

NewStar Financial, Inc.  
Form 10-Q  
November 06, 2013  
**Table of Contents**

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2013**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-33211**

**NewStar Financial, Inc.**

**(Exact name of registrant as specified in its charter)**

<b>Delaware</b> <b>(State or other jurisdiction of</b> <b>incorporation or organization)</b>	<b>54-2157878</b> <b>(I.R.S. Employer</b> <b>Identification No.)</b>
<b>500 Boylston Street, Suite 1250,</b> <b>Boston, MA</b> <b>(Address of principal executive offices)</b>	<b>02116</b> <b>(Zip Code)</b>
<b>(617) 848-2500</b>	

**(Registrant's telephone number, including area code)**

N/A

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of November 1, 2013, 48,670,415 shares of common stock, par value of \$0.01 per share, were outstanding.



**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I</u></b>	
<b>FINANCIAL INFORMATION</b>	
Item 1. <u>Financial Statements (Unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2013 and 2012</u>	5
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2013 and 2012</u>	6
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Nine Months ended September 30, 2013 and 2012</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	10
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	55
Item 4. <u>Controls and Procedures</u>	56
<b><u>PART II</u></b>	
<b>OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	57
Item 1A. <u>Risk Factors</u>	57
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
Item 6. <u>Exhibits</u>	58
<u>SIGNATURES</u>	60

**Table of Contents**

**Note Regarding Forward Looking Statements**

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

- our anticipated financial condition, including estimated loan losses;
- our expected results of operation;
- our growth and market opportunities;
- trends and conditions in the financial markets in which we operate;
- our future funding needs and sources and availability of funding;
- our involvement in capital-raising transactions;
- our ability to meet draw requests under commitments to borrowers under certain conditions;
- our competitors;
- our provision for credit losses;
- our future development of our products and markets;
- our ability to compete; and
- our stock price.

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

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

## Edgar Filing: NewStar Financial, Inc. - Form 10-Q

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

our ability to obtain external financing;

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

risks and uncertainties relating to our limited operating history;

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

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

For a further description of these and other risks and uncertainties, we encourage you to carefully read section Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2012.

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

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

	September 30, 2013 (unaudited)	December 31, 2012
	(\$ in thousands, except share and par value amounts)	
<b>Assets:</b>		
Cash and cash equivalents	\$ 87,972	\$ 27,212
Restricted cash	274,299	208,667
Investments in debt securities, available-for-sale	22,032	21,127
Loans held-for-sale, net	15,793	51,602
Loans and leases, net	1,828,193	1,720,789
Deferred financing costs, net	21,949	19,064
Interest receivable	9,952	9,003
Property and equipment, net	323	433
Deferred income taxes, net	30,658	42,463
Income tax receivable	8,102	4,311
Other assets	32,181	52,399
<b>Subtotal</b>	<b>2,331,454</b>	<b>2,157,070</b>
Assets of Consolidated Variable Interest Entity:		
Restricted cash	2,009	0
Loans, net	129,218	0
Deferred financing costs, net	1,011	0
Interest receivable	898	0
Other assets	4,290	0
<b>Total assets of Consolidated Variable Interest Entity</b>	<b>137,426</b>	<b>0</b>
<b>Total assets</b>	<b>\$ 2,468,880</b>	<b>\$ 2,157,070</b>
<b>Liabilities:</b>		
Credit facilities	\$ 162,280	\$ 229,941
Term debt	1,502,700	1,221,764
Repurchase agreements	27,476	30,583
Accrued interest payable	3,182	3,330
Accounts payable	1,486	404
Other liabilities	42,585	76,231
<b>Subtotal</b>	<b>1,739,709</b>	<b>1,562,253</b>
Liabilities of Consolidated Variable Interest Entity:		
Credit facilities	93,048	0
Accrued interest payable credit facilities	368	0
Subordinated debt - Fund membership interest	25,061	0
Accrued interest payable Fund membership interest	766	0

Edgar Filing: NewStar Financial, Inc. - Form 10-Q

Total liabilities of Consolidated Variable Interest Entity	119,243	0
<b>Total liabilities</b>	1,858,952	1,562,253

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



**Table of Contents****NEWSTAR FINANCIAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS, continued**

	September 30, 2013 (unaudited)	December 31, 2012
	(\$ in thousands, except share and par value amounts)	
<b>Stockholders equity:</b>		
Preferred stock, par value \$0.01 per share (5,000,000 shares authorized; no shares outstanding)	0	0
Common stock, par value \$0.01 per share:		
Shares authorized: 145,000,000 in 2013 and 2012;		
Shares outstanding 48,670,677 in 2013 and 49,311,008 in 2012	487	493
Additional paid-in capital	654,003	646,299
Accumulated deficit	(3,149)	(20,726)
Common stock held in treasury, at cost \$0.01 par value; 4,602,239 in 2013 and 3,646,290 in 2012	(42,576)	(31,243)
Accumulated other comprehensive income (loss), net	505	(6)
<b>Total NewStar Financial, Inc. stockholders equity</b>	<b>609,270</b>	<b>594,817</b>
Retained earnings of Consolidated Variable Interest Entity	658	0
<b>Total stockholders equity</b>	<b>609,928</b>	<b>594,817</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 2,468,880</b>	<b>\$ 2,157,070</b>

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

**Table of Contents****NEWSTAR FINANCIAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****Unaudited**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(\$ in thousands, except per share amounts)			
<b>Net interest income:</b>				
Interest income	\$ 30,370	\$ 30,812	\$ 95,401	\$ 90,945
Interest expense	11,703	9,074	30,798	26,607
Net interest income	18,667	21,738	64,603	64,338
Provision for credit losses	2,381	3,712	7,429	6,752
Net interest income after provision for credit losses	16,286	18,026	57,174	57,586
<b>Non-interest income:</b>				
Fee income	1,050	1,074	2,591	3,398
Asset management income related party	592	718	1,971	2,188
Loss on derivatives	(45)	(57)	(131)	(258)
Gain (loss) on sale of loans	0	0	72	(418)
Other income	3,534	1,451	5,192	2,866
Total non-interest income	5,131	3,186	9,695	7,776
<b>Operating expenses:</b>				
Compensation and benefits	7,405	7,832	25,020	23,101
General and administrative expenses	4,120	2,843	12,185	11,627
Total operating expenses	11,525	10,675	37,205	34,728
<b>Operating income before income taxes</b>	<b>9,892</b>	<b>10,537</b>	<b>29,664</b>	<b>30,634</b>
<b>Results of Consolidated Variable Interest Entity:</b>				
Interest income	1,991	0	2,891	0
Interest expense credit facilities	692	0	1,026	0
Interest expense Fund membership interest	433	0	782	