

NewStar Financial, Inc.
Form 10-Q
May 07, 2008
[Table of Contents](#)

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 March 31, 2008

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)

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

Delaware (State or other jurisdiction of incorporation or organization)	54-2157878 (I.R.S. Employer Identification No.)
500 Boylston Street, Suite 1600, 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 May 5, 2008, 48,518,291 shares of common stock, par value of \$0.01 per share, were outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited).</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2008 and December 31, 2007</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2008 and 2007</u>	4
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2008 and 2007</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2008 and 2007</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	31
Item 4. <u>Controls and Procedures.</u>	32
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings.</u>	33
Item 1A. <u>Risk Factors.</u>	33
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	33
Item 3. <u>Defaults Upon Senior Securities.</u>	33
Item 4. <u>Submission of Matters to a Vote of Security Holders.</u>	33
Item 5. <u>Other Information.</u>	33
Item 6. <u>Exhibits.</u>	33
<u>SIGNATURES</u>	34

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;

expected results of operation;

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 or 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:

risks and uncertainties relating to our limited operating history;

our ability to minimize losses and achieve profitability;

our ability to effectively manage our growth;

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

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

the existence of delinquencies or non-accruals in our loans that would force us to take charge-offs exceeding our allowance for credit losses;

impairments to our debt products that could adversely impact our net income and assets and harm our results of operations;

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

volatility due to the relatively small number of loans and other debt products in our loan portfolio; and

our ability to obtain external financing.

For a further description of these and other risks and uncertainties, we encourage you to carefully read section Item 1A. Risk Factors to our Annual Report on Form 10-K for the year ended December 31, 2007.

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****Unaudited**

	March 31, 2008	December 31, 2007
	(\$ in thousands, except share and par value amounts)	
Assets:		
Cash and cash equivalents	\$ 165,220	\$ 76,155
Restricted cash	67,456	115,807
Residual interest in securitization	308	631
Investments in debt securities, available-for-sale	30,805	35,498
Loans held-for-sale	65,287	112,944
Loans, net	2,271,030	2,201,442
Deferred financing costs, net	18,081	18,399
Interest receivable	13,215	14,120
Property and equipment, net	1,461	1,593
Deferred income taxes, net	13,051	13,355
Income tax receivable		4,635
Other assets	42,030	28,186
Total assets	\$ 2,687,944	\$ 2,622,765
Liabilities:		
Repurchase agreements	\$	\$ 63
Credit facilities	553,800	677,739
Term debt	1,519,725	1,364,725
Accrued interest payable	11,000	17,537
Accounts payable	749	197
Income tax payable	668	
Other liabilities	41,636	59,814
Total liabilities	2,127,578	2,120,075
Stockholders equity:		
Common stock, par value \$0.01 per share:		
Shares authorized: 145,000,000 in 2008 and 2007;		
Shares outstanding 48,572,402 in 2008 and 43,355,713 in 2007	486	434
Additional paid-in capital	603,006	551,704
Retained deficit	(41,079)	(47,221)
Common stock held in treasury, at cost \$0.01 par value; 87,382 in 2008 and 85,207 in 2007	(781)	(763)
Accumulated other comprehensive loss, net	(1,266)	(1,464)
Total stockholders equity	560,366	502,690

Total liabilities and stockholders equity	\$ 2,687,944	\$ 2,622,765
--	--------------	--------------

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 March 31,	
	2008	2007
	(\$ in thousands, except per share amounts)	
Net interest income:		
Interest income	\$ 51,988	\$ 45,488
Interest expense	25,324	23,537
Net interest income	26,664	21,951
Provision for credit losses	4,611	2,312
Net interest income after provision for credit losses	22,053	19,639
Non-interest income:		
Fee income	1,532	2,553
Asset management income related party	1,651	964
Gain on derivatives	56	84
Gain (loss) on sale of loans	(786)	75
Loss on investments in debt securities	(258)	(14,862)
Loss on residual interest in securitization	(323)	
Other income	1,284	469
Total non-interest income	3,156	(10,717)
Operating expenses:		
Compensation and benefits	11,500	10,532
Occupancy and equipment	835	492
General and administrative expenses	2,564	1,939
Total operating expenses	14,899	12,963
Income (loss) before income taxes	10,310	(4,041)
Income tax expense (benefit)	4,168	(1,595)
Net income (loss)	\$ 6,142	\$ (2,446)
Basic income (loss) per share	\$ 0.13	\$ (0.07)
Diluted income (loss) per share	0.13	(0.07)

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

Table of Contents

NEWSTAR FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Unaudited

	Common Stock	Additional Paid-in Capital	Retained Deficit	Treasury Stock (\$ in thousands)	Accumulated Other Comprehensive Loss, net Net Unrealized Gain (Loss) on Investments	Net Unrealized Loss on Derivatives	Total Stockholders Equity
Balance at January 1, 2008	\$ 434	\$ 551,704	\$ (47,221)	\$ (763)	\$ (624)	\$ (840)	\$ 502,690
Net income			6,142				6,142
Other comprehensive loss:							
Net unrealized securities gains, net of tax expense of \$322					624		624
Net unrealized derivatives losses, net of tax benefit of \$316						(426)	(426)
Total comprehensive income							6,340
Net proceeds from issuance of common stock	52	49,164					49,216
Shares reacquired from employee transactions				(18)			(18)
Amortization of restricted common stock awards		1,662					1,662
Amortization of stock option awards		476					476
Balance at March 31, 2008	\$ 486	\$ 603,006	\$ (41,079)	\$ (781)	\$	\$ (1,266)	\$ 560,366

	Common Stock	Additional Paid-in Capital	Retained Deficit	Treasury Stock (\$ in thousands)	Accumulated Other Comprehensive Loss, net Net Unrealized Loss on Investments	Net Unrealized Loss on Derivatives	Total Stockholders Equity
Balance at January 1, 2007	\$ 363	\$ 463,925	\$ (38,582)	\$	\$ (1,977)	\$ (314)	\$ 423,415
Net loss			(2,446)				(2,446)
Other comprehensive loss:							
Net unrealized securities losses, net of tax benefit of \$5,527					(8,463)		(8,463)
Net unrealized derivatives losses, net of tax expense of \$44						(61)	(61)