

NewStar Financial, Inc.  
Form 10-Q  
August 04, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2010

OR

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

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

Commission File Number 001-33211

**NewStar Financial, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**02116**  
(Zip Code)

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

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 2, 2010, 51,428,620 shares of common stock, par value of \$0.01 per share, were outstanding.

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**Note Regarding Forward Looking Statements**

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

anticipated financial condition including estimated loan losses;

expected results of operation;

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

growth and market opportunities;

future development of our products and markets;

ability to compete; and

stock price.

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

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

risks and uncertainties relating to the financial markets generally, including the recent 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

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

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

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

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

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(\$ in thousands, except share and par value amounts)	
<b>Assets:</b>		
Cash and cash equivalents	\$ 39,970	\$ 39,848
Restricted cash	146,648	136,884
Investments in debt securities, available-for-sale	4,022	4,183
Loans held-for-sale, net	10,624	15,736
Loans, net	1,700,354	1,878,978
Deferred financing costs, net	19,486	18,557
Interest receivable	7,629	7,949
Property and equipment, net	843	976
Deferred income taxes, net	54,905	56,449
Income tax receivable	10,731	7,260
Other assets	21,600	33,252
<b>Total assets</b>	<b>\$ 2,016,812</b>	<b>\$ 2,200,072</b>
<b>Liabilities:</b>		
Credit facilities	\$ 59,326	\$ 91,890
Term debt	1,381,398	1,523,052
Accrued interest payable	6,179	2,774
Accounts payable	229	645
Other liabilities	26,190	31,591
<b>Total liabilities</b>	<b>1,473,322</b>	<b>1,649,952</b>
<b>Stockholders equity and noncontrolling interest:</b>		
Preferred stock, par value \$0.01 per share (5,000,000 shares authorized; no shares outstanding)		
Common stock, par value \$0.01 per share:		
Shares authorized: 145,000,000 in 2010 and 2009;		
Shares outstanding 51,637,820 in 2010 and 49,994,858 in 2009	516	500
Additional paid-in capital	621,001	616,762
Accumulated deficit	(73,686)	(69,083)
Common stock held in treasury, at cost \$0.01 par value; 633,334 in 2010 and 257,392 in 2009	(3,731)	(1,331)
Accumulated other comprehensive loss, net	(610)	(786)
<b>Total NewStar Financial, Inc. stockholders equity</b>	<b>543,490</b>	<b>546,062</b>
Noncontrolling interest		4,058
<b>Total stockholders equity</b>	<b>543,490</b>	<b>550,120</b>

<b>Total liabilities and stockholders equity</b>	\$ 2,016,812	\$ 2,200,072
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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**

	<b>Three Months Ended June 30, 2010</b>		<b>Six Months Ended June 30, 2009</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(\$ in thousands, except per share amounts)</b>			
<b>Net interest income:</b>				
Interest income	\$ 28,218	\$ 35,026	\$ 57,321	\$ 70,951
Interest expense	9,160	11,412	22,209	25,177
Net interest income	19,058	23,614	35,112	45,774
Provision for credit losses	5,542	36,177	32,589	61,484
Net interest income (loss) after provision for credit losses	13,516	(12,563)	2,523	(15,710)
<b>Non-interest income:</b>				
Fee income	343	361	724	854
Asset management income related party	681	673	1,332	1,460
Gain on derivatives	125	222	143	366
Loss on sale of loans	(113)		(113)	
Other income (expense)	3,727	(1,504)	7,248	3,394
Total non-interest income (loss)	4,763	(248)	9,334	6,074
<b>Operating expenses:</b>				
Compensation and benefits	6,182	6,686	12,566	12,313
Occupancy and equipment	450	781	1,094	1,561
General and administrative expenses	2,911	4,573	5,676	8,074
Total operating expenses	9,543	12,040	19,336	21,948
<b>Income (loss) before income taxes</b>	<b>8,736</b>	<b>(24,851)</b>	<b>(7,479)</b>	<b>(31,584)</b>
Income tax expense (benefit)	3,310	(9,208)	(3,063)	(10,991)
<b>Net income (loss) before noncontrolling interest</b>	<b>5,426</b>	<b>(15,643)</b>	<b>(4,416)</b>	<b>(20,593)</b>
Net income attributable to noncontrolling interest	(98)		(187)	
<b>Net income (loss) attributable to NewStar Financial, Inc. common stockholders</b>	<b>\$ 5,328</b>	<b>\$ (15,643)</b>	<b>\$ (4,603)</b>	<b>\$ (20,593)</b>
<b>Basic income (loss) per share</b>	<b>\$ 0.11</b>	<b>\$ (0.32)</b>	<b>\$ (0.09)</b>	<b>\$ (0.42)</b>
<b>Diluted income (loss) per share</b>	<b>0.10</b>	<b>(0.32)</b>	<b>(0.09)</b>	<b>(0.42)</b>

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



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## NEWSTAR FINANCIAL, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

## Unaudited

	NewStar Financial, Inc. Stockholders Equity						
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss, net	Common Stockholders Equity	Noncontrolling Interest
	(\$ in thousands)						
<b>Balance at January 1, 2010</b>	\$ 500	\$ 616,762	\$ (69,083)	\$ (1,331)	\$ (786)	\$ 546,062	\$ 4,058
Net income (loss)			(4,603)			(4,603)	187
Other comprehensive income:							
Net unrealized securities losses, net of tax expense of \$31					(47)	(47)	
Net unrealized derivatives gains, net of tax expense of \$119							