

NewStar Financial, Inc.  
Form 10-Q  
November 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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)

Delaware 54-2157878  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

500 Boylston Street, Suite 1250,

Boston, MA 02116  
(Address of principal executive offices) (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 November 1, 2016, 44,207,504 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 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:

- risk 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 disruptions in the global financial markets;
- uncertainties relating to the market price of our common stock prevailing from time to time;
  - risk and uncertainties related to our ability to obtain external financing;
- risk and uncertainties relating to 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, 2015.

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.



## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## NEWSTAR FINANCIAL, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

	September 30, 2016	December 31, 2015
	(\$ in thousands, except per share and par value amounts)	
<b>Assets:</b>		
Cash and cash equivalents	\$36,266	\$ 35,933
Restricted cash	370,487	153,992
Cash collateral on deposit with custodians	7,564	61,081
Investments in debt securities, available-for-sale	90,814	94,177
Loans held-for-sale, net	429,718	478,785
Loans and leases, net (including loans at fair value of \$389,260 and \$0, respectively)	3,186,998	3,134,072
Interest receivable	14,829	13,932
Property and equipment, net	296	638
Deferred income taxes, net	29,881	33,133
Income tax receivable	1,381	5,342
Goodwill	17,884	17,884
Identified intangible asset, net	655	910
Other assets	53,786	21,504
Assets held-for-sale	162,801	—
<b>Total assets</b>	<b>\$4,403,360</b>	<b>\$ 4,051,383</b>
<b>Liabilities:</b>		
Credit facilities, net	\$492,758	\$ 832,686
Term debt securitizations, net	2,327,717	1,821,519
Senior notes, net	373,462	372,153
Subordinated notes, net	239,543	209,509
Repurchase agreements, net	52,591	96,224
Accrued interest payable	31,021	18,073
Other liabilities	170,380	41,741
Liabilities held-for-sale	44,158	—
<b>Total liabilities</b>	<b>3,731,630</b>	<b>3,391,905</b>
<b>Stockholders' equity:</b>		
Preferred stock, par value \$0.01 per share (5,000,000 shares authorized);	—	—

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no shares outstanding)

Common stock, par value \$0.01 per share:		
Shares authorized: 145,000,000 in 2016 and 2015;		
Shares outstanding 46,706,004 in 2016 and 46,527,288 in 2015	467	465
Additional paid-in capital	745,443	742,970
Retained earnings	49,247	31,353
Common stock held in treasury, at cost; 10,454,359 in 2016 and 9,154,548 in 2015	(118,552 )	(109,245 )
Accumulated other comprehensive loss, net	(4,875 )	(6,065 )
Total stockholders' equity	671,730	659,478
Total liabilities and stockholders' equity	\$4,403,360	\$ 4,051,383

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

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NEWSTAR FINANCIAL, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

	Three Months		Nine Months Ended	
	Ended September 30, 2016	2015	2016	2015
	(\$ in thousands, except per share amounts)			
<b>Net interest income:</b>				
Interest income	\$65,155	\$54,574	\$186,499	\$141,194
Interest expense	39,897	31,345	117,816	84,764
Net interest income	25,258	23,229	68,683	56,430
Provision for credit losses	3,570	4,534	24,906	14,720
Net interest income after provision for credit losses	21,688	18,695	43,777	41,710
<b>Non-interest income (loss):</b>				
Asset management income	3,353	1,019	10,337	2,954
Fee income	2,946	4,573	5,836	10,508
Realized loss on derivatives	(13 )	(5 )	(31 )	(24 )
Realized (loss) gain on sale of loans, net	(19 )	360	36	314
Other miscellaneous income, net	4,231	665	7,195	2,772
Loss on total return swap	—	(3,035 )	(6,062 )	(971 )
Gain (loss) on loans held-for-sale, net	468	(85 )	(5,345 )	(506 )
Gain on sale of Business Credit, net	—	—	22,511	—
Total non-interest income	10,966	3,492	34,477	15,047
<b>Operating expenses:</b>				
Compensation and benefits	13,175	9,561	32,640	24,004
General and administrative expenses	4,894	3,819	15,337	11,052
Total operating expenses	18,069	13,380	47,977	35,056
Income before income taxes	14,585	8,807	30,277	21,701
Income tax expense	5,941	3,665	12,383	9,020
Net income	\$8,644	\$5,142	\$17,894	\$12,681
Basic Earnings per share	\$0.19	\$0.11	\$0.38	\$0.27
Diluted Earnings per share	\$0.19	\$0.11	\$0.38	\$0.26

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



NEWSTAR FINANCIAL, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(\$ in thousands, except per share amounts)			
Net income	\$8,644	\$5,142	\$17,894	\$12,681
Other comprehensive income gain (loss), net of tax:				
Net unrealized securities (losses) gains, net of tax (benefit) expense of \$2,044, \$(1,782), \$789 and \$(2,120), respectively	3,028	(2,583)	1,193	(3,078)
Net unrealized derivative (losses) gains, net of tax (benefit) expense of \$5, \$(14), \$2 and \$(38), respectively	8	(21)	(3)	(48)
Other comprehensive income (loss)	3,036	(2,604)	1,190	(3,126)
Comprehensive income	\$11,680	\$2,538	\$19,084	\$9,555

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

For the Nine Months Ended September 30, 2016

	Additional		Retained Earnings	Treasury Stock	Accumulated	
	Common Stock	Paid-in Capital			Other Comprehensive Loss, net	Common Stockholders' Equity
Balance at January 1, 2016	\$465	\$742,970	\$31,353	\$(109,245)	\$ (6,065)	\$ 659,478
Net income	—	—	17,894	—	—	17,894
Other comprehensive income	—	—	—	—	1,190	1,190
Issuance of restricted stock	6	(6)	—	—	—	—
Shares reacquired from employee transactions	(1)	1	—	(445)	—	(445)
Tax benefit (expense) from vesting of restricted stock	—	(473)	—	—	—	(473)
Repurchase of common stock	(12)	12	—	(8,862)	—	(8,862)
Exercise of common stock options, net	9	(1,108)	—	—	—	(1,099)
Tax benefit from exercise of stock options	—	1,225	—	—	—	1,225
Amortization of restricted common stock awards	—	2,822	—	—	—	2,822
Balance at September 30, 2016	\$467	\$745,443	\$49,247	\$(118,552)	\$ (4,875)	\$ 671,730

## NewStar Financial, Inc. Stockholders' Equity

For the Nine Months Ended September 30, 2015

	Additional		Retained Earnings	Treasury Stock	Accumulated	
	Common Stock	Paid-in Capital			Other Comprehensive Income, net	Common Stockholders' Equity
Balance at January 1, 2015	\$466	\$718,825	\$14,463	\$(92,724)	\$ (33)	\$ 640,997
Net income	—	—	12,681	—	—	12,681
Other comprehensive loss	—	—	—	—	(3,126)	(3,126)
Issuance of restricted stock	4	(4)	—	—	—	—
	(1)	1	—	(597)	—	(597)

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Net Shares reacquired from employee transactions						
Tax benefit (expense) from vesting of restricted stock	—	(163 )	—	—	—	(163 )
Repurchase of common stock	(12 )	12	—	(15,854)	—	(15,854 )
Issuance of warrants	—	21,766	—	—	—	21,766
Exercise of common stock options	1	1,574				