

NewStar Financial, Inc.
Form 10-Q
November 03, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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 October 28, 2011, 49,469,013 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;

our expected results of operation;

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

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 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;

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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, 2010.

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, 2011 (unaudited)	December 31, 2010
	(\$ in thousands, except share and par value amounts)	
Assets:		
Cash and cash equivalents	\$ 27,604	\$ 54,365
Restricted cash	74,610	178,364
Investments in debt securities, available-for-sale	11,431	4,014
Loans held-for-sale, net	31,192	41,386
Loans and leases, net	1,676,651	1,590,331
Deferred financing costs, net	12,608	15,504
Interest receivable	8,702	6,797
Property and equipment, net	837	879
Deferred income taxes, net	47,120	48,093
Income tax receivable	5,494	5,435
Other assets	20,075	29,798
Total assets	\$ 1,916,324	\$ 1,974,966
Liabilities:		
Credit facilities	\$ 161,909	\$ 108,502
Term debt	1,095,977	1,278,868
Repurchase agreements	67,554	0
Accrued interest payable	2,040	4,014
Accounts payable	717	242
Other liabilities	30,739	29,161
Total liabilities	1,358,936	1,420,787
Stockholders equity:		
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 2011 and 2010;		
Shares outstanding 49,469,013 in 2011 and 50,562,826 in 2010	495	506
Additional paid-in capital	633,814	626,177
Accumulated deficit	(51,070)	(58,851)
Common stock held in treasury, at cost \$0.01 par value; 3,003,314 in 2011 and 1,864,263 in 2010	(24,134)	(13,115)
Accumulated other comprehensive loss, net	(1,717)	(538)
Total stockholders equity	557,388	554,179
Total liabilities and stockholders equity	\$ 1,916,324	\$ 1,974,966

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(\$ in thousands, except per share amounts)			
Net interest income:				
Interest income	\$ 29,500	\$ 27,022	\$ 84,803	\$ 84,343
Interest expense	10,683	9,257	27,582	31,466
Net interest income	18,817	17,765	57,221	52,877
Provision for credit losses	4,408	1,176	12,998	33,765
Net interest income after provision for credit losses	14,409	16,589	44,223	19,112
Non-interest income:				
Fee income	573	702	1,507	1,426
Asset management income related party	697	876	1,951	2,208
Gain (loss) on derivatives	252	(23)	277	120
Gain (loss) on sale of loans	20	0	128	(113)
Other income (loss)	1,862	949	(1,690)	8,197
Total non-interest income	3,404	2,504	2,173	11,838
Operating expenses:				
Compensation and benefits	7,706	6,357	22,321	18,923
Occupancy and equipment	519	457	1,540	1,551
General and administrative expenses	3,671	3,233	9,002	8,909
Total operating expenses	11,896	10,047	32,863	29,383
Income before income taxes	5,917	9,046	13,533	1,567
Income tax expense	2,508	3,583	5,752	520
Net income before noncontrolling interest	3,409	5,463	7,781	1,047
Net income attributable to noncontrolling interest	0	0	0	(187)
Net income attributable to NewStar Financial, Inc. common stockholders	\$ 3,409	\$ 5,463	\$ 7,781	\$ 860
Basic income per share	\$ 0.07	\$ 0.11	\$ 0.16	\$ 0.02
Diluted income per share	0.06	0.11	0.15	0.02

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

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NEWSTAR FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Unaudited

	NewStar Financial, Inc. Stockholders Equity						
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock (\$ in thousands)	Accumulated Other Comprehensive Loss, net	Common Stockholders Equity	Noncontrolling Interest
Balance at January 1, 2011	\$ 506	\$ 626,177	\$ (58,851)	\$ (13,115)	\$ (538)	\$ 554,179	\$ 0