any of (i) a reduction by the Company in the executive officer's annual base salary or (ii) a forced relocation by Company of the executive officer's place of employment to a location greater than twenty five (25) miles from his initial place of employment. For Messrs. Conway, Schmidt-Fellner and Bray, good reason may also be triggered by a material diminution by the Company in the executive officer's principal duties and responsibilities in the context of a change-in-control.

In the event of an involuntary termination without cause or voluntary termination for good reason, Messrs. Conway, Schmidt-Fellner and Bray are entitled to a severance payment equal to two years' base salary paid in accordance with the Company's standard payroll practices plus two years' incentive bonus (calculated as the average bonus paid during the three previous fiscal years) payable as soon as practical following the date of termination. In addition, each would receive accelerated vesting of all outstanding equity awards, and would be entitled to continued health benefits for the two-year severance period. Options would remain exercisable for a period equal to the full remaining term. Messrs. McAuliffe and Clemmens would receive substantially similar terms over a one-year severance period. Each would be entitled to a severance payment equal to one year's base salary plus incentive bonus. Each would also receive accelerated vesting of all equity awards, and would be entitled to continued health benefits for the one-year severance period. Their options would also remain exercisable for the full remaining term.

If termination is due to the retirement of the executive officer, or at the option of the executive officer following a failure of the Company to renew the employment agreement, each executive officer would be eligible to receive accelerated vesting of restricted stock and the continued vesting of options in the same manner that the options would vest had the executive officer continued his employment with the Company during the vesting period. Further, the executive officer would have a period equal to the full length of the remaining option term to exercise any vested options. Finally, each executive officer would retain the option to participate in employer-sponsored healthcare at the retiree's sole expense.

None of the executive officers were eligible to retire as of December 31, 2012 because retirement is conditioned on being age 55 or older and being employed with the Company for the full three-year term of the employment contract and for any contract extensions mutually agreed to thereafter. Mr. Clemmens notified the Company of his intent to retire in 2013 prior to the automatic renewal of his employment agreement, which will govern the terms of his employment with us through his retirement. Under the terms of his agreement, Mr. Clemmens will be eligible to receive the retirement benefits noted above as well as any accrued but unpaid salary and/or vacation time and a pro-rated bonus for the current fiscal year paid as soon as practical following his retirement date.

Likewise, because the Company renewed employment agreements for Messrs. Conway, Schmidt-Fellner and Bray such that they do not expire until December 2013, and entered into a new agreement with Mr. McAuliffe that extends until May 2015, none of the executive officers were eligible for the accelerated vesting of restricted stock, continued vesting of options, extension of option exercisability and eligibility to participate in employer-sponsored healthcare upon the Company's failure to renew the agreement as of December 31, 2012.

A termination of employment due to death or disability would entitle each named executive officer to full acceleration of vesting on all equity awards and a one-to-two year period following the date of termination to exercise any options accordingly.

In each of the events so noted above, the named executive officer would also be entitled to any accrued but unpaid salary and/or vacation time and a pro-rated bonus for the current fiscal year paid as soon as practical following the date of termination. As noted in the footnote to the tables above, the amounts in the Potential Payments Upon Termination of Employment or Change-in-Control for fiscal 2012 table exclude any pro-rated bonus amount for performance year 2012 as such amounts are considered accrued and earned as of December 31, 2012 and as such would have been payable to each executive regardless of whether he continued employment

Table of Contents

with the company or ceased employment on December 31, 2012 under any termination of employment or change-in-control scenario. Earned incentive bonuses for the 2012 fiscal year have been reflected in the Company's Summary Compensation Table.

Each employment agreement contains change-in-control provisions for the named executive officer. The change of control provisions require a double-trigger, meaning payments are made only if the named executive officer suffers a covered termination of employment within two years following a change-in-control. Change-in-control provisions mimic the awards made under an involuntary termination without cause without exception and are made payable to the executive in a lump sum as soon as practical following the termination event.

Additionally, each employment agreement provides that if the executive is terminated following the approval by the Company's board of directors or stockholders of a plan to liquidate materially all of the Company's assets, the executive would be entitled to (i) all benefits provided under a termination without cause or for good reason scenario, except instead of receiving a payment equal to the applicable base salary the executive would receive a lump-sum payment equal to two times base salary and no payment equal to the average incentive bonus paid over the past three fiscal years, and (ii) the executive would be released from the non-competition provisions of the agreement upon payment of such amounts.

Upon a change-in-control, executive officers may be subject to certain excise taxes under Section 280G of the Code. The Company has agreed that so long as the Company's stock is traded on an established securities market, if any of the payments, awards or benefits payable to Messrs. Conway, Schmidt-Fellner and Bray are subject to a golden parachute excise tax, the Company will provide the named executive officer with a gross-up payment so that the named executive officer will receive the same economic terms they would have received if there were no excise tax, provided that the total payments due exceed 110% of the applicable 280g threshold. In the event that the payments do not exceed the 110% threshold, then no gross-up payment shall be made and the total payments, in the aggregate, are reduced. The amounts shown in the table are based upon a 280G excise tax rate of 20%, a 35% federal income tax rate, a 5.3% state income tax rate and a 2.35% Medicare tax rate.

Table of Contents**BOARD OF DIRECTORS DIRECTOR COMPENSATION**

Each of the Company's independent, non-management directors receives director fees of \$50,000 per year, and each committee chairman receives an additional \$25,000 per year. Members of our board of directors are also reimbursed for their usual and customary expenses incurred in connection with attending all board and committee meetings. Non-management directors receive annual grants of restricted stock and/or options to purchase shares of our common stock.

In February 2011, the Compensation Committee, with the assistance of TowersWatson, conducted a comprehensive review of the Company's director compensation program to ensure its pay practices remain market competitive and reflective of industry best practices. The Committee reviewed all aspects of director pay practices including the mix of cash and equity incentives, equity vesting practices and stock ownership guidelines and, based on its assessment, approved a change to the Company's director compensation program which went into effect upon the directors' election to a new term of service at the Company's annual meeting in May 2012. The change included the establishment of target annual equity awards expressed as grant date fair market value and delivered in the form of restricted stock, as opposed to a mix of stock and stock options as has been past practice. The Committee further revised the director compensation program in early 2013 by increasing the director share ownership guidelines from two times the annual retainer to three times the annual retainer, consistent with the Committee's assessment of market best practice. The revised structure of the awards and increased share ownership guideline maintains the alignment between shareholder and director interests while enabling the Committee to utilize a smaller number of total units to deliver value than if the award had been completed with a mix of stock and stock options.

As a result, upon re-election to a new term of service at the Company's 2012 annual meeting, non-management directors received a grant of restricted stock with a fair market value on the date of grant equal to \$75,000 (as determined by the Company's closing stock price on the grant date). Non-management directors who served as the Chairperson of a Committee of the board would have also received an additional \$25,000 in grant date restricted stock value. The restricted stock granted in 2012 vests in full on the one year anniversary of the grant.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(1)(2)	Total (\$)
Timothy J. Conway, Chairman(3)			
Kimball T. Brooker, Jr.(4)	25,000		25,000
Peter Schmidt-Fellner(5)			
Charles N. Bralver	50,000	75,000	125,000
Richard Thornburgh	75,000	100,000	175,000
Frank R. Noonan	75,000	100,000	175,000
Maureen O Hara	75,000	100,000	175,000
Brian L.P. Fallon	75,000	100,000	175,000
Bradley E. Cooper(6)	50,000	75,000 (7)	125,000

- (1) The amounts shown represent the aggregate grant date fair market value of stock awards granted to the Director during 2012, determined in accordance with ASC Topic 718, using the assumptions described in Note 11 to the Company's Financial Statements included in the FY 2012 10-K. The award vests in full on the one year anniversary of grant. Each director received a grant of 6,643 restricted shares on May 9, 2012 upon election to a new term. Non-management directors who served as the Chairperson of a Committee received an additional award of 2,214 restricted shares on May 9, 2012. The fair market value of the awards issued to each director and committee chair on that day was \$75,000 and \$100,000 respectively, based on a closing price of \$11.29 of our common stock on the NASDAQ Global Market on May 9, 2012.

Table of Contents

- (2) The following aggregate numbers of restricted stock and options awards were outstanding as of December 31, 2012 for each director in the table:

Name	Stock Awards (#)	Option Awards (#)
Kimball T. Brooker, Jr.		25,000
Charles N. Bralver	13,268	16,250
Richard Thornburgh	16,107	10,000
Frank Noonan	16,107	70,000
Maureen O Hara	16,107	30,313
Brian L.P. Fallon	16,107	42,500
Bradley E. Cooper	7,250	25,000

- (3) Executive directors do not receive compensation for their board responsibilities.
- (4) Mr. Brooker did not stand for re-election upon completion of his 2012 term. As a result, the Board fees noted above reflect a pro-rated amount based on his service to the Board in the first and second quarters of 2012 only.
- (5) Executive directors do not receive compensation for their board responsibilities.
- (6) Mr. Cooper has assigned his rights to any compensation and equity received by him as a Director to Capital Z Management, LLC (Cap Z).
- (7) In September 2012 Mr. Cooper transferred his 2012 restricted stock and option awards to Cap Z for no consideration.

Table of Contents**EQUITY 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 Company's 2006 Incentive Plan at December 31, 2012 is summarized in the following table:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options	(b) Weighted-average exercise price of outstanding options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	5,442,856	\$ 4.93	2,328,122
Equity compensation plans not approved by stockholders			
Total	5,442,856	\$ 4.93	2,328,122

As of December 31, 2012, the total number of additional shares remaining available for future issuance under the Plan was 2,328,122 shares.

Table of Contents

OTHER MATTERS

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers and persons owning more than 10% of our registered equity securities to file with the SEC reports of their initial ownership and of changes in their ownership of our common stock and to provide us with copies of all Section 16(a) reports they file. To our knowledge, based solely on our review of copies of reports furnished to us and written representations that no other reports were required during 2012, our directors, officers and 10% stockholders complied with all Section 16(a) filing requirements, except that Mr. Frishkopf filed a Form 5 on February 13, 2013 reporting a transaction that occurred in December 2012 for which he failed to file a Form 4, and Capital Z Partners, Ltd. filed a Form 4 on February 15, 2013 reporting the transfer of shares to its owners for no consideration on November 29, 2012.

Deadlines for Stockholder Proposals

Assuming the 2014 annual meeting is not more than 30 days before or 30 days after May 7, 2014:

if you wish to bring business before or propose director nominations at the 2014 annual meeting, you must give written notice to us not earlier than December 8, 2013 or later than January 7, 2014, and

if you wish to bring proposed business to the 2014 annual meeting and you would like us to consider the inclusion of your proposal in our proxy statement for the meeting, you must provide written notice of such proposal to us in accordance with Securities and Exchange Commission rules not later than December 6, 2013.²

Notices of stockholder proposals and nominations should be given in writing to NewStar Financial, Inc., at its principal executive offices, 500 Boylston St., Suite 1250, Boston, MA 02116, Attn: Corporate Secretary.

² This assumes that the proxy statement will be mailed on April 5, 2013.

Table of Contents

NewStar Financial, Inc.

Proxy Solicited on Behalf of the Board of Directors for Annual Meeting on May 7, 2013.

The undersigned stockholder of NewStar Financial, Inc. (NewStar), hereby appoints Timothy J. Conway and John K. Bray, or either of them, with full power of substitution, to be the attorneys and proxies of the undersigned at the Annual Meeting of Stockholders of NewStar to be held at 10:00 a.m. on May 7, 2013 at the offices of Edwards Wildman Palmer LLP, 111 Huntington Avenue, Boston, Massachusetts, or at any adjournment thereof, on the proposals contained in the Notice of the Annual Meeting of Stockholders, with all powers the undersigned would possess if personally present at said meeting, or at the postponement or adjournment thereof.

You are encouraged to specify your choices by marking the appropriate boxes, SEE REVERSE SIDE, but you need not mark any boxes if you wish to vote in accordance with the Board of Directors' recommendations. The proxies cannot vote your shares unless you sign and return this card.

PLEASE VOTE, DATE AND SIGN THIS PROXY ON THE OTHER SIDE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.

THIS IS YOUR PROXY. YOUR VOTE IS IMPORTANT.

(Continued, and to be signed on reverse side)

ADDRESS CHANGE / COMMENTS

AMERICAN STOCK TRANSFER &
TRUST COMPANY, LLC
6201 15TH AVENUE
BROOKLYN, N.Y. 11219

Table of Contents

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING
TO BE HELD ON MAY 7, 2013**

This proxy statement and our annual report to security holders are available at www.rrdezproxy.com/2013/NewStarFinancial/

..

DETACH PROXY CARD HERE

INTERNET Access www.voteproxy.com and follow the on-screen instructions. Have your proxy card available and use the Control Number and Account Number shown on your card.

MAIL Please Vote, Sign, Date

and Return Promptly in the

Enclosed Envelope.

x

Votes must be indicated

(x) in Black or Blue ink.

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED

This proxy, when properly executed, will be voted in the manner directed herein. If no direction is made, this proxy will be voted **FOR** each of the proposals listed below.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE FOLLOWING PROPOSALS.

1. To elect eight directors:

FOR all nominees **WITHHOLD AUTHORITY** to vote **FOR ALL**

listed below " for all nominees listed below " **EXCEPT*** "

(Instructions: To withhold authority to vote for one or more individual nominees, mark the FOR ALL EXCEPT* box and write the name(s) of such nominee(s) in the space provided below.)

Nominees: Charles N. Bralver, Timothy J. Conway,

 Bradley E. Cooper, Brian L.P. Fallon, Frank R. Noonan,

