

NewStar Financial, Inc.
Form 10-Q
August 02, 2012
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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, 2012

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 July 30, 2012, 49,363,056 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, 2011.

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**

	June 30 2012 (unaudited)	December 31, 2011
	(\$ in thousands, except share and par value amounts)	
Assets:		
Cash and cash equivalents	\$ 28,394	\$ 18,468
Restricted cash	126,943	83,815
Investments in debt securities, available-for-sale	18,335	17,817
Loans held-for-sale, net	52,527	38,278
Loans, net	1,746,803	1,699,187
Deferred financing costs, net	13,526	11,997
Interest receivable	8,506	9,857
Property and equipment, net	636	740
Deferred income taxes, net	45,237	47,902
Income tax receivable	2,948	293
Other assets	20,802	18,029
Total assets	\$ 2,064,657	\$ 1,946,383
Liabilities:		
Credit facilities	\$ 363,129	\$ 214,711
Term debt	1,045,749	1,073,105
Repurchase agreements	41,480	64,868
Accrued interest payable	3,564	2,853
Accounts payable	378	430
Other liabilities	33,318	26,654
Total liabilities	1,487,618	1,382,621
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 2012 and 2011;		
Shares outstanding 49,360,513 in 2012 and 49,345,676 in 2011	494	494
Additional paid-in capital	639,283	635,389
Accumulated deficit	(33,004)	(44,703)
Common stock held in treasury, at cost \$0.01 par value; 3,391,354 in 2012 and 3,135,317 in 2011	(28,056)	(25,420)
Accumulated other comprehensive loss, net	(1,678)	(1,998)
Total stockholders equity	577,039	563,762
Total liabilities and stockholders equity	\$ 2,064,657	\$ 1,946,383

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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**

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
	(\$ in thousands, except per share amounts)			
Net interest income:				
Interest income	\$ 30,611	\$ 28,315	\$ 60,133	\$ 55,303
Interest expense	9,180	8,357	17,533	16,899
Net interest income	21,431	19,958	42,600	38,404
Provision for credit losses	159	2,337	3,040	8,590
Net interest income after provision for credit losses	21,272	17,621	39,560	29,814
Non-interest income:				
Fee income	1,069	359	2,324	934
Asset management income related party	727	626	1,470	1,254
Gain (loss) on derivatives	(186)	29	(201)	25
Gain (loss) on sale of loans	32	108	(418)	108
Other income (loss)	163	(1,872)	1,415	(3,552)
Total non-interest income (loss)	1,805	(750)	4,590	(1,231)
Operating expenses:				
Compensation and benefits	8,067	7,070	15,269	14,615
General and administrative expenses	5,291	3,748	8,784	6,352
Total operating expenses	13,358	10,818	24,053	20,967
Income before income taxes	9,719	6,053	20,097	7,616
Income tax expense	4,102	2,607	8,398	3,244
Net income	\$ 5,617	\$ 3,446	\$ 11,699	\$ 4,372
Basic income per share	\$ 0.12	\$ 0.07	\$ 0.25	\$ 0.09
Diluted income per share	0.11	0.06	0.22	0.08

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

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

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
	(\$ in thousands, except per share amounts)			
Net income	\$ 5,617	\$ 3,446	\$ 11,699	\$ 4,372
Other comprehensive income (loss), net of tax:				
Net unrealized securities gains (losses), net of tax expense (benefit) of \$(305), \$(355), \$167 and \$(274), respectively	(454)	(434)	238	(405)
Net unrealized derivative gains, net of tax expense (benefit) of \$31, \$21, \$70 and \$(159), respectively	45	31	82	309
Other comprehensive income (loss)	(409)	(403)	320	(96)
Comprehensive income	\$ 5,208	\$ 3,043		