

NewStar Financial, Inc.  
Form 10-K/A  
March 26, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K/A  
AMENDMENT No. 1

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

For the fiscal year ended December 31, 2014

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 incorporation or organization)	(I.R.S. Employer Identification No.)

500 Boylston Street, Suite 1250, Boston, MA	02116
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code: (617) 848-2500	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☐

Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

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 “accelerated filer”, “large 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 June 30, 2014, the last business day of our most recently completed second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates was \$364,137,958, based on the number of shares held by non-affiliates of the registrant as of June 30, 2014, and based on the reported last sale price of common stock on June 30, 2014. This calculation does not reflect a determination that persons are affiliates for any other purposes. As of February 27, 2015, 47,080,915 shares of common stock, par value of \$0.01 per share, were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant’s Definitive Proxy Statement to be filed with the Securities and Exchange Commission (“SEC”) pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), relating to the Registrant’s Annual Meeting of Stockholders scheduled to be held May 20, 2015 are incorporated by reference into Part III of this Form 10-K. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

---

## EXPLANATORY NOTE

NewStar Financial, Inc. (which is referred to throughout this Annual Report as “NewStar”, “the Company”, “we” and “us”) filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the “Original Form 10-K”), with the U.S. Securities and Exchange Commission (the “SEC”) on March 4, 2015. This Amendment No. 1 is being filed to correct an error in the content of Item 1, “Business.” The error appears in the Loan Portfolio section on Page 8 of the Original Form 10-K. In the second sentence of the section, we state that our loan portfolio totaled approximately \$2.9 billion of funding commitments, representing \$2.6 billion of balances outstanding and \$3.0 billion of funds committed but undrawn as of December 31, 2014. However, \$0.3 billion of the committed funds remain undrawn, as opposed to the previously reported \$3.0 billion.

Among other immaterial amendments contained in this Amendment No. 1, we have revised the Index to the Financial Statements in Item 8, “Financial Statements and Supplementary Data” on Page 56 of the Original Form 10-K, and certain table headings to update the years from 2011, 2012, and 2013, to 2012, 2013, and 2014, respectively. This Amendment No. 1 includes revisions to Part I, Item 1, Part II, Item 8, and, for the purpose of reflecting the exhibits hereto, Part IV, Item 15. We have included the remaining unaltered portions of the Original Form 10-K in their entirety to, among other things, facilitate efficient communication to our stockholders in connection with our 2015 Annual Meeting of Stockholders.

This Amendment No. 1 does not update any disclosures to reflect developments since the filing date of the Original Form 10-K.

---

Table of Contents

TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Business</u>	<u>2</u>
Item 1A. <u>Risk Factors</u>	<u>13</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>23</u>
Item 2. <u>Properties</u>	<u>23</u>
Item 3. <u>Legal Proceedings</u>	<u>23</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>23</u>
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>23</u>
Item 6. <u>Selected Financial Data</u>	<u>25</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>54</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>101</u>
Item 9A. <u>Controls and Procedures</u>	<u>101</u>
Item 9B. <u>Other Information</u>	<u>101</u>
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>102</u>
Item 11. <u>Executive Compensation</u>	<u>103</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>103</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>103</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>103</u>
PART IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	<u>103</u>
<u>Signatures</u>	<u>104</u>



## Table of Contents

### Forward-Looking Statements

Statements in this Annual Report about our anticipated financial condition, results of operations, and growth, as well as about the future development of our products and markets and the future performance of the financial markets in general, are forward-looking statements. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. They may include words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “should,” “can have,” “likely” and other words and terms of similar meaning in connection with an discussion of the timing or nature of future operating or financial performance or other events and circumstances. These forward-looking statements are based on assumptions that we have made in light of our industry experience and on our perceptions of historical trends, current conditions, expected future developments and other factors. As you read this Annual Report, you should understand that these statements are not guarantees of performance or results. They involve risks and uncertainties that are beyond our control. Important information about the bases for our assumptions and factors that may cause our actual results and other circumstances to differ materially from those described in the forward-looking statements are discussed in Item 1A. “Risk Factors” and generally throughout this Annual Report.

### Item 1. Business

#### Overview

NewStar Financial, Inc. (which is referred to throughout this Annual Report as “NewStar”, “the Company”, “we” and “us”) is an internally-managed, commercial finance company with specialized lending platforms focused on meeting the complex financing needs of companies and private investors in the middle market. The Company is also a registered investment adviser and provides asset management services to institutional investors through a series of managed credit funds that co-invest in certain types of loans originated by the Company. Through its specialized lending platforms, the Company provides a range of senior secured debt financing options to mid-sized companies to fund working capital, growth strategies, acquisitions and recapitalizations, as well as, purchases of equipment and other capital assets.

These lending activities require specialized skills and transaction experience, as well as, a significant investment in personnel and operating infrastructure. To meet these demands, our loans and leases are originated directly by teams of credit-trained bankers and experienced marketing officers organized around key industry and market segments. These teams represent specialized lending groups that are supported by centralized credit management and operating platforms. This structure enables us to leverage common standards, systems, and industry and professional expertise across multiple businesses.

We target our marketing and origination efforts at private equity firms, mid-sized companies, corporate executives, banks, real estate investors and a variety of other referral sources and financial intermediaries to develop new customer relationships and source lending opportunities. Our origination network is national in scope and we target companies with business operations across a broad range of industry sectors. We employ highly experienced bankers, marketing officers and credit professionals to identify and structure new lending opportunities and manage customer relationships. We believe that the quality of our professionals, the breadth of their relationships and referral networks, and their ability to develop creative solutions for customers position us to be a valued partner and preferred lender for mid-sized companies and private equity funds with middle market investment strategies.

Our emphasis on direct origination is an important aspect of our marketing and credit strategy. Our national network is designed around specialized origination channels intended to generate a large set of potential lending opportunities. That allows us to be highly selective in our credit process and to allocate capital to market segments that we believe represent the most attractive opportunities. Our direct origination network also generates proprietary lending opportunities with yield characteristics that we believe would not otherwise be available through intermediaries. In addition, direct origination provides us with direct access to management teams and enhances our ability to conduct detailed due diligence and credit analysis of prospective borrowers. It also allows us to negotiate transaction terms directly with borrowers and, as a result, advise our customers on financial strategies and capital structures, which we believe benefits our credit performance.

The Company typically provides financing commitments to companies in amounts that range in size from \$10 million to \$50 million. The size of financing commitments depends on various factors, including the type of loan, the credit characteristics of the borrower, the economic characteristics of the loan, and our role in the transaction. We also selectively arrange larger transactions that we may retain on our balance sheet or syndicate to other lenders, which may include funds that we manage for third party institutional investors. By syndicating loans to other lenders and our managed funds, we are able to provide larger financing commitments to our customers and generate fee income, while limiting our risk exposure to single borrowers. From time to time, however, our balance sheet exposure to a single borrower may exceed \$35 million.

NewStar offers a set of credit products and services that have many common attributes, but which are highly specialized by lending group and market segment. Although both the Leveraged Finance and Business Credit lending groups structure loans as revolving credit facilities and term loans, the style of lending and approach to credit management is highly specialized.

## Table of Contents

The Equipment Finance group broadens our product offering to include a range of lease financing options. The operational intensity of each product also varies by lending group.

Although NewStar operates as a single segment, the Company derives revenues from its asset management activities and four specialized lending groups that target market segments in which we believe that we have competitive advantages:

Leveraged Finance, provides senior, secured cash flow loans and, to a lesser extent, second lien and unitranche loans, which are primarily used to finance acquisitions of mid-sized companies with annual cash flow (EBITDA) typically between \$10 million and \$50 million by private equity investment funds managed by established professional alternative asset managers;

Business Credit, provides senior, secured asset-based loans primarily to fund working capital needs of mid-sized companies with sales revenue typically totaling between \$25 million and \$500 million;

Real Estate, provides first mortgage debt primarily to finance acquisitions of commercial real estate properties typically valued between \$10 million and \$50 million by professional commercial real estate investors;

Equipment Finance, provides leases, loans and lease lines to finance purchases of equipment and other capital expenditures typically for companies with annual sales of at least \$25 million; and

Asset Management, provides opportunities for qualified institutions to invest in credit funds managed by the Company with strategies to co-invest in loans originated by its Leveraged Finance lending group.

Information regarding revenues, profits and losses and total assets of this single segment can be found in the financial statements in Item 8.

### Strategic Relationship

In December of 2014, NewStar formed a strategic relationship with GSO Capital ("GSO"), the credit division of Blackstone, and Franklin Square Capital Partners ("Franklin Square"), the largest manager of business development companies, intended to expand the Company's lending and asset management platforms. The relationship combined a series of initiatives expected to accelerate our loan growth and expand the Company's asset management platform, with a long-term strategic investment to partially fund the related growth strategy. Under the terms of the investment, funds managed by Franklin Square and sub-advised by GSO committed to purchase \$300 million of 8.25% subordinated notes due 2024 with warrants exercisable for 12 million shares of our common stock at an exercise price of \$12.62 (the "warrants"). The Company issued \$200 million in principal amount of the notes in December 2014. The warrants were issued in two tranches in December 2014 and January 2015. We are required to borrow the remaining \$100 million of notes in increments of at least \$25 million by December 2015. The Company expects to use the proceeds from the transaction to enhance its ability to originate and lead transactions across all of its specialized lending groups. As a result, we believe we will significantly increase our origination volume and facilitate the growth of our asset base. In addition, we anticipate that our relationship with GSO will result in cross-referral and co-lending opportunities, provide us with access to new channels of origination, and enable us to provide larger capital commitments and a more complete set of financing options to our clients.

### Lending Groups

Our lending activities are organized into four specialized lending groups: Leveraged Finance, Business Credit, Real Estate, and Equipment Finance.

#### Leveraged Finance

Through our Leveraged Finance group, the Company provides senior, secured cash flow loans and, to a lesser extent, second lien and unitranche loans, to middle market companies. These companies are typically backed by established private equity groups that manage large investment funds and have proven investment track records. The proceeds of these loans are used primarily for acquisitions, recapitalizations and refinancing or other general corporate purposes. The Leveraged Finance group also provides senior secured loans to larger middle market companies with greater financing needs by participating in larger credit facilities with other lenders as a member of a syndicate.

We believe that private equity backed companies represent an attractive segment of the overall market for financing middle market companies. Commonly known as sponsored lending, this financing segment is large, often representing 30-40% of total middle market lending measured by new loan volume. Transaction activity in this financing segment is driven by an estimated 600 private equity firms in the US that specialize in investing in middle market companies.



By focusing our origination activity on this universe of firms, the Company seeks to leverage its direct origination effort into significant transaction flow, as each firm typically completes several transactions per year.

We believe that NewStar is among the most active lenders focused on financing private equity backed companies in the middle market and that we have established a recognized brand in the market with a reputation as a smart, reliable lender that is

## Table of Contents

responsive, consistent and constructive. Since inception, the Company has funded loans totaling more than \$6 billion to approximately 550 companies backed by nearly 285 different financial sponsors. The Company's national lending strategy is supported by a network of offices located across the country. We develop new customer relationships and source our loans primarily through the direct marketing and origination efforts of our bankers. The Company's bankers call directly on prospective clients and referrals sources from this network of offices. They have established relationships with a wide range of prospective customers and referral sources, including approximately 285 private equity groups with investment strategies focused on the middle market, mid-sized companies, corporate executives, banks, other non-bank "club" lenders, and investment banks. To a lesser extent, we may also source loans and other debt products by participating in larger credit facilities syndicated by other lenders.

We generally compete for lending opportunities on the basis of our reputation and transaction experience. Through our strategic relationship, we also expect to originate financing opportunities from referrals of transactions in which we co-lend with Franklin Square or other affiliates of GSO. We believe that our strategic relationship will also help us compete more effectively for lending opportunities by enabling us to provide larger credit commitments and "one-stop" financing solutions to customers comprised of unitranche loans or a combination of senior and junior debt capital in partnership with GSO or Franklin Square.

NewStar offers a range of senior debt financing options, including revolving credit facilities, term loans and other debt products secured by a variety of business assets. Loans are typically structured to mature in five to six years and require monthly or quarterly interest payments at variable rates based on a spread to LIBOR or the prime rate, many with interest rate floors. Through our strategic relationship, we also seek to offer a more complete range of debt financing options, including second lien term loans, unitranche term loans, subordinated notes and, to a lesser extent, private equity co-investments.

We target mid-sized companies operating in a broad range of industries and market segments where we believe that we have competitive advantages and significant lending and underwriting experience, including:

- healthcare;
- manufacturing and industrial;
- financial services;
- energy/chemical services;
- printing/publishing;
- consumer, retail and restaurants; and
- business and technology services.

Our loans and other debt products, which may be part of larger credit facilities, typically range in size from \$10 million to \$50 million, although we generally limit the size of the loans that we retain to \$25 million. In certain cases, however, our loans and debt products may exceed \$35 million. We also have the capability to arrange significantly larger transactions which we syndicate to other lenders, including funds that we manage. As a result of syndication and asset management activities, our exposure to certain loans and other debt products may exceed \$35 million from time to time through "Loans held-for-sale," which represent amounts in excess of our target hold for investment position.

The Company has well established lending guidelines and transaction parameters. We focus on transactions with established companies that have strong market positions in targeted industry sectors. Our borrowers are typically unrated, but have credit profiles that we believe are comparable to B1/B2/B3 rated companies due to their limited size and use of leverage. The Company's preference is generally to finance acquisitions and other productive uses of capital subject to structural parameters, such as maximum leverage, that can vary significantly depending on the facts and circumstances of each situation. Substantially all the Company's loans have significant lender protections, including financial covenants that are set at levels with cushions to projected financial performance. They also typically include restrictive covenants and mandatory prepayment provisions that limit borrowers' ability to incur additional indebtedness and make acquisitions. Many transactions also include an excess cash flow recapture provision, which is designed to accelerate debt repayment and de-leveraging.

NewStar is also selective in targeting transaction sponsors, focusing on more established firms with between \$500 million and several billion dollars of committed capital managed across multiple funds. The Company invests

significant resources in developing relationships with target sponsors and understanding their respective investment strategies, performance track records, access to capital, and industry focus, as well as the backgrounds of their investment professionals. Our management believes that a significant factor in the Company's success has been the quality of its private equity franchise and the breadth of relationships it has developed with private equity firms. In many cases, the relationships that members of our management have with investment professionals at these firms extend from early in their professional careers. We believe the value created by our private equity relationships is reflected in the transaction flow that the Company generates and in the repeat business we have experienced with targeted sponsors.

## Table of Contents

NewStar's origination and credit strategies are strongly influenced by industry dynamics. The Company has invested in the development of an experienced staff of portfolio managers with deep industry expertise responsible for covering nine broad industry sectors. These portfolio managers maintain extensive networks of industry contacts in their respective industries and employ a research-driven framework to develop insights into these sectors intended to guide origination strategy and credit selection.

As of December 31, 2014, our Leveraged Finance loan portfolio totaled \$2.3 billion in funding commitments and \$2.1 billion in balances outstanding, representing 81.4% of our loan portfolio. This represented 189 transactions with an average balance outstanding of approximately \$11.3 million. During 2014, we originated \$1.6 billion of new Leveraged Finance loans, of which we retained \$1.0 billion and originated \$583.4 million for credit funds.

### Business Credit

Through its Business Credit lending group, NewStar provides working capital financing to asset-intensive companies that typically borrow against the value of their inventory and accounts receivable. These asset-based loans may also be used to support other business purposes, including acquisitions and recapitalizations, as well as growth strategies.

Typical borrowers generate sales revenue between \$25 million and \$500 million and operate across a range of industry sectors. The Company generally provides revolving credit facilities in amounts linked to borrowers' expected working capital needs and may also provide term loans backed by longer term assets and other excess collateral.

This type of fully-followed, asset-based lending is highly credit and operationally intensive. As part of the underwriting process and ongoing management of credit relationships, Business Credit tracks collateral values and performs regular field audits to confirm financial and borrowing base reporting. Audit results and appraisals are used to determine collateral eligibility and advance rates. Collateral values are tracked by specialized collateral analysts and daily borrowing activity is managed by collateral analysts and experienced account executives.

Nearly all of our asset-based lending relationships require dominion over borrowers' cash. Cash dominion gives us significant control of a borrowers' cash flow, including collections of all accounts receivable through lock-boxes controlled by the Company. This also facilitates subsequent disbursements of cash to repay advances under the credit line or for other corporate purposes including paying vendors, employees and others. We also verify receivables in certain circumstances, which involves verification specialists contacting account debtors of borrowers to confirm the existence and amount of receivables pledged as collateral.

Business Credit develops lending opportunities and sources transactions through an extensive network of long-standing relationships with corporate executives, private equity firms, intermediaries, turnaround consultants, banks and other referral sources. With our main Business Credit office in Dallas and marketing offices in Boston, Chicago, Los Angeles, Portland and San Francisco, we have a national asset-based lending origination platform capable of originating significant loan volume. The group's centralized marketing effort combined with regional sales coverage is designed to generate a significant flow of prospects and capitalize on the most attractive lending opportunities in the market.

The Business Credit group also anticipates to benefit from the strategic relationship with Franklin Square and GSO by offering asset-based revolving credit facilities as a co-lender with them. We also expect to provide financing for companies referred to us by GSO or Blackstone that are experiencing some financial stress or completing turnarounds. Asset-based loans originated by this group typically range in size from \$5 million to \$50 million. We also have the ability to arrange significantly larger transactions that we may syndicate to others.

Business Credit targets mid-sized companies in a variety of asset-intensive industries for our asset-based loans including:

- business services;
- auto/transportation;
- marketing;
- retail;
- general manufacturing;
- wholesale distribution; and
- technology.

Our asset-based credit products include the following:

• revolving lines of credit; and  
• senior secured term loans.

In determining our borrowers' ability and willingness to repay loans, our Business Credit group conducts a detailed due diligence investigation to assess financial reporting accuracy and capabilities as well as to verify the values of business assets among other things. We employ third parties to conduct field exams to audit financial reporting and to appraise the value of certain types of collateral in order to estimate its liquidation value. Financing arrangements with our customers also typically

## Table of Contents

include substantial controls over the application of borrowers' cash and we typically retain discretion over collateral advance rates and eligibility among other key terms and conditions.

As of December 31, 2014 our Business Credit loan portfolio totaled \$419.8 million in funding commitments and \$286.9 million in balances outstanding, representing 10.9% of our loan portfolio. This represented 38 transactions with an average balance outstanding of approximately \$7.6 million. During 2014, we originated \$119.1 million of new asset-based loans.

### Real Estate

Our Real Estate group provides first mortgage, transitional financing to professional real estate investors and developers to acquire and reposition commercial properties typically valued between \$10 million and \$50 million. We source our commercial real estate loans primarily through property investors, specialized commercial real estate brokers, regional banks and other financial intermediaries, as well as through our strategic partners.

Approximately \$105.4 million of our aggregate loan portfolio is comprised of loans secured by first mortgages on commercial properties. The collateral to the commercial real estate loan portfolio consists of a range of property types located across the US in significant metropolitan statistical areas with a modest concentration in loans secured by suburban office buildings.

The Company typically finances the acquisition of properties valued between \$10 and \$50 million as the sole lender without recourse to the sponsor. Loans are most often structured with an initial term of three years with two one year extension options. These loans generally do not provide for scheduled amortization and the primary source of repayment is refinancing upon stabilization of the property or sale. We generally hold back a portion of loan proceeds to fund improvements, tenant build-outs, and interest reserves.

After curtailing new lending activity in this group due to the dislocation in the real estate market during the financial crisis and ensuing recession, we have restarted real estate lending activity in connection with our new strategic relationships.

We have a selective focus on property types where we have significant lending and underwriting experience, including:

- office;
- multi-family;
- retail; and
- industrial.

Our focus on property types may vary by geographic region based on both economic fundamentals and underlying local market conditions that impact the demand for real estate. Our loans typically range in size from \$10 million to \$35 million. Although we generally limit loan sizes to \$25 million, our exposure to certain loans and other debt products may exceed \$30 million from time to time.

For our commercial real estate loans, we perform due diligence and credit analyses that focus on the following key considerations:

- the sponsor's history, capital and liquidity, and portfolio of other properties;
- the property's historical and projected cash flow as a primary source of repayment;
- tenant creditworthiness;
- the borrower's plan for the subject property, including refinancing options upon stabilization as a secondary source of repayment;
- the property's condition;
- local real estate market conditions;
- loan-to-value based on independent third-party appraisals;
- the borrower's demonstrated operating capability and creditworthiness;
- licensing and environmental issues related to the property and the borrower; and
- the borrower's management.

As of December 31, 2014 our Real Estate loan portfolio totaled \$108.9 million in funding commitments and \$105.4 million in balances outstanding, representing 4.0% of our total loan portfolio. This represented seven lending relationships with an average balance outstanding of approximately \$15.1 million. During 2014, we did not originate

any new commercial real estate loans.

6

---

## Table of Contents

### Equipment Finance

Our Equipment Finance group provides a range of equipment loan and lease financing options to mid-sized companies to fund various types of capital expenditures. We originate equipment loans and leases through a team of experienced marketing officers who develop new business directly with prospective lessees. We continue to expand our internal sales and marketing efforts to cross-sell leases to our existing customers and call directly on other end-users in the market, including portfolio companies owned by private equity investment firms with whom we have established relationships through our Leveraged Finance group.

We finance essential-use equipment for mid-sized businesses nationwide. Our Equipment Finance group offers a variety of leases and loan products with various end-of-term options to fund a wide range of equipment types, including manufacturing, technology, healthcare, transportation, and telecom equipment. Targeted transaction sizes range from \$1.0 million to \$20 million. We also offer lease lines to meet customers' needs for planned capital expenditures. We focus on companies with annual sales of at least \$25 million across a broad array of industries, including business services, healthcare, telecommunications, financial services, education, retail and manufacturing. As of December 31, 2014, our Equipment Finance portfolio totaled \$96.7 million in funding commitments and balances outstanding, representing 3.7% of our loan portfolio. This represented 50 transactions with an average balance outstanding of approximately \$1.7 million. During 2014, we originated \$67.1 million of new equipment finance products.

### Asset Management

As a registered investment adviser since 2012, NewStar offers investment products for qualified institutions to invest in private credit funds managed by the Company.

We believe that NewStar was among the first independent commercial finance companies to develop an asset management platform to provide investment strategies targeting middle market loans. The Company launched its first fund in 2005, which was called NewStar Credit Opportunities Fund ("NCOF") to co-invest in loans originated by the Company. The fund was capitalized with \$150 million of equity from third party investors. This equity commitment was then levered to support an investment portfolio of \$600 million using bank credit facilities to support the initial ramp-up followed by a securitization, to provide long-term match funding for the fund's assets. The Company launched the \$300 million Arlington Fund in 2013. It was increased to \$400 million in 2014, and also employed leverage through a loan securitization. The Company closed its third fund, a \$400 million levered fund known as the Clarendon Fund in 2014, with an anchor equity investment from funds sponsored by Franklin Square and sub-advised by GSO. As part of our strategic relationship, we intend to offer GSO and Franklin Square opportunities to invest additional capital in future lending vehicles managed by NewStar.

The Company's asset management activities provide opportunities for both high margin fee revenue and important strategic benefits. We earn management fees for our role as the investment manager for our funds with little incremental expense because the funds invest in the same loans that are being originated and underwritten by us for our own account. Compensation as investment manager is comprised of both base management fees and incentive fees. We also enjoy important strategic benefits from the management of credit funds because we believe that our competitive position is enhanced by providing more capital to our customers, while limiting our direct balance sheet risk.

NewStar is currently investing in the Arlington Fund and the Clarendon Fund, as we return capital to investors in our first fund, following the expiry of its investment period. The Company's managed funds are allocated a portion of the loans we originate based on an established allocation policy that defines a set of rules for managing this activity.

As of December 31, 2014, NewStar's managed assets totaled \$950 million with \$400 million managed in each of the Arlington Fund and the Clarendon Fund and \$39 million remaining in the NCOF. The Company also manages assets for its own account through a total return swap that references a portfolio of approximately \$110 million.

Our asset management revenue was approximately \$1.0 million in 2014 and \$2.5 million in 2013.

### Loans and Other Debt Products

#### Senior secured cash flow loans

Our senior secured cash flow loans are provided by our Leveraged Finance group. We underwrite these loans based on the cash flow, profitability and enterprise value of the borrower, with the value of any tangible assets as secondary



protection. These loans are generally secured by a first-priority security interest in all or substantially all of the borrowers' assets and, in certain transactions, the pledge of their common stock.

As of December 31, 2014, senior secured cash flow loans totaled \$2.2 billion in funding commitments and \$2.0 billion in balances outstanding, representing 77.9% of our loan portfolio.

Table of Contents

## Senior secured asset-based loans

Our senior secured asset-based loans are provided primarily by our Business Credit group, and to a lesser degree by our Leveraged Finance group, and are secured by a first-priority lien on tangible assets and have a first-priority in right of payment. Senior secured asset-based loans are typically advanced under revolving credit facilities against a borrowing base comprised of collateral, including eligible accounts receivable, inventories and other long-term assets. As of December 31, 2014, senior secured asset-based loans totaled \$518.7 million in funding commitments and \$385.9 million in balances outstanding, representing 14.7% of our loan portfolio.

## First mortgage loans

Our first mortgage loans are provided by our Real Estate group and are secured by a mortgage bearing a first lien on the real property serving as collateral. Our first mortgage loans require borrowers to demonstrate satisfactory collateral value at closing through a third party property appraisal and typically contain provisions governing the use of property operating cash flow and disbursement of loan proceeds during the term of the loan.

As of December 31, 2014, first mortgage loans totaled \$108.9 million in funding commitments and \$105.4 million in balances outstanding, representing 4.0% of our loan portfolio.

## Other

Our other loans and debt products are categorized as \$50.8 million of senior subordinated asset-based (which are equal as to collateral and subordinate as to right of payment to other senior lenders), \$33.1 million of second lien (which are second liens on all or substantially all of a borrower's assets, and in some cases, junior in right of payment to senior lenders), and \$6.4 million of mezzanine/subordinated (which are subordinated as to rights to collateral and right of payment to senior lenders).

## Loan Portfolio

The Company's loan portfolio is comprised of loans, leases and other debt products. As of December 31, 2014, the loan portfolio totaled approximately \$2.9 billion of funding commitments, representing \$2.6 billion of balances outstanding and \$0.3 billion of funds committed but undrawn as of December 31, 2014. Loans originated by our Leveraged Finance group comprised 81.4% of the portfolio, while 10.9% of the loan portfolio was originated by our Business Credit and Equipment Finance lending groups, 4.0% comprised of commercial mortgages originated by our Real Estate lending group, and the remaining 3.7% was originated by our Equipment Finance group as of December 31, 2014. Consistent with our strategy to focus on senior secured lending, first lien senior debt represented 96.6% of the portfolio.

As of December 31, 2014, we had seven loans with outstanding balances greater than \$25.0 million. In most of these cases, we either sought to maximize our potential recovery of the outstanding principal by adding to our position through a workout or our hold size increased as a result of a portfolio purchase, syndication or through asset management activities. As of December 31, 2014, we had two impaired loans that had an outstanding balance greater than \$30 million. As of December 31, 2014 our largest outstanding loan was 1.4% of our loan portfolio, and the top ten outstanding loans comprised 10.2% of our loan portfolio.

## Loan Portfolio Overview

The following tables present information regarding the outstanding balances of our loans and other debt products:

	December 31, 2014		2013		2012		
	(\$ in thousands)						
Composition Type							
First mortgage	\$ 105,394	4.0	% \$ 123,029	5.2	% \$ 177,462	9.5	%
Senior secured asset-based	385,882	14.7	239,314	10.1	201,219	10.7	
Senior secured cash flow	2,044,126	77.9	1,948,965	82.4	1,448,182	77.3	
Other	90,320	3.4	54,031	2.3	47,400	2.5	
Total	\$ 2,625,722	100.0	% \$ 2,365,339	100.0	% \$ 1,874,263	100.0	%



Table of Contents

	December 31,		
	2014	2013	2012
	(\$ in thousands)		
Composition by Lending Group			
Leveraged Finance	\$2,136,744	\$2,005,325	\$1,499,833
Business Credit	286,918	182,633	177,587
Real Estate	105,394	123,029	177,478
Equipment Finance	96,666	54,352	19,365
Total	\$2,625,722	\$2,365,339	\$1,874,263
	December 31, 2014		
	Percentage of		Percentage of
	Leveraged		Loan Portfolio
	Finance		
Leveraged Finance by Industry			
Industrial/other	18.2	%	14.8
Other business services	14.3		11.6
Manufacturing—consumer non-durable	10.4		8.5
Financial services	8.3		6.7
Healthcare	7.3		5.9
Manufacturing—consumer durable	6.6		5.4
Auto/Transportation	6.1		5.0
Cable/Telecom	5.1		4.1
Energy/Chemical Services	4.5		3.7
Restaurants	4.2		3.5
Consumer services	3.1		2.5
Environmental services	2.9		2.3
Tech services	2.7		2.2
Printing/Publishing	2.4		1.9
Marketing services	1.6		1.3
Entertainment/Leisure	1.0		0.9
Building materials	0.8		0.6
Retail	0.4		0.4
Broadcasting	0.1		0.1
Total	100.0	%	81.4

# Table of Contents

	December 31, 2014			
	Percentage of Business Credit		Percentage of Loan Portfolio	
Business Credit by Industry				
Other Business Services	34.9	%	3.8	%
Manufacturing—consumer non-durable	19.8		2.2	
Auto/Transportation	11.8		1.3	
Building materials	10.5		1.1	
Industrial/other	8.6		0.9	
Retail	6.8		0.8	
Entertainment/Leisure	2.4		0.3	
Manufacturing—consumer durable	2.0		0.2	
Printing/Publishing	1.6		0.2	
Healthcare	1.4		0.1	
Marketing services	0.2		—	
Total	100.0	%	10.9	%
	December 31, 2014			
	Percentage of Real Estate		Percentage of Loan Portfolio	
Real Estate by Property Type				
Office	62.7	%	2.5	%
Retail	21.0		0.8	
Multi-family	16.3		0.7	
Total	100.0	%	4.0	%
	December 31, 2014			
	Percentage of Equipment Finance		Percentage of Loan Portfolio	
Equipment Finance by Industry				
Industrial/other	22.0	%	0.8	%
Other business services	19.4		0.7	
Auto/Transportation	17.4		0.6	
Printing/Publishing	9.6		0.3	
Energy/Chemical Services	7.7		0.3	
Environmental services	5.5		0.2	
Cable/Telecom	5.1		0.2	
Healthcare	4.6		0.2	
Building materials	3.3		0.1	
Financial services	1.6		0.1	
Restaurants	1.5		—	
Retail	0.9		—	
Manufacturing - consumer non-durable	0.9		—	
Marketing services	0.3		—	
Tech services	0.2		—	
Total	100.0	%	3.5	%



Table of Contents

The table below shows the final maturities of our loan portfolio as of December 31, 2014:

	Due in One Year or Less	Due in One to Five Years	Due After Five Years	Total
	(\$ in thousands)			
Senior secured cash flow	\$68,577	\$1,748,997	\$226,552	\$2,044,126
Senior secured asset-based	95,048	282,698	8,136	385,882
First mortgage	62,386	43,008	—	105,394
Other	6,000	26,239	58,081	90,320
Total	\$232,011	\$2,100,942	\$292,769	\$2,625,722

The table below shows the outstanding balances of fixed-rate and adjustable-rate loans and other debt products as of December 31, 2014:

	Fixed- Rate(1)	Adjustable- Rate(2)(3)	Total
	(\$ in thousands)		
Senior secured cash flow	\$4,847	\$2,039,279	\$2,044,126
Senior secured asset-based	96,666	289,216	385,882
First mortgage	—	105,394	105,394
Other	—	90,320	90,320
Total	\$101,513	\$2,524,209	\$2,625,722

(1) As of December 31, 2014, we did not have any interest-rate protection products against the \$101.5 million of fixed-rate loans and other debt products outstanding.

(2) As of December 31, 2014, we had interest rate floors on \$2.1 billion of adjustable-rate loans outstanding.

(3) As of December 31, 2014, adjustable-rate loans include \$87.8 million of non-accrual loans.

NewStar is a Delaware corporation that was incorporated in 2004. Our principal executive office is located at 500 Boylston Street, Suite 1250, Boston, Massachusetts 02116, and our telephone number is (617) 848-2500. We maintain a website at [www.newstarfin.com](http://www.newstarfin.com).

#### Recent Developments

##### Strategic Relationship

On November 4, 2014, we announced a strategic relationship GSO and Franklin Square and entered into an investment agreement with FS Investment Corporation, FS Investment Corporation II, and FS Investment Corporation III (collectively the “Franklin Square Funds”) pursuant to which we agreed to issue \$300 million of 8.25% subordinated notes due 2024 and warrants exercisable for 12 million shares of the Company’s common stock at an exercise price of \$12.62 per share (the “Warrants”).

On December 4, 2014, we issued \$200 million of the subordinated notes. The Warrants were issued in two tranches on December 4, 2014 and January 23, 2015. We are required to issue the remaining \$100 million of 8.25% subordinated notes due 2024 within one year of the initial purchase.

##### Clarendon Fund

In December 2014, we formed a new managed credit fund, NewStar Clarendon Fund CLO (“Clarendon Fund”) a \$400 million middle market CLO used to provide leverage for a managed credit fund anchored by an investment from funds sponsored by Franklin Square Capital Partners and sub-advised by GSO Capital, the credit division of Blackstone, to co-invest in middle market commercial loans originated by the Company. In January 2015, we completed the sale of the Clarendon Fund’s CLO bonds to third party investors. As of December 31, 2014, the Clarendon Fund loan portfolio had an outstanding balance of approximately \$236.7 million.





## Table of Contents

### Liquidity

On January 13, 2015, we entered into an amendment to our credit facility with Wells Fargo Bank, National Association to fund leveraged finance loans. The amendment increased the commitment amount under the credit facility from \$275.0 million to \$375.0 million, increased the amount by which the commitment amount may be increased to up to \$425.0 million, and modified certain concentration amounts and specified threshold amounts, among other things.

### Stock Repurchase Program

On December 22, 2014, the Company repurchased 1,000,000 shares of its common stock in a privately negotiated transaction with an unaffiliated third party for an aggregate purchase price of \$10.2 million. This transaction was not made under the stock repurchase program announced on August 13, 2014 described below.

On August 13, 2014, our Board of Directors authorized the repurchase of up to \$10.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased are determined by our management based on its evaluation of market conditions and other factors. The repurchase program, which will expire on August 15, 2015 unless extended by the Board of Directors, may be suspended or discontinued at any time without notice. As of December 31, 2014, we had repurchased 382,999 shares of our common stock under this program at a weighted average price per share of \$11.54.

### Competition

Our markets are highly competitive and are characterized by competitive factors that vary based upon product and geographic region. We currently compete with a large number of financial services companies, including:

- specialty and commercial finance companies, including business development companies;
- private investment funds and hedge funds;
- national and regional banks;
- investment banks; and
- insurance companies.

The markets in which we operate are fragmented. We compete based on the following factors, which vary by industry, asset class and property types:

- the interest rates and other pricing and/or loan or other debt product terms;
- the quality of our people and their relationships;
- our knowledge of our customers' industries and business needs;
- the flexibility of our product offering;
- the responsiveness of our process; and
- our focus on customer service.

### Regulation

Some aspects of our operations are subject to supervision and regulation by state and federal governmental authorities and may be subject to various laws and regulations imposing various requirements and restrictions, which, among other things:

- regulate credit granting activities, including establishing licensing requirements in some jurisdictions;
- establish the maximum interest rates, finance charges and other fees we may charge our customers;
- govern secured transactions;
- require specified information disclosures to our customers;
- set collection, foreclosure, repossession and claims handling customer procedures and other trade practices;
- regulate our customers' insurance coverage;
- prohibit discrimination in the extension of credit and administration of our loans; and
- regulate the use and reporting of information related to a customer's credit experience.

Many of our competitors are subject to more extensive supervision and regulation. If we were to become subject to similar supervision or regulation in the future, it could impact our ability to conduct our business.



## Table of Contents

During 2012, we registered as an investment adviser under the Investment Adviser Act of 1940 (the “Advisers Act”) as a result of SEC rules promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The Advisers Act imposes numerous obligations on such registered investment advisers including fiduciary duties, disclosure obligations and record-keeping, operational and marketing requirements. Registered investment advisers are required by the SEC to adopt and implement written policies and procedures designed to prevent violations of the Advisers Act and to designate a chief compliance officer responsible for administering these policies and procedures. The SEC is authorized to institute proceedings and impose sanctions for violations for the Advisers Act, which may include fines, censure or the suspension or termination of an investment adviser’s registration.

### Employees

As of December 31, 2014, we employed 98 people compared to 101 people at December 31, 2013. At December 31, 2014, our origination group had 34 employees, including 27 bankers who were either managing directors, directors or vice presidents, and seven associates and analysts. Our credit organization had 23 employees, including eight managing directors. Additionally, we employed 41 people who were involved in operational or administrative roles. We believe our relations with our employees are good. We had 99 employees as of February 27, 2015.

### Available Information

NewStar files Annual, Quarterly and Current Reports, proxy statements and other information with the Securities and Exchange Commission (SEC). These documents are available free of charge at [www.newstarfin.com](http://www.newstarfin.com) shortly after such material is electronically filed with or furnished to the SEC. In addition, NewStar’s codes of business conduct and ethics as well as the various charters governing the actions of certain of NewStar’s Committees of its Board of Directors, including its Audit Committee, Risk Policy Committee, Compensation Committee and its Nominating and Corporate Governance Committee, are available at [www.newstarfin.com](http://www.newstarfin.com). References to our website are not intended to incorporate information on our website into this Annual Report by reference.

The public may read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, including NewStar, that file electronically with the SEC, which is available at [www.SEC.gov](http://www.SEC.gov).

We will provide to any shareholder, upon request and without charge, copies of these documents (excluding any applicable exhibits unless specifically requested). Written requests should be directed to: Investor Relations, NewStar Financial, Inc., 500 Boylston St., Suite 1250, Boston, Massachusetts 02116.

### Item 1A. Risk Factors

The following are important risks and uncertainties we have identified that could materially affect our future results. You should consider them carefully when evaluating forward-looking statements contained in this Annual Report and otherwise made by us or on our behalf because these contingencies could cause actual results and circumstances to differ materially from those projected in forward-looking statements. The Company’s actual future results and trends may differ materially depending on a variety of factors including, but not limited to, the risks and uncertainties discussed below. If any of those contingencies actually occurs, our business, financial condition and results of operations could be negatively impacted and the trading price of our common stock could decline.

#### Risks Related to Our Loan Portfolio and Lending Activities

We may not recover all amounts contractually owed to us by our borrowers resulting in charge-offs, impairments and non-accruals, which may exceed our allowance for credit losses and could negatively impact our financial results and our ability to secure additional funding.

We charged off \$25.4 million of loans during 2014, and expect to have additional credit losses in the future through the normal course of our lending operations. If we were to experience a material increase in credit losses exceeding our allowance for loan losses in the future, our assets, net income and operating results would be adversely impacted, which could also lead to challenges in securing additional financing.

As of December 31, 2014, we had delinquent loans of \$43.6 million and had loans with an aggregate outstanding balance of \$217.2 million classified as impaired. Of these impaired loans, loans with an aggregate outstanding balance

of \$87.8 million at December 31, 2014 were also on non-accrual status.

13

---

## Table of Contents

Like other commercial lenders, we experience delinquencies, impairments and non-accruals, which may indicate that our risk of credit loss for a particular loan has materially increased. When a loan is over 90 days past due or if management believes it is probable that we will be unable to collect principal and interest contractually owed to us, it is our policy to place the loan on non-accrual status and classify it as impaired. In certain circumstances, a loan can be classified as impaired, but continue to be performing as a result of a troubled debt restructuring.

As of December 31, 2014, we had an allowance for credit losses of \$43.7 million, including specific reserves of \$20.7 million. Management periodically reviews the appropriateness of our allowance for credit losses. However, the relatively limited history of our loans and leases makes it difficult to judge the expected credit performance of our loans and leases, as it may not be predictive of future losses. Our estimates and judgments with respect to the appropriateness of our allowance for credit losses may not be accurate, and the assumptions we use to make such estimates and judgments may not be accurate. Moreover, the estimates and judgments we make regarding workout loans are more sensitive to our assumptions regarding the appropriateness of our allowance for credit losses. Our allowance may not be adequate to cover credit or other losses related to our loans and leases as a result of unanticipated adverse changes in the economy or events adversely affecting specific customers, industries or markets. If we were to experience material credit losses related to our loans, such losses could adversely impact our ability to fund future loans and our business and, to the extent losses exceed our allowance for credit losses, our results of operations and financial condition would be adversely affected.

We may have hold positions that exceed our targets which may result in more volatility in the performance of our loan portfolio.

Our loans and other debt products, which may be part of larger credit facilities, typically range in size from \$10 million to \$50 million, although we generally limit the size of the loans that we retain to \$25 million. In certain cases, however, our loans and debt products may exceed \$35 million. We also have the capability to arrange significantly larger transactions that we syndicate to other lenders, including funds that we manage. As a result of syndication and asset management activities, our exposure to certain loans and other debt products may exceed \$35 million from time to time through "Loans held-for-sale," which represent amounts in excess of our target hold for investment position. As of December 31, 2014, we had seven loans that had an outstanding balance greater than \$25 million. In each of these cases, we either sought to maximize our potential recovery of the outstanding principal by adding to our position through a workout or our hold size increased as a result of a portfolio purchase, syndication or through asset management activities. As of December 31, 2014, we had two impaired loans that had outstanding balances greater than \$30 million. If a borrower in one of these larger hold positions were to experience difficulty in adhering to the repayment terms of its loan with us, the negative impact to our results of operations and financial condition could be greater than a loan within our general size limits.

Disruptions in global financial markets have and may continue to increase the number of charge-offs, impairments and non-accruals in our loan portfolio, which may exceed our allowance for credit losses and could negatively impact our financial results.

Our business, financial condition and results of operations may be adversely affected by the economic and business conditions in the markets in which we operate. Delinquencies, non-accruals and credit losses generally increase during economic slowdowns or recessions. Our Leveraged Finance, Business Credit and Equipment Finance groups primarily consist of loans and leases to small and medium-sized businesses that may be particularly susceptible to economic slowdowns or recessions and may be unable to make scheduled payments of interest or principal on their borrowings during these periods. In our Real Estate group, the recent economic slowdown and recession has led to increases in payment defaults on the underlying commercial real estate. Therefore, to the extent that economic and business conditions are unfavorable, our non-performing assets are likely to remain elevated and the value of our loan portfolio is likely to decrease. Adverse economic conditions also may decrease the estimated value of the collateral, particularly real estate, securing some of our loans or other debt products. As a result, we may have certain commercial real estate loans that we have not classified as impaired with outstanding balances greater than the estimated value of the underlying collateral. Further or prolonged economic slowdowns or recessions could lead to financial losses in our loan portfolio and a decrease in our net interest income, net income and book value.

We make loans primarily to privately-owned, small and medium-sized companies that may carry more inherent risk and present an increased potential for loss than loans to larger companies.

Our loan portfolio consists primarily of loans to small and medium-sized, privately-owned companies, most of which do not publicly report their financial condition. Compared to larger, publicly-traded firms, loans to these types of companies may carry more inherent risk. The companies that we lend to generally have more limited access to capital and higher funding costs, may be in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks. Accordingly, loans and leases made to these types of customers involve higher risks than loans and leases made to companies that have larger businesses, greater financial

## Table of Contents

resources or are otherwise able to access traditional credit sources. Numerous factors may make these types of companies more vulnerable to variations in results of operations, changes impacting their industry and changes in general market conditions. Companies in this market segment also face intense competition, including from companies with greater financial, technical, managerial and marketing resources. Any of these factors could impair a customer's cash flow or result in other adverse events, such as bankruptcy, which could limit a customer's ability to make scheduled payments on our loans and leases, and may lead to losses in our loan portfolio and a decrease in our net interest income, net income and book value.

Additionally, because most of our customers do not publicly report their financial condition, we are more susceptible to a customer's fraud, which could cause us to suffer losses on our loan portfolio. The failure of a customer to accurately report its financial position, compliance with loan covenants or eligibility for additional borrowings could result in our providing loans, leases or other debt products that do not meet our underwriting criteria, defaults in loan and lease payments, the loss of some or all of the principal of a particular loan or loans, including, in the case of revolving loans, amounts we may not have advanced had we possessed complete and accurate information. Our concentration of loans and other debt products within a particular industry or region could impair our financial condition or results of operations if that industry or region were to experience adverse changes to economic or business conditions.

We specialize in certain broad industry segments, such as business services, industrial, manufacturing and healthcare in which our bankers have experience and strong networks of proprietary deal sources and our credit personnel have significant underwriting expertise. As a result, our portfolio currently has and may develop other concentrations of risk exposure related to those industry segments. If industry segments in which we have a concentration of investments experience adverse economic or business conditions, our delinquencies, default rate and loan charge-offs in those segments may increase, which may negatively impact our financial condition and results of operations.

Our balloon and bullet transactions may involve a greater degree of risk than other types of loans.

As of December 31, 2014, balloon and bullet transactions represented 92% of the outstanding balance of our loan portfolio. Balloon and bullet loans involve a greater degree of risk than other types of transactions because they are structured to allow for either small (balloon) or no (bullet) principal payments over the term of the loan, requiring the borrower to make a large final payment upon the maturity of the loan. The ability of our customers to make this final payment upon the maturity of the loan typically depends upon their ability either to refinance the loan prior to maturity or to generate sufficient cash flow to repay the loan at maturity. The ability of a customer to accomplish any of these goals will be affected by many factors, including the availability of financing at acceptable rates to the customer, the financial condition of the customer, the marketability of the related collateral, the operating history of the related business, tax laws and the prevailing general economic conditions. Consequently, the customer may not have the ability to repay the loan at maturity, and we could lose all or most of the principal of our loan. Given their relative size and limited resources and access to capital, our small and mid-sized customers may have difficulty in repaying or financing their balloon and bullet loans on a timely basis or at all.

Our cash flow transactions are not fully covered by the value of tangible assets or collateral of the customer and, consequently, if any of these transactions become non-performing, we could suffer a loss of some or all of our value in the assets.

Cash flow lending involves lending money to a customer based primarily on the expected cash flow, profitability and enterprise value of a customer, with the value of any tangible assets as secondary protection. In some cases, these loans may have more leverage than traditional bank debt. As of December 31, 2014, cash flow transactions comprised \$2.0 billion, or 78%, of the outstanding balance of our loan portfolio. In the case of our senior cash flow loans, we generally take a lien on substantially all of a customer's assets, but the value of those assets is typically substantially less than the amount of money we advance to the customer under a cash flow transaction. In addition, some of our cash flow loans may be viewed as stretch loans, meaning they may be at leverage multiples that exceed traditional accepted bank lending standards for senior cash flow loans. Thus, if a cash flow transaction becomes non-performing, our primary recourse to recover some or all of the principal of our loan or other debt product would be to force the sale of all or part of the company as a going concern. Additionally, we may obtain equity ownership in a borrower as a means to recover some or all of the principal of our loan. The risks inherent in cash flow lending include, among other

things:

- reduced use of or demand for the customer's products or services and, thus, reduced cash flow of the customer to service the loan and other debt product as well as reduced value of the customer as a going concern;
- inability of the customer to manage working capital, which could result in lower cash flow;
- inaccurate or fraudulent reporting of our customer's positions or financial statements;

15

---



## Table of Contents

economic downturns, political events, regulatory changes, litigation or acts of terrorism that affect the customer's business, financial condition and prospects; and

• our customer's poor management of their business.

Additionally, many of our customers use the proceeds of our cash flow transactions to make acquisitions. Poorly executed or poorly conceived acquisitions can tax management, systems and the operations of the existing business, causing a decline in both the customer's cash flow and the value of its business as a going concern. In addition, many acquisitions involve new management teams taking over control of a business. These new management teams may fail to execute at the same level as the former management team, which could reduce the cash flow of the customer available to service the loan or other debt product, as well as reduce the value of the customer as a going concern. If interest rates rise, demand for our loans or other debt products may decrease and some of our existing customers may be unable to service interest on their loans or other debt products.

Most of our loans and other debt products bear interest at floating interest rates subject to floors. To the extent interest rates increase, monthly interest obligations owed by our customers to us will also increase. Demand for our loans or other debt products may decrease as interest rates rise or if interest rates are expected to rise in the future. In addition, if prevailing interest rates increase, some of our customers may not be able to make the increased interest payments or refinance their balloon and bullet transaction, resulting in payment defaults and loan impairments. Conversely if interest rates decline, our customers may refinance the loans they have with us at lower interest rates, or with others, leading to lower revenues.

Errors by, or dishonesty of, our employees in making credit decisions or in our loan and other debt product servicing activities could result in credit losses and harm our reputation.

We rely heavily on the performance and integrity of our employees in making our initial credit decisions with respect to our loans and other debt products and in servicing our loans and other debt products after they have closed. Because there is generally little or no publicly available information about our customers, we cannot independently confirm or verify the information our employees provide us for use in making our credit and funding decisions. Errors by our employees in assembling, analyzing or recording information concerning our customers could cause us to originate loans or fund subsequent advances that we would not otherwise originate or fund, which could result in loan losses. Losses could also arise if any of our employees were dishonest, particularly if they colluded with a customer to misrepresent the creditworthiness of a prospective customer or to provide inaccurate reports regarding the customer's compliance with the covenants in its loan or other debt products agreement. If, based on an employee's dishonesty, we made a loan or other debt product to a customer that was not creditworthy or failed to exercise our rights under a loan or other debt product agreement against a customer that was not in compliance with covenants in the agreement, we could lose some or all of the principal of the loan or other debt product. Fraud or dishonesty on the part of our employees could also damage our reputation which could harm our competitive position and adversely affect our business.

We are not the sole lender or agent for most of our leveraged finance loans or other debt products. Consequently, we do not have absolute control over how these loans or other debt products are administered or have control over those loans. When we are not the sole lender or agent, we may be required to seek approvals from other lenders before we take actions to enforce our rights.

Our recent loan originations are comprised of a larger percentage of broadly syndicated deals. As such, a majority of our leveraged finance loan portfolio consists of loans and other debt products in which we are neither the sole lender, the agent for the lending group that receives payments under the loan or other debt product nor the agent that controls the underlying collateral. These loans may not include the same covenants that we generally require of our borrowers. For these loans and other debt products, we may not have direct access to the customer and, as a result, may not receive the same financial or operational information as we receive for loans or other debt products for which we are the agent. This may make it more difficult for us to track or rate these loans or other debt products. Additionally, we may be prohibited or otherwise restricted from taking actions to enforce the loan or other debt product or to foreclose upon the collateral securing the loan or other debt product without the agreement of other lenders holding a specified minimum aggregate percentage, generally a majority or two-thirds of the outstanding principal balance. It is possible that an agent for one of these loans or other debt products may choose not to take the same actions to enforce the loan

or other debt product or to foreclose upon the collateral securing the loan that we would have taken had we been the agent for the loan or other debt product.

Our commitments to lend additional sums to customers may exceed our resources available to fund these commitments, adversely affecting our financial condition and results of operations.

Our contractual commitments to lend additional sums to our customers may exceed our resources available to fund these commitments. Some of our funding sources are only available to fund a portion of a loan and other funding sources may not be

Table of Contents

immediately available. Our customers' ability to borrow these funds may be restricted until they are able to demonstrate, among other things, that they have sufficient collateral to secure the requested additional borrowings or that the borrowing conforms to specific uses or meets certain conditions. We may have miscalculated the likelihood that our customers will request additional borrowings in excess of our readily available funds. If our calculations prove incorrect, we will not have the funds to make these loan advances without obtaining additional financing. Our failure to satisfy our full contractual funding commitment to one or more of our customers could create breach of contract or other liabilities for us and damage our reputation in the marketplace, which could then adversely affect our financial condition and results of operations.

Because there is no active trading market for most of the loans and other debt products in our loan portfolio, we might not be able to sell them at a favorable price or at all. The lack of active secondary markets for some of our investments may also create uncertainty as to the value of these investments.

We may seek to dispose of one or more of our loans and other debt products to obtain liquidity or to reduce or limit potential losses with respect to non-performing assets. There is no established trading market for most of our loans and other debt products. In addition, the fair value of other debt products that have lower levels of liquidity or are not publicly-traded may not be readily determinable and may fluctuate significantly on a monthly, quarterly and annual basis. Because these valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of the fair value of our other debt products may differ materially from the values that we ultimately attain for these debt products or would be able to attain if we have to sell our other debt products. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments are materially higher than the values that we ultimately realize upon their disposal. In addition, given the limited trading market for our loans and other debt products and the uncertainty as to their fair value at any point in time, if we seek to sell a loan or other debt product to obtain liquidity or reduce or limit losses, we may not be able to do so at a favorable price or at all.

We selectively underwrite transactions that we may be unable to syndicate or sell to our credit funds.

On a selective basis, we commit to underwrite transactions that are significantly larger than our internal hold targets and we then seek to syndicate amounts in excess of our target to other lenders or plan to season the loan on our balance sheet to satisfy tax requirements and then sell the excess amounts to our credit funds. If we are unable to syndicate or sell these commitments, we may have to sell the additional exposure to third parties on unfavorable terms, which could adversely affect our financial condition or results of operations. In addition, if we must hold a larger portion of a transaction than we would like, we may not be able to complete other transactions and our loan portfolio may become more concentrated, which could affect our business, financial condition and results of operations.

We provide second lien, subordinated / mezzanine loans, other debt products and equity-linked products that may rank junior to rights of other lenders, representing a higher risk of loss than our other loans and debt products in which we have a first priority position.

To a lesser extent, we provide second lien, subordinated / mezzanine loans, other debt products and equity-linked products, which are typically junior in right of payment to obligations to customers' senior secured lenders and contain either junior or no collateral rights. As a result of their junior nature, we may be limited in our ability to enforce our rights to collect principal and interest on these loans and other debt products or to recover any of their outstanding balance through a foreclosure of collateral. For example, typically we are not contractually entitled to receive payments of principal on a junior loan or other debt product until the senior loan or other debt product is paid in full, and we may only receive interest payments on a second lien or subordinated / mezzanine asset if the customer is not in default under its senior secured loan. In many instances, we are also prohibited from foreclosing on collateral securing a second lien, subordinated / mezzanine loan or other debt product until the senior loan is paid in full. Moreover, any amounts that we might realize as a result of our collection efforts or in connection with a bankruptcy or insolvency proceeding involving a customer under a second lien, subordinated / mezzanine loan or other debt product must generally be turned over to the senior secured lender until the senior secured lender has realized the full value of its own claims. These restrictions may materially and adversely affect our ability to recover the principal of any non-performing senior subordinate, second lien, subordinated / mezzanine loans and other debt product. In addition,

on occasion we provide senior loans or other debt products that are contractually subordinated to one or more senior secured loans for the customer. In those cases we may have a first lien security interest, but one or more creditors have payment priority over us. As of December 31, 2014, our second lien and, subordinated/mezzanine loans totaled \$90.3 million.

#### Risks Related to Our Funding and Leverage

Our ability to grow our business depends on our ability to obtain external financing. If our lenders terminate any of our credit facilities or if we default on our credit facilities, we may not be able to continue to fund our business.

## Table of Contents

We require a substantial amount of cash to provide new loans and other debt products and to fund our obligations to existing customers. In the past, we have obtained the cash required for our operations through the issuance of equity interests and by borrowing money through credit facilities, term debt securitizations and repurchase agreements. We may not be able to continue to access these or other sources of funds.

During 2014, we completed a \$289.5 million term debt securitization, issued \$200 million of subordinated notes with a commitment to issue an additional \$100 million, increased the size of asset-based loan credit facility from \$75 million to \$110 million, and increased the size of the term loan under our corporate credit facility from \$200 million to \$238.5 million. Additionally, we called a term debt securitization and redeemed the notes at par.

Substantially all of our non-securitized loans and other debt products are held in these facilities. Our credit facilities contain customary representations and warranties, covenants, conditions, events of default and termination events that if breached, not satisfied or triggered, could result in termination of the facility. These events of default and termination events include, but are not limited to, failure to service debt obligations, failure to meet liquidity covenants and tangible net worth covenants, and failure to remain within prescribed facility portfolio delinquency and charge-off levels. Further, all cash flow generated by our loans and other debt products subject to a particular facility would go to pay down our borrowings thereunder rather than to us if we are in default. Additionally, if the facility were terminated due to our breach, noncompliance or default, our lenders could liquidate or sell all or a portion of our loans and other debt products held in that facility. Also, if we trigger a default or there is a termination event under one facility and that default or termination results in a payment default or in the acceleration of that facility's debt, it may trigger a default or termination event under our other facilities that have cross-acceleration or payment cross-default provisions. Consequently, if one or more of these facilities were to terminate prior to its expected maturity date, our liquidity position would be materially adversely affected, and we may not be able to satisfy our undrawn commitment balances, originate new loans or other debt products or continue to fund our operations. Even if we are able to refinance our debt, we may not be able to do so on favorable terms. If we are not able to obtain additional funding on favorable terms or at all, our ability to grow our business will be impaired.

Our deferred financing fees amortize over the contractual life of credit facilities and over the weighted average expected life of our term debt securitizations.

We have recorded deferred financing fees associated with most of our financing facilities. These deferred financing fees amortize over the contractual life of our credit facilities and over the weighted average expected life of our term debt securitizations. If a credit facility were to terminate before its contractual maturity date or if a term debt securitization were to terminate before its weighted average expected life, we would be required to accelerate amortization of the remaining balance of the deferred financing fees which could have a negative impact our results of operations and financial condition.

Our lenders and noteholders could terminate us as servicer of our loans, which would adversely affect our ability to manage our loan portfolio and reduce our net interest income.

Upon the occurrence of specified servicer termination events, our lenders under our credit facilities and the holders of the notes issued in our term debt securitizations may elect to terminate us as servicer of the loans and other debt products under the applicable facility and appoint a successor servicer. These servicer termination events include, but are not limited to, maintenance of certain financial covenants and the loss of certain key members of our senior management, including our Chief Executive Officer and Chief Investment Officer. We do not maintain key man life insurance on any of our senior management nor have we taken any other precautions to offset the financial loss we could incur as a result of any of their departures, however, we do have employment contracts with our senior management. Certain of our credit facilities include cure rights which would enable us to correct the event of default and maintain our status as servicer.

If we are terminated as servicer, we will no longer receive our servicing fee, but we will continue to receive the excess interest rate spread as long as the term debt securitization does not need to trap the excess spread as a result of defaulted loan collateral. In addition, because any successor servicer may not be able to service our loan portfolio according to our standards, any transfer of servicing to a successor servicer could result in reduced or delayed collections, delays in processing payments and information regarding the loans and other debt products and a failure to meet all of the servicing procedures required by the applicable servicing agreement. Consequently, the performance

of our loans and other debt products could be adversely affected and our income generated from those loans and other debt products significantly reduced.

Our liquidity position could be adversely affected if we were unable to complete additional term debt securitizations in the future, or if the reinvestment periods in our term debt securitizations terminate early, which could create a material adverse affect on our financial condition and results of operations.

We have completed seven term debt securitizations to fund our loans and other debt products, all of which we accounted for on our balance sheet, through which we issued \$2.3 billion of rated notes. Four of these balance sheet term debt

## Table of Contents

securitization were outstanding as of December 31, 2014. Our term debt securitizations consist of asset securitization transactions in which we transfer loans and other debt products to a trust that aggregates our loans and, in turn, sells notes, collateralized by the trust's assets, to institutional investors. The notes issued by the trusts have been rated by nationally recognized statistical rating organizations. At December 31, 2014, the ratings range from AAA to CCC+ by Standard & Poor's, Inc. and Fitch Ratings, Inc. and Aaa to Ba2 by Moody's Investors Service, Inc., depending on the class of notes.

We intend to complete additional term debt securitizations in the future. Several factors will affect demand for, and our ability to complete additional term debt securitizations, including:

- disruptions in the capital markets generally, and the asset-backed securities market in particular;
- disruptions in the credit quality and performance of our loan portfolio, particularly that portion which has been previously securitized and serves as collateral for existing term debt securitizations;
- regulatory considerations;
- changes in rating agency methodology;
- our ability to service our loan portfolio and that ability continuing to be perceived as adequate to make the issued securities attractive to investors; and
- any material downgrading or withdrawal of ratings given to securities previously issued in our term debt securitizations.

If we are unable to complete additional term debt securitizations, our ability to obtain the capital needed for us to continue to operate and grow our business would be adversely affected. In addition, our credit facilities are only intended to provide short-term financing for our transactions. If we are unable to finance our transactions over the longer term through our term debt securitizations, our credit facilities may not be renewed. Moreover, our credit facilities typically carry a higher interest rate than our term debt securitizations. Accordingly, our inability to complete additional term debt securitizations in the future could have a material adverse effect on our financial conditions and result of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Conditions."

If a specified default event occurred in a term debt securitization, the reinvestment period would be terminated. This could have an adverse effect on our ability to fund new assets.

The cash flows we receive from the interests we retain in our term debt securitizations could be delayed or reduced due to the requirements of the term debt securitization.

We have retained 100% of the junior-most interests issued in our balance sheet term debt securitizations, totaling \$236.9 million in principal amount, issued in each of our four outstanding balance sheet term debt securitizations as of December 31, 2014. Also, as of December 31, 2014, we have repurchased \$6.2 million of outstanding notes of our balance sheet term debt securitizations that were outstanding as of December 31, 2014. The notes issued in the term debt securitizations that we did not retain are senior to the junior-most interests we did retain. Our receipt of future cash flows on the junior-most interests is governed by provisions that control the distribution of cash flows from the loans and other debt products included in our term debt securitizations. On a quarterly basis, interest cash flows from the loans and other debt products must first be used to pay the interest on the senior notes and expenses of the term debt securitization. Any funds remaining after the payment of these amounts are distributed to us.

Several factors may influence the timing and amount of the cash flows we receive from loans and other debt products included in our term debt securitizations, including:

- if any loan or other debt product included in a term debt securitization becomes (a) delinquent for a specified period of time as outlined in the indenture, (b) is classified as a non-performing asset, or (c) is charged off, all funds, after paying expenses and interest to the senior notes, go to a reserve account which then pays down an amount of senior notes equal to the amount of the delinquent loan or other debt product or if an overcollateralization test is present, is diverted, and used to de-lever the securitization to bring the ratio back into compliance. Except for specified senior management fees, we will not receive any distributions from funds during this period; and
- if other specified events occur to the trusts, for example an event of default, our cash flows would be used to reduce the outstanding balance of the senior notes and would not be available to us until the full principal balance of the senior notes had been repaid.

We have obtained a significant portion of our debt financing through a limited number of financial institutions. This concentration of funding sources exposes us to funding risks.



## Table of Contents

We have obtained our credit facility financing from a limited number of financial institutions. Our reliance on the underwriters of our debt financing and their affiliates for a significant amount of our funding exposes us to funding risks. If these participating lenders decided to terminate our credit facilities, we would need to establish new lending relationships to satisfy our funding needs.

### Risks Related to Our Operations and Financial Results

Our quarterly net interest income and results of operations are difficult to forecast and may fluctuate substantially.

Our quarterly net interest income and results of operations are difficult to forecast. We have and may continue to experience substantial fluctuations in net interest income and results of operations from quarter to quarter. You should not rely on our results of operations in any prior reporting period to be indicative of our performance in future reporting periods. Many different factors could cause our results of operations to vary from quarter to quarter, including:

- the success of our origination activities;
- pre-payments on our loan portfolio;
- credit losses on recent transaction and legacy workouts
- default rates;
- our ability to enter into financing arrangements;
- competition;
- seasonal fluctuations in our business, including the timing of transactions;
- costs of compliance with regulatory requirements;
- private equity activity;
- the timing and affect of any future acquisitions;
- personnel changes;
- changes in accounting rules;
- changes in allowance for credit losses methodology;
- changes in prevailing interest rates;
- general changes to the U.S. and global economies; and
- political conditions or events.

We base our current and future operating expense levels and our investment plans on estimates of future net interest income, transaction activity and rate of growth. We expect that our expenses will increase in the future, and we may not be able to adjust our spending quickly enough if our net interest income falls short of our expectations. Any shortfalls in our net interest income or in our expected growth rates could result in decreases in our stock price.

Our business is highly dependent on key personnel.

Our future success depends to a significant extent on the continued services of our Chief Executive Officer and our Chief Investment Officer as well as other key personnel. Our employment agreements with each of these officers will terminate in October 2015. Although we intend to enter into new employment agreements with these officers, if we were to lose the services of any of these executives for any reason, including voluntary resignation or retirement, we may not be able to replace them with someone of equal skill or ability and our business may be adversely affected. Moreover, we may not function well without the continued services of these executives.

We may not be able to attract and retain the highly skilled employees we need to support our business.

Our ability to originate and underwrite loans and other debt products is dependent on the experience and expertise of our employees. In order to grow our business, we must attract and retain qualified personnel, especially origination and credit personnel with relationships with referral sources and an understanding of small and middle-market businesses and the industries in which our borrowers operate. Many of the financial institutions with which we compete for experienced personnel may be able to offer more attractive terms of employment. If any of our key origination personnel leave, our new loan and other debt product volume from their business contacts may decline or cease, regardless of the terms of our loan and other debt product offerings or our level of service. In addition, we invest significant time and expense in training our employees, which increases their value to competitors who may seek to recruit them and increases the costs of replacing them. As competition for qualified employees grows, our cost of labor could increase, which could adversely impact our results of operations.



## Table of Contents

Maintenance of our Investment Company Act exemption imposes limits on our operations.

We intend to conduct our operations so that we are not required to register as an investment company under the Investment Company Act of 1940, as amended, which we refer to as the Investment Company Act. Section 3(a)(1)(C) of the Investment Company Act defines as an investment company any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40.0% of the value of the issuer's total assets (exclusive of government securities and cash items) on an unconsolidated basis. Excluded from the term "investment securities" are, among other things, securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

We expect that many of our majority-owned subsidiaries, including those which we have created (or may in the future create) in connection with our term debt securitizations, will rely on exceptions and exemptions from the Investment Company Act available to certain structured finance companies and that our interests in those subsidiaries will not constitute "investment securities" for purposes of the Investment Company Act. Because these exceptions and exemptions may, among other things, limit the types of assets these subsidiaries may purchase or counterparties with which we may deal, we must monitor each subsidiary's compliance with its applicable exception or exemption.

We must also monitor our loan portfolio to ensure that the value of the investment securities we hold does not exceed 40.0% of our total assets (exclusive of government securities and cash items) on an unconsolidated basis. If the combined value of the investment securities issued by our subsidiaries that are investment companies or that must rely on the exceptions provided by Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act rather than another exception or exemption, together with any other investment securities we may own, exceeds 40.0% of our total assets on an unconsolidated basis, we may be deemed to be an investment company. Because we believe that the interests we hold in our subsidiaries generally will not be investment securities, we do not expect to own nor do we propose to acquire investment securities in excess of 40.0% of the value of our total assets on an unconsolidated basis. However, the SEC is considering proposing amendments to Rule 3a-7 under the Investment Company Act and issued an advance notice of proposed rulemaking in August 2011 (Release No. IC-29779) to solicit public comment on the treatment of asset-backed issuers under the Investment Company Act. Under consideration are changes that could amend or eliminate the provision upon which we currently rely to ensure that our interests in certain of our subsidiaries do not constitute investment securities for purposes of the Investment Company Act. If adopted, such changes could, among other things, require us to register as an investment company or take other actions to permit us to continue to be excluded from the definition of investment company. These actions could involve substantial changes to our operations and organizational structure.

We monitor for compliance with the Investment Company Act on an ongoing basis and may be compelled to take or refrain from taking actions, to acquire additional income or loss generating assets or to forgo opportunities that might otherwise be beneficial or advisable, including, but not limited to selling assets that are considered to be investment securities or foregoing sale of assets which are not investment securities, in order to ensure that we (or a subsidiary) may continue to rely on the applicable exceptions or exemptions. These limitations on our freedom of action could have a material adverse effect on our financial condition and results of operations.

If we fail to maintain an exemption, exception or other exclusion from registration as an investment company, we could, among other things, be required to substantially change the manner in which we conduct our operations either to avoid being required to register as an investment company or to register as an investment company. If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to, among other things, our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration, and our financial condition and results of operations may be adversely affected. If we did not register despite being required to do so, criminal and civil actions could be brought against us, our contracts would be unenforceable unless a court was to require enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

Risks Related to Our Operating and Trading History

We have incurred losses in the past and may not achieve profitability in future periods.

For the years ended December 31, 2014, 2013 and 2012, we recorded net income of \$10.6 million, \$24.6 million, and \$24.0 million, respectively. We may not be profitable in future periods for a variety of reasons. If we are unable to achieve, maintain and increase our profitability in the future, the market value of our common stock could further decline.

## Table of Contents

We are in a highly competitive business and may not be able to compete effectively, which could impact our profitability.

The commercial lending industry is highly competitive and includes a number of competitors who provide similar types of loans to our target customers. Our principal competitors include a variety of:

- specialty and commercial finance companies, including business development companies and real estate investment trusts;
- private investment funds and hedge funds;
- national and regional banks;
- investment banks; and
- insurance companies.

Some of our competitors offer a broader range of financial, lending and banking services than we do and can leverage their existing customer relationships to offer and sell services that compete directly with our products and services. In addition, some of our competitors have greater financial, technical, marketing, origination and other resources than we do. They may also have greater access to capital than we do and at a lower cost than is available to us. For example, if national and regional banks or other large competitors seek to expand within or enter our target markets, they may provide loans at lower interest rates to gain market share, which could force us to lower our rates and result in decreased returns. As a result of competition, we may not be able to attract new customers, retain existing customers or sustain the rate of growth that we have experienced to date, and our ability to expand our loan portfolio and grow future revenue may decline. If our existing customers choose to use competing sources of credit to refinance their debt, our loan portfolio could be adversely affected.

We are subject to regulation, which limits our activities and exposes us to additional fines and penalties, and any changes in such regulations could affect our business and our profitability.

We are subject to federal, state and local laws and regulations that govern non-depository commercial lenders and businesses generally. In response to SEC rules promulgated under the Dodd-Frank Act, we have registered with the SEC as an investment adviser and conformed our activities to regulation under the Investment Advisers Act of 1940. Each of the regulatory bodies with jurisdiction over us has regulatory powers dealing with many aspects of financial services, including the authority to grant, and, in specific circumstances to cancel, permissions to carry on particular businesses. Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or other sanctions, including revocation of any registration that we may be required to hold. Even if a sanction imposed against us or our personnel is small in monetary amount, the adverse publicity arising from the imposition of sanctions against us by regulators could harm our reputation and impair our ability to retain clients and develop new client relationships, which may reduce our revenues.

Furthermore, the regulatory environment in which we operate is subject to further modifications and regulation. Any changes in such laws or regulations could affect our business and profitability. In addition, if we expand our business into areas or jurisdictions that are subject to, or have adopted, more stringent laws and regulations than those that are currently applicable to us and our business, we may have to incur significant additional expense or restrict our operations in order to comply, which could adversely impact our business, results of operations or prospects.

Our common stock may continue to have a volatile public trading price.

Historically, the market price of our common stock has been highly volatile, and the market for our common stock has experienced significant price and volume fluctuations, some of which are unrelated to our company's operating performance. Since our common stock began trading publicly on December 14, 2006, the trading price of our stock has fluctuated from a high of \$20.85 to a low of \$0.61. It is likely that the market price of our common stock will continue to fluctuate in the future. Factors which may have a significant adverse effect on our common stock's market price include:

- the rate of charge-offs, impairments and non-accruals in our loan portfolio;
- fluctuations in interest rates and the actual or perceived impact of these rates on our current customers and future prospects;
- changes to the regulatory environment in which we operate;
- our ability to raise additional capital and the terms on which we can secure such capital;

general market and economic conditions; and  
quarterly fluctuations in our revenues and other financial results.

22

---

## Table of Contents

The reported average daily trading volume of our common stock for the twelve-month period ending December 31, 2014 was approximately 52,849 shares, however our trading volume has exceeded 1,000,000 shares on several occasions since our initial public offering. Such a low average trading volume may impact our shareholders' ability to buy and sell shares of our common stock.

### Item 1B. Unresolved Staff Comments

None.

### Item 2. Properties

Our headquarters is located at 500 Boylston Street, Suite 1250, Boston, Massachusetts 02116, where we lease 18,628 square feet of office space under a lease that is scheduled to terminate on February 28, 2020. We also maintain leased offices in Darien, Connecticut, Atlanta, Georgia, Chicago, Illinois, Dallas, Texas, Los Angeles, California, New York, New York, Portland, Oregon, and San Francisco, California. We believe our office facilities are suitable and adequate for us to conduct our business.

### Item 3. Legal Proceedings

The Company from time to time is involved in litigation in the ordinary course of business. We are not currently subject to any material pending legal proceedings.

### Item 4. Mine Safety Disclosures

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

As of February 27, 2015, there were approximately 92 stockholders of record. The number of stockholders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one stockholder. American Stock Transfer & Trust Company serves as transfer agent for our shares of common stock.

Our common stock has traded on the NASDAQ Global Market under the symbol "NEWS" since December 14, 2006. The quarterly range of the high and low sales price for our common stock during 2014 and 2013 is presented below:

Quarter ended:	2014		2013	
	High	Low	High	Low
December 31	\$13.98	\$9.73	\$19.02	\$14.18
September 30	14.35	10.25	19.83	12.82
June 30	14.35	10.20	13.60	11.37
March 31	17.95	13.78	14.81	12.95

On February 27, 2015, the last reported closing price of our common stock on the NASDAQ Global Market was \$9.98 per share.

The following graph shows a comparison from December 31, 2009 through December 31, 2014 of cumulative total return for our common stock, the S&P 500 Index and the S&P Financials Index. The graph assumes a \$100 investment at the closing price on December 31, 2009. Such returns are based on historical results and are not intended to suggest future performance. The following information in this Item 5 of this Annual Report on Form 10-K is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under





Table of Contents

the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

We have never declared or paid cash dividends on our common stock. We have no current plans to pay cash dividends on our common stock. We intend to retain available funds and any future earnings to reduce debt and fund the development and growth of our business.

#### Issuer Purchases of Equity Securities

The following table sets forth the repurchases of our Common Stock that we made for the three-month period ending on December 31, 2014:

Period	Total Number of Shares Purchased (1)(2)(3)	Average Price Paid Per Share (1)(2)(3)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1-31, 2014	82,372	\$ 11.99	82,110	\$ 7,258,590
November 1-30, 2014	46,939	11.95	46,939	6,697,620
December 1-31, 2014	1,098,296	10.34	98,296	5,580,417
Total: Three months ended December 31, 2014	1,227,607	10.51	227,345	5,580,417

The Company repurchased 227,345 shares during the period pursuant to the share repurchase program that we (1) announced on August 13, 2014 (the “August Repurchase Program”). Certain of these shares were repurchased on the open market pursuant to a trading plan under Rule 10b5-1 of the Exchange Act.

Includes an aggregate of 262 shares of Common Stock acquired from individuals in order to satisfy tax (2) withholding requirements in connection with the vesting of restricted stock awards under equity compensation plans during the fourth quarter.

The Company repurchased 1,000,000 shares on December 18, 2014 in a privately negotiated transaction with an (3) unaffiliated third party

The August Repurchase Program provides for the repurchase of up to \$10.0 million of the Company’s common (4) stock from time to time on the open market or in privately negotiated transactions.

Table of Contents

## Item 6. Selected Financial Data

Selected consolidated financial and other data for the periods and at the dates indicated and should be read in conjunction with the consolidated audited financial statements, related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein.

	Year Ended December 31,					
	2014	2013	2012	2011	2010	
	(\$ in thousands, except for share and per share data)					
Statement of Operations Data:						
Interest income	\$136,171	\$127,684	\$123,945	\$115,680	\$112,826	
Interest expense	57,775	42,971	35,591	34,953	40,558	
Net interest income	78,396	84,713	88,354	80,727	72,268	
Provision for credit losses	27,108	9,738	12,651	17,312	32,997	
Net interest income (loss) after provision for credit losses	51,288	74,975	75,703	63,415	39,271	
Fee income	2,467	3,670	4,619	3,070	2,409	
Asset management income	1,054	2,482	2,984	2,635	2,872	
Gain (loss) on derivatives	(39	) (143	) (315	) 242	28	
Gain (loss) on sale of loans and debt securities	(230	) 72	335	128	(116	)
Gain on acquisition	—	—	—	—	5,649	
Other income (loss)	7,964	7,431	3,948	(2,008	) 7,854	
Total non-interest income	11,216	13,512	11,571	4,067	18,696	
Compensation and benefits	30,383	32,672	31,139	30,144	26,418	
General and administrative expenses	15,133	16,726	15,158	13,787	14,195	
Total operating expenses	45,516	49,398	46,297	43,931	40,613	
Operating income before income taxes	16,988	39,089	40,977	23,551	17,354	
Results of Consolidated VIE						
Interest income	5,268	5,321	—	—	—	
Interest expense—credit facilities	2,865	1,879	—	—	—	
Interest expense—Fund membership interest	1,292	1,353	—	—	—	
Other income	229	51	—	—	—	
Operating expenses	249	78	—	—	—	
Net results from consolidated VIE	1,091	2,062	—	—	—	
Income before income taxes	18,079	41,151	40,977	23,551	17,354	
Income tax expense	7,485	16,556	17,000	9,403	6,935	
Net income before noncontrolling interest	10,594	24,595	23,977	14,148	10,419	
Net income attributable to noncontrolling interest	—	—	—	—	(187	)
Net income attributable to NewStar Financial, Inc. common stockholders	\$10,594	\$24,595	\$23,977	\$14,148	\$10,232	
Income (loss) per share:						
Basic	\$0.22	\$0.51	\$0.51	\$0.29	\$0.21	
Diluted	0.21	0.46	0.45	0.27	0.19	
Weighted average shares outstanding:						
Basic	48,266,731	48,157,319	47,370,095	48,106,032	49,449,314	
Diluted	51,575,491	52,941,981	52,733,552	52,925,924	52,548,104	
Outstanding shares of common stock	46,620,474	48,658,606	49,311,008	49,345,676	50,562,826	



Table of Contents

	December 31, 2014	2013	2012
Balance Sheet Data:			
Cash and cash equivalents	\$33,033	\$43,401	\$27,212
Restricted cash	95,411	167,920	208,667
Cash collateral on deposit with custodian	38,975	—	—
Investments in debt securities, available-for-sale	46,881	22,198	21,127
Loans, held-for-sale	200,569	14,831	51,602
Loans, net	2,305,896	2,095,250	1,720,789
Other assets	90,244	86,862	127,673
Subtotal	2,811,009	2,430,462	2,157,070
Assets of Consolidated VIE			
Restricted cash	—	1,950	—
Loans, net	—	171,427	—
Other assets	—	3,022	—
Total assets of Consolidated VIE	—	176,399	—
Total assets	\$2,811,009	\$2,606,861	\$2,157,070
Credit facilities	\$487,768	\$332,158	\$229,941
Term debt securitizations	1,193,187	1,212,374	1,121,764
Corporate debt	238,500	200,000	100,000
Subordinated notes	156,831	—	—
Repurchase agreements	57,227	67,954	30,583
Other liabilities	36,499	26,544	79,965
Subtotal	2,170,012	1,839,030	1,562,253
Liabilities of Consolidated VIE			
Credit facilities	—	120,344	—
Subordinated debt	—	30,000	—
Other liabilities	—	1,277	—
Total liabilities of Consolidated VIE	—	151,621	—
Total liabilities	2,170,012	1,990,651	1,562,253
NewStar Financial, Inc. stockholders' equity	640,997	615,552	594,817
Retained earnings of Consolidated VIE	—	658	—
Total stockholders' equity	640,997	616,210	594,817
Supplemental Data:			
Investments in debt securities, gross	\$53,098	\$25,298	\$25,298
Loans held-for-sale, gross	202,369	14,897	52,120
Loans held-for-investment, gross	2,370,255	2,325,144	1,796,845
Loans and investments in debt securities, gross	2,625,722	2,365,339	1,874,263
Unused lines of credit	317,583	326,231	245,483
Standby letters of credit	7,911	6,880	4,497
Total funding commitments	\$2,951,216	\$2,698,450	\$2,124,243
Loans held-for-sale, gross	\$202,369	\$14,897	\$52,120
Loans held-for-investment, gross	2,370,255	2,325,144	1,796,845
Total loans, gross	2,572,624	2,340,041	1,848,965
Deferred fees, net	(23,176 )	(17,130 )	(26,938 )
Allowance for loan losses—general	(22,258 )	(18,099 )	(19,423 )
Allowance for loan losses—specific	(20,725 )	(23,304 )	(30,213 )
Total loans, net	\$2,506,465	\$2,281,508	\$1,772,391



# Table of Contents

	December 31,		
	2014	2013	2012
Managed Portfolio			
NewStar Financial, Inc.	\$2,625,722	\$2,192,694	\$1,874,263
Arlington Program	383,834	—	—
Arlington Fund (1)	—	172,645	—
Clarendon Fund	236,703	—	—
NewStar TRS Fund	85,024	—	—
NCOF	36,272	93,263	559,328
Total Managed Portfolio	\$3,367,555	\$2,458,602	\$2,433,591
Managed Assets			
NewStar Financial, Inc.	\$2,811,009	\$2,430,462	\$2,157,070
Arlington Program	400,000	—	—
Arlington Fund (1)	—	172,645	—
Clarendon Fund	400,000	—	—
NewStar TRS Fund	110,575	—	—
NCOF	39,047	168,225	620,292
Total Managed Assets	\$3,760,631	\$2,771,332	\$2,777,362
Average Balances (2):			
Loans and other debt products, gross	\$2,320,186	\$1,988,416	\$1,893,571
Interest earning assets (3)	2,508,729	2,223,908	2,036,526
Total assets	2,543,967	2,275,309	2,051,565
Interest bearing liabilities	1,983,516	1,627,816	1,414,967
Equity	617,044	604,742	579,083
	Year Ended December 31,		
	2014	2013	2012
Performance Ratios (4):			
Return on average assets	0.42	% 1.08	% 1.17
Return on average equity	1.72	4.07	4.14
Net interest margin, before provision	3.17	3.90	4.34
Loan portfolio yield	6.09	6.68	6.54
Efficiency ratio	50.32	49.30	46.46
Credit Quality and Leverage Ratios (5):			
Delinquent loan rate (at period end)	1.84	% 0.22	% 3.59
Delinquent loan rate for accruing loans 60 days or more past due (at period end)	—	% —	% 1.17
Non-accrual loan rate (at period end)	3.70	% 3.04	% 4.05
Non-performing asset rate (at period end)	3.84	% 3.60	% 4.77
Net charge off rate (end of period loans)	1.07	% 0.77	% 1.49
Net charge off rate (average period loans)	1.10	% 0.91	% 1.43
Allowance for credit losses ratio (at period end)	1.84	% 1.80	% 2.78
Debt to equity (at period end)	3.32x	3.18x	2.49x
Equity to assets (at period end)	22.80	% 23.64	% 27.58

(1) Consolidated as a Variable Interest Entity

(2) Averages are based upon the average daily balance during the period.

(3) Includes loan portfolio, cash, cash equivalents and restricted cash.

- (4) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of the calculation of performance ratios.
- (5) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional information related to our credit quality and leverage ratios.

## Table of Contents

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains forward-looking statements. Important factors that may cause actual results and circumstances to differ materially from those described in such statements is contained below and in Item 1A. "Risk Factors" of this report.

#### Overview

NewStar Financial, Inc. is an internally-managed, commercial finance company with specialized lending platforms focused on meeting the complex financing needs of companies and private investors in the middle market. The Company is also a registered investment adviser and provides asset management services to institutional investors through a series of managed credit funds that co-invest in certain types of loans originated by the Company. Through its specialized lending platforms, the Company provides a range of senior secured debt financing options to mid-sized companies to fund working capital, growth strategies, acquisitions and recapitalizations, as well as, purchases of equipment and other capital assets.

These lending activities require specialized skills and transaction experience, as well as, a significant investment in personnel and operating infrastructure. To meet these demands, our loans and leases are originated directly by teams of credit-trained bankers and experienced marketing officers organized around key industry and market segments. These teams represent specialized lending groups that are supported by centralized credit management and operating platforms. This structure enables us to leverage common standards, systems, and industry and professional expertise across multiple businesses.

We target our marketing and origination efforts at private equity firms, mid-sized companies, corporate executives, banks, real estate investors and a variety of other referral sources and financial intermediaries to develop new customer relationships and source lending opportunities. Our origination network is national in scope and we target companies with business operations across a broad range of industry sectors. We employ highly experienced bankers, marketing officers and credit professionals to identify and structure new lending opportunities and manage customer relationships. We believe that the quality of our professionals, the breadth of their relationships and referral networks, and their ability to develop creative solutions for customers position us to be a valued partner and preferred lender for mid-sized companies and private equity funds with middle market investment strategies.

Our emphasis on direct origination is an important aspect of our marketing and credit strategy. Our national network is designed around specialized origination channels intended to generate a large set of potential lending opportunities. That allows us to be highly selective in our credit process and to allocate capital to market segments that we believe represent the most attractive opportunities. Our direct origination network also generates proprietary lending opportunities with yield characteristics that we believe would not otherwise be available through intermediaries. In addition, direct origination provides us with direct access to management teams and enhances our ability to conduct detailed due diligence and credit analysis of prospective borrowers. It also allows us to negotiate transaction terms directly with borrowers and, as a result, advise our customers' financial strategies and capital structures, which we believe benefits our credit performance.

The Company typically provides financing commitments to companies in amounts that range in size from \$10 million to \$50 million. The size of financing commitments depends on various factors, including the type of loan, the credit characteristics of the borrower, the economic characteristics of the loan, and our role in the transaction. We also selectively arrange larger transactions that we may retain on our balance sheet or syndicate to other lenders, which may include funds that we manage for third party institutional investors. By syndicating loans to other lenders and our managed funds, we are able to provide larger financing commitments to our customers and generate fee income, while limiting our risk exposure to single borrowers. From time to time, however, our balance sheet exposure to a single borrower may exceed \$35 million.

NewStar offers a set of credit products and services that have many common attributes, but which are highly specialized by lending group and market segment. Although both the Leveraged Finance and Business Credit lending groups structure loans as revolving credit facilities and term loans, the style of lending and approach to credit management is highly specialized. The Equipment Finance group broadens our product offering to include a range of lease financing options. The operational intensity of each product also varies by lending group.



Although NewStar operates as a single segment, the Company derives revenues from our asset management activities and four specialized lending groups that target market segments in which we believe that we have competitive advantages:

- Leveraged Finance, provides senior, secured cash flow loans and, to a lesser extent, second lien and unitranche loans, which are primarily used to finance acquisitions of mid-sized companies with annual cash flow (EBITDA) typically between \$10 million and \$50 million by private equity investment funds managed by established professional alternative asset managers;

- Business Credit, provides senior, secured asset-based loans primarily to fund working capital needs of mid-sized companies with sales revenue typically totaling between \$25 million and \$500 million;

## Table of Contents

• Real Estate, provides first mortgage debt primarily to finance acquisitions of commercial real estate properties typically valued between \$10 million and \$50 million by professional commercial real estate investors;  
• Equipment Finance, provides leases, loans and lease lines to finance purchases of equipment and other capital expenditures typically for companies with annual sales of at least \$25 million; and  
• Asset Management, provides opportunities for qualified institutions to invest in credit funds managed by the Company with strategies to co-invest in loans originated by its Leveraged Finance lending group.

### Market Conditions

As a specialized commercial finance company, we compete in various segments of the loan market to extend credit to mid-sized companies through our national specialized lending platforms. We rely primarily on large banks for warehouse lines of credit to partially fund new loan origination and the capital markets for longer term funding through the issuance of asset-backed notes that are used to refinance bank lines and provide funding with matched duration for our leveraged loan portfolio.

Market conditions in most segments of the loan market that we target improved in the fourth quarter compared to the prior quarter. According to Thomson Reuters, overall middle market loan demand in the fourth quarter increased as compared to the third quarter and as compared to the same period last year, with volume of \$53 billion. The markets remained highly competitive and liquid as the supply of new capital continued to outpace demand for new financing for growth or acquisitions. The volume represented by new middle market transactions, as opposed to refinancings, increased in the fourth quarter to \$24 billion; refinancing volume was \$29 billion. As a percentage of total volume, new transactions remained steady at 46% versus the prior quarter but increased from 43% at the end of 2013.

The pricing environment in the broader loan market weakened through the first half of 2014 due primarily to modest M&A activity as lenders competed for a limited universe of deals, but yields rebounded in the second half of the year, increasing in both the third and fourth quarters. Despite the downward trend in the first half of the year, we believe that conditions in the middle market remained somewhat insulated from the impact of excessive liquidity evident in the broader loan markets as yields remained relatively stable through the first half of 2014 and have trended upward in the second half. Loan yields in both the large corporate market and middle market have increased in the fourth quarter. Large corporate loan yields were up to 5.9% from 5.4% in the third quarter and 4.8% in the same quarter last year. Middle market loan yields were up to 6.6% from 6.0% in the third quarter and from 5.9% in the same quarter last year. With most of the new money flowing into the loan market from CLO issuance and retail loan funds targeted for broadly syndicated loans, we believe that market conditions will continue to be more challenging for large corporate lenders and that the middle market will continue to compare favorably.

Our different lending platforms provide us with certain flexibility to allocate capital and redirect our origination focus to market segments with the most favorable conditions in terms of demand and relative value. As the pricing environment for larger, more liquid loans has remained relatively weak in the fourth quarter and loan demand among private equity firms in the lower middle market remained somewhat firmer, we continued to emphasize direct lending to smaller companies during the quarter. We believe that the yields on our new loan origination will continue to reflect a combination of these broad market trends and shifts in the mix of loans we originate.

Conditions in our core funding markets have remained steady in the fourth quarter as many fixed income investors continued to target structured investment alternatives such as CLOs to meet their return objectives. The market had been unsettled through much of the year, however, as regulatory headwinds dampened demand for CLOs among banks. The broader fixed income markets remained active in the quarter as the market seems to have adjusted to changes in the Federal Reserve's monetary policies. As a result, we believe that investors will be more cautious about holding fixed rate debt, leading to less capital flowing into the high yield market in favor of high yielding investments with shorter duration, including floating rate bank loans and CLO bonds.

Despite a slower start to the year as compared to 2013, new U.S. CLO issuance in 2014 was over \$123 billion, representing a 50% increase over 2013. Total U.S. CLO issuance in 2012 and 2011 was \$55 billion and \$12 billion, respectively. After trending slightly downward through the first half of 2014, CLO credit spreads have trended slightly upward through the second half of the year, however, reflecting the impact of a steepening yield curve and regulatory concerns, including FDIC surcharge for deposit insurance and risk retention rules in addition to the Volcker Rule. As a result, we believe marginal funding costs will be somewhat range bound at current levels until investors reset rate

expectations and resolve regulatory issues. Despite this trend in the pricing environment, we believe that market conditions remain supportive for us to issue new CLOs. We also believe the availability and cost of warehouse financing among banks has continued to improve as more banks have begun to provide this type of financing and existing providers have increased their lending activity. As a result, we believe that the terms and conditions for financings available to established firms like NewStar have improved.

Loan demand in the middle market is strongly influenced by the level of refinancing, acquisition activity and private investment, which is driven largely by changes in the perceived risk environment, prevailing borrowing rates and private

## Table of Contents

investment activity. These factors were generally favorable in the fourth quarter as we originated \$775 million of new loans at attractive yields. After declining through the first half of 2014 in a muted M&A volume environment, yields have rebounded. Although pricing remained thinner and leverage continued to trend higher in the broad loan market, conditions in our primary target markets remained somewhat more favorable with pricing widening and leverage stabilizing at levels that compare favorably to the broader loan market, in which larger corporations typically borrow from syndicates of banks and loans are issued, priced and traded in a bond-style market that is more highly correlated with the high yield debt market.

We believe that demand for new middle market loans and credit products will remain relatively consistent with current levels in the near term and exhibit usual seasonality. Over the long-term, we believe that demand will improve because private equity firms have substantial un-invested capital, which we believe that they will deploy through investment strategies that emphasize investments in mid-sized companies. As a result of these factors, we anticipate that demand for loans and leases offered by the Company and conditions in our lending markets will remain favorable into 2015 and continue to provide opportunities for us to increase our origination volume.

### Recent Developments

#### Strategic Relationship

On November 4, 2014, we announced a strategic relationship GSO and Franklin Square and entered into an investment agreement with FS Investment Corporation, FS Investment Corporation II, and FS Investment Corporation III (collectively the "Franklin Square Funds") pursuant to which we agreed to issue \$300 million of 8.25% subordinated notes due 2024 and warrants exercisable for 12 million shares of the Company's common stock at an exercise price of \$12.62 per share (the "Warrants").

On December 4, 2014, we issued \$200 million of the subordinated notes. The Warrants were issued in two tranches on December 4, 2014 and January 23, 2015. We are required to issue the remaining \$100 million of 8.25% subordinated notes due 2024 within one year of the initial purchase.

#### Clarendon Fund

In December 2014, we formed a new managed credit fund, NewStar Clarendon Fund CLO ("Clarendon Fund") a \$400 million middle market CLO used to provide leverage for a managed credit fund anchored by an investment from funds sponsored by Franklin Square Capital Partners and sub-advised by GSO Capital, the credit division of Blackstone to co-invest in middle market commercial loans originated by the Company. In January 2015, we completed the sale of the Clarendon Fund's CLO bonds to third party investors. As of December 31, 2014, the Clarendon Fund loan portfolio had an outstanding balance of approximately \$236.7 million.

#### Liquidity

On January 13, 2015, we entered into an amendment to our credit facility with Wells Fargo Bank, National Association to fund leveraged finance loans. The amendment, among other things, increased the commitment amount from \$275.0 million to \$375.0 million, increased the maximum amount that the credit facility may be increased to \$425.0 million, subject to lender approval, and modified certain concentration amounts and specified threshold amounts.

On December 8, 2014, we entered into an amendment to our credit facility with Wells Fargo Bank, National Association to fund asset-based loan origination. The amendment, among other things, increased the commitment amount from \$100.0 million to \$110.0 million, extended the maturity date to December 7, 2017, and increased the maximum amount that the credit facility may be increased to \$300.0 million, subject to lender approval.

On December 4, 2014, NewStar TRS I LLC, a newly-formed subsidiary of the Company, entered into a total return swap (the "TRS") of senior secured floating rate loans with Citibank, N.A. The TRS was subsequently amended on December 15, 2014 increasing the maximum notional amount to \$125.0 million from \$75.0 million.

#### Stock Repurchase Program

On December 22, 2014, we repurchased 1,000,000 shares of our common stock in a privately negotiated transaction with an unaffiliated third party for an aggregate purchase price of \$10.2 million. This transaction was not made under the stock repurchase program announced on August 13, 2014 described below.

On August 13, 2014, our Board of Directors authorized the repurchase of up to \$10.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of

any shares purchased are determined by our management based on its evaluation of market conditions and other factors. The repurchase program, which will expire on August 15, 2015 unless extended by the Board of Directors, may be suspended or discontinued at any time without notice. As of December 31, 2014, we had repurchased 382,999 shares of our common stock under this program at a weighted average price per share of \$11.54.

## Table of Contents

### RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

NewStar's basic and diluted income per share for 2014 was \$0.22 and \$0.21, respectively, on net income of \$10.6 million compared to basic and diluted income per share for 2013 of \$0.51 and \$0.46, respectively, on net income of \$24.6 million, and basic and diluted income per share for 2012 of \$0.51 and \$0.45, respectively, on net income of \$24.0 million. Our managed portfolio was \$3.4 billion at December 31, 2014 compared to \$2.5 billion at December 31, 2013 and \$2.4 billion at December 31, 2012. Our managed assets totaled \$3.8 billion at December 31, 2014 compared to \$2.9 billion at December 31, 2013, and at December 31, 2012.

#### Loan portfolio yield

Loan portfolio yield, which is interest income on our loans and leases divided by the average balances outstanding of our loans and leases, was 6.09% for 2014, 6.68% for 2013 and 6.54% for 2012. The decrease in loan portfolio yield was primarily driven by a decrease in our average yield on interest earning assets from new loan and lease origination and re-pricings subsequent to December 31, 2013, and the average yield on loans which were repaid subsequent to December 31, 2013 was higher than the average yield on loans in our total loan portfolio. The increase in loan portfolio yield from 2012 to 2013 was primarily driven by the recognition of deferred paid-in-kind interest on certain impaired loans, and the average yield on loans which were repaid subsequent to December 31, 2012 was lower than the average yield on loans in our average total loan portfolio for 2013. Additionally, subsequent to December 31, 2012, the outstanding balance of lower yielding commercial real estate loans decreased \$54.4 million.

#### Net interest margin

Net interest margin, which is net interest income divided by average interest earning assets, was 3.17% for 2014, 3.90% for 2013 and 4.34% for 2012. The primary factors impacting net interest margin for 2014 were the acceleration of amortization of \$1.1 million of deferred financing fees related to the Arlington Fund's payoff of its credit facility with a portion of the proceeds from the Arlington Program's term debt securitization, the subordinated notes interest expense, the composition of interest earning assets, non-accrual loans, changes in three-month LIBOR, credit spreads and cost of borrowings. The primary factors impacting net interest margin for 2013 were the composition of interest earning assets, the recognition of deferred paid-in-kind interest on certain impaired loans, non-accrual loans, changes in three-month LIBOR, credit spreads and cost of borrowings. The primary factors impacting net interest margin for 2012 were accelerated loan deferred fee recognition due to a prepayment of loans, non-accrual loans, changes in three-month LIBOR, credit spreads and cost of borrowings.

#### Efficiency ratio

Our efficiency ratio, which is total operating expenses divided by net interest income before provision for credit losses plus total non-interest income, was 50.32% for 2014, 49.30% for 2013 and 46.46% for 2012. The increase in our efficiency ratio for 2014 as compared to 2013 is primarily due to increased interest expense driven by an increase in our interest bearing liabilities, and the accelerated amortization of deferred financing fees totaling \$1.1 million related to the repayment of the Arlington Fund's credit facility, partially offset by a decrease in operating expenses. The increase in our efficiency ratio for 2013 as compared to 2012 was primarily due to an increase in operating expenses.

#### Allowance for credit losses ratio

Allowance for credit losses ratio, which is allowance for credit losses divided by outstanding gross loans and leases excluding loans held-for-sale, was 1.84% at December 31, 2014, 1.80% as of December 31, 2013 and 2.78% as of December 31, 2012. The increase in the allowance for credit losses ratio from 2013 to 2014 is primarily due to the increase in general provision resulting from the increase in outstanding loans due to new loan origination during the year, an increase in specific provision and the deconsolidation of the assets of the Arlington Fund on June 26, 2014, which did not carry a related allowance. The decrease in the allowance for credit losses ratio from 2012 to 2013 is primarily due to a decrease in the balance of the specific allowance for credit losses, the NCOF portfolio purchase, which was acquired on December 17, 2013 at fair value and no allowance was required at year end, the consolidation of the Arlington Fund as a VIE, for which no allowance was needed at year end, positive credit migration, improving economic conditions, and charge offs of impaired loans. During 2014, we recorded \$22.1 million of net specific provision for credit losses on impaired loans and had net charge offs totaling \$25.3 million. At December 31, 2014, the specific allowance for credit losses was \$20.7 million, and the general allowance for credit losses was \$23.0 million. At December 31, 2013, the specific allowance for credit losses was \$23.3 million, and the general allowance

for credit losses was \$18.6 million. We continually evaluate our allowance for credit losses methodology. If we determine that a change in our allowance for credit losses methodology is advisable, as a result of the rapidly changing economic environment or otherwise, the revised allowance methodology may result in higher or lower levels of allowance. Moreover, actual losses under our current or any revised methodology may differ materially from our estimate.

## Table of Contents

### Delinquent loan rate

Delinquent loan rate, which is total delinquent loans that are 60 days or more past due, divided by outstanding gross loans and leases, was 1.84% as of December 31, 2014 as compared to 0.22% as of December 31, 2013. We had delinquent loans with an outstanding balance of \$43.6 million and \$5.1 million as of December 31, 2014 and 2013, respectively. We expect the delinquent loan rate to correlate to current economic conditions. During times of economic expansion we expect the rate to decline, and during times of economic contraction, we expect the rate to increase.

### Delinquent loan rate for accruing loans 60 days or more past due

Delinquent loan rate for accruing loans 60 days or more past due, which is total delinquent accruing loans net of charge offs that are 60 days or more past due and less than 90 days past due, divided by outstanding gross loans and leases. We did not have any delinquent accruing loans as of December 31, 2014 or 2013. We expect the delinquent accruing loan rate to correlate to current economic conditions. During times of economic expansion we expect the rate to decline, and during times of economic contraction, we expect the rate to increase.

### Non-accrual loan rate

Non-accrual loan rate is defined as total balances outstanding of loans on non-accrual status divided by the total outstanding balance of our loans and leases held for investment. Loans are put on non-accrual status if they are 90 days or more past due or if management believes it is probable that the Company will be unable to collect contractual principal and interest in the normal course of business. The non-accrual loan rate was 3.70% as of December 31, 2014 and 3.04% as of December 31, 2013. As of December 31, 2014 and 2013, the aggregate outstanding balance of non-accrual loans was \$87.8 million and \$70.7 million, respectively and total outstanding loans and leases held for investment was \$2.4 billion and \$2.3 billion, respectively. We expect the non-accrual loan rate to correlate to economic conditions. During times of economic expansion we expect the rate to decline, and during times of economic contraction, we expect the rate to increase, although actual results may vary.

### Non-performing asset rate

Non-performing asset rate is defined as the sum of total balances outstanding of loans on non-accrual status and other real estate owned, divided by the sum of the total outstanding balance of our loans and leases held for investment and other real estate owned. The non-performing asset rate was 3.84% as of December 31, 2014 and 3.60% as of December 31, 2013. As of December 31, 2014 and 2013, the sum of the aggregate outstanding balance of non-performing assets was \$91.0 million and \$84.2 million, respectively. We expect the non-performing asset rate to correlate to economic conditions. During times of economic expansion we expect the rate to decline, and during times of economic contraction, we expect the rate to increase, although actual results may vary.

### Net charge off rate (end of period loans and leases)

Net charge off rate as a percentage of end of period loan and lease portfolio is defined as annualized charge-offs net of recoveries divided by the total outstanding balance of our loans and leases held for investment. A charge-off occurs when management believes that all or part of the principal of a particular loan is no longer recoverable and will not be repaid. Typically a charge off occurs in a period after a loan has been identified as impaired and a specific allowance has been established. For 2014, 2013 and 2012, the net charge off rate was 1.07%, 0.77% and 1.49%, respectively. We expect the net charge-off rate (end of period loans and leases) to correlate to economic conditions. During times of economic expansion we expect the rate to decline, and during times of economic contraction, we expect the rate to increase, although actual results may vary.

### Net charge off rate (average period loans and leases)

Net charge off rate as a percentage of average period loan and lease portfolio is defined as annualized charge-offs net of recoveries divided by the average total outstanding balance of our loans and leases held for investment for the period. For 2014, 2013 and 2012, the net charge off rate was 1.10%, 0.91% and 1.43%, respectively. We expect the net charge-off rate (average period loans and leases) to correlate to economic conditions. During times of economic expansion we expect the rate to decline, and during times of economic contraction, we expect the rate to increase, although actual results may vary.

### Return on average assets



Return on average assets, which is net income divided by average total assets was 0.42% for 2014, 1.08% for 2013, and 1.17% for 2012.

Return on average equity

Table of Contents

Return on average equity, which is net income divided by average equity, was 1.72% for 2014, 4.07% for 2013, and 4.14% for 2012.

## Review of Consolidated Results

A summary of NewStar's consolidated financial results for the years ended December 31, 2014, 2013 and 2012 follows:

	Year Ended December 31,		
	2014	2013	2012
	(\$ in thousands)		
Net interest income:			
Interest income	\$ 136,171	\$ 127,684	\$ 123,945
Interest expense	57,775	42,971	35,591
Net interest income	78,396	84,713	88,354
Provision for credit losses	27,108	9,738	12,651
Net interest income after provision for credit losses	51,288	74,975	75,703
Non-interest income:			
Fee income	2,467	3,670	4,619
Asset management income	1,054	2,482	2,984
Gain (loss) on derivatives	(39)	(143)	(315)
Gain on sale of loans	(230)	72	335
Other income (loss)	7,964	7,431	3,948
Total non-interest income	11,216	13,512	11,571
Operating expenses:			
Compensation and benefits	30,383	32,672	31,139
General and administrative expenses	15,133	16,726	15,158
Total operating expenses	45,516	49,398	46,297
Operating income before income taxes	16,988	39,089	40,977
Results of Consolidated Variable Interest Entity:			
Interest income	5,268	5,321	—
Interest expense—credit facilities	2,865	1,879	—
Interest expense—Fund membership interest	1,292	1,353	—
Other income	229	51	—
Operating expenses	249	78	—
Net results from Consolidated Variable Interest Entity	1,091	2,062	—
Income before income taxes	18,079	41,151	40,977
Income tax expense	7,485	16,556	17,000
Net income	\$ 10,594	\$ 24,595	\$ 23,977

## Comparison of the Years Ended December 31, 2014 and 2013

**Interest income.** Interest income increased \$8.4 million, to \$141.4 million for 2014 from \$133.0 million for 2013. The increase was primarily due to an increase in average balance of our interest earning assets to \$2.5 billion from \$2.2 billion, partially offset by a decrease in the yield on average interest earning assets to 5.64% from 5.98% primarily due to a decrease in contractual interest rates from new loan origination and re-pricing subsequent to December 31, 2013.

**Interest expense.** Interest expense increased \$15.7 million, to \$61.9 million for 2014 from \$46.2 million for 2013. The increase is primarily due to the accelerated amortization of deferred financing fees totaling \$1.1 million related to the repayment of Arlington Fund's credit facility, an increase in the average balance of our interest bearing liabilities to \$2.0 billion from \$1.6 billion, and an increase in the average cost of funds to 3.12% from 2.84%.

**Net interest margin.** Net interest margin decreased to 3.17% for 2014 from 3.90% for 2013. The decrease in net interest margin was primarily due to an increase in our average cost of interest bearing liabilities, an increase in average cost of funds,



Table of Contents

the accelerated amortization of deferred financing fees totaling \$1.1 million related to the repayment of Arlington Fund's credit facility, a decrease in our average yield on interest earning assets due to the recognition of deferred paid-in-kind interest on certain impaired loans during 2013 and the acceleration of amortization of deferred fees from loans that were paid off during 2013. The net interest spread, the difference between gross yield on our interest earning assets and the total cost of our interest bearing liabilities, decreased to 2.52% from 3.14%.

The following table summarizes the yield and cost of interest earning assets and interest bearing liabilities for 2014 and 2013:

	Year Ended December 31, 2014 (\$ in thousands)				Year Ended December 31, 2013		
	Average Balance	Interest Income/ Expense	Average Yield/ Cost		Average Balance	Interest Income/ Expense	Average Yield/ Cost
Total interest earning assets	\$2,508,729	\$141,439	5.64	%	\$2,223,908	\$133,005	5.98
Total interest bearing liabilities	1,983,516	61,932	3.12		1,627,816	46,203	2.84
Net interest spread		\$79,507	2.52	%		\$86,802	3.14
Net interest margin			3.17	%			3.90

Provision for credit losses. The provision for credit losses increased to \$27.1 million for 2014 from \$9.7 million for 2013. The increase in the provision was primarily due to an increase of \$11.0 million of net specific provisions, as well as an increase of \$6.4 million of general provisions recorded during 2014 as compared to 2013. During 2014, we recorded net specific provisions for impaired loans of \$22.1 million compared to \$11.2 million recorded during 2013. The increase in the net specific component of the provision for credit losses was primarily due to further negative credit migration related to six previously identified impaired loans and two loans identified as impaired during 2014. During 2014, we recorded general provisions of \$5.0 million compared to a release of general provisions of \$1.4 million recorded during 2013. Our general allowance for credit losses covers probable losses in our loan and lease portfolio with respect to loans and leases that are not impaired and for which no specific impairment has been identified. A specific provision for credit losses is recorded with respect to loans for which it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement for which there is impairment recognized. The Company employs a variety of internally developed and third-party modeling and estimation tools for measuring credit risk, which are used in developing an allowance for loan and lease losses on outstanding loans and leases. The Company's allowance framework addresses economic conditions, capital market liquidity and industry circumstances from both a top-down and bottom-up perspective. The Company considers and evaluates a number of factors, including but not limited to, changes in economic conditions, credit availability, industry, loss emergence period, and multiple obligor concentrations in assessing both probabilities of default and loss severities as part of the general component of the allowance for loan and lease losses.

On at least a quarterly basis, loans and leases are internally risk-rated based on individual credit criteria, including loan and lease type, loan and lease structures (including balloon and bullet structures common in the Company's Leveraged Finance and Real Estate loans), borrower industry, payment capacity, location and quality of collateral if any (including the Company's Real Estate loans). Borrowers provide the Company with financial information on either a monthly or quarterly basis. Ratings, corresponding assumed default rates and assumed loss severities are dynamically updated to reflect any changes in borrower condition or profile.

For Leveraged Finance loans and Equipment Finance products, the data set used to construct probabilities of default in its allowance for loan losses model, Moody's CRD Private Firm Database, primarily contains middle market loans that share attributes similar to the Company's loans. The Company also considers the quality of the loan or lease terms and lender protections in determining a loan loss in the event of default.

For Business Credit loans, the Company utilizes a proprietary model to risk rate the loans on a monthly basis. This model captures the impact of changes in industry and economic conditions as well as changes in the quality of the borrower's collateral and financial performance to assign a final risk rating. The Company has also evaluated historical loss trends by risk rating from a comprehensive industry database covering more than twenty-five years of experience of the majority of the asset based lenders operating in the United States. Based upon the monthly risk rating from the

model, the reserve is adjusted to reflect the historical average for expected loss from the industry database. For Real Estate loans, the Company employs two mechanisms to capture the impact of industry and economic conditions. First, a loan's risk rating, and thereby its assumed default likelihood, can be adjusted to account for overall commercial real estate market conditions. Second, to the extent that economic or industry trends adversely affect a substandard rated borrower's loan-to-value ratio enough to impact its repayment ability, the Company applies a stress multiplier to the loan's probability of

## Table of Contents

default. The multiplier is designed to account for default characteristics that are difficult to quantify when market conditions cause commercial real estate prices to decline.

For consolidated variable interest entities to which the Company is providing transitional capital, we utilize a qualitative analysis which considers the business plans related to the entity, including expected hold periods, the terms of the agreements related to the entity, the Company's historical credit experience, the credit migration of the entity's loans in determining expected loss, as well as conditions in the capital markets. The Company provided capital on a transitional basis to the Arlington Fund. At December 31, 2013, the expected and actual loss on the Arlington Fund was zero and no allowance was recorded. We deconsolidated the Arlington Fund on June 26, 2014. We did not recognize any losses on loans on the date of deconsolidation.

The Company periodically reviews its allowance for credit loss methodology to assess any necessary adjustments based upon changing economic and capital market conditions. If the Company determines that changes in its allowance for credit losses methodology are advisable, as a result of changes in the economic environment or otherwise, the revised allowance methodology may result in higher or lower levels of allowance. There have been no material modifications to the allowance for credit losses methodology during 2014. Given uncertain market conditions, actual losses under the Company's current or any revised allowance methodology may differ materially from the Company's estimate.

Additionally, when determining the amount of the general allowance, the Company supplements the base amount with an environmental reserve amount which is governed by a score card system comprised of ten individually weighted risk factors. The risk factors are designed based on those outlined in the Comptrollers of the Currency's Allowance for Loan and Lease Losses Handbook. The Company also performs a ratio analysis of comparable money center banks, regional banks and finance companies. While the Company does not rely on this peer group comparison to set the level of allowance for credit losses, it does assist management in identifying market trends and serves as an overall reasonableness check on the allowance for credit losses computation.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impairment of a loan is based upon (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price, or (iii) the fair value of the collateral if the loan is collateral dependent, depending on the circumstances and our collection strategy. Impaired loans are identified based on the loan-by-loan risk rating process described above. Impaired loans include all non-accrual loans, loans with partial charge-offs and loans which are Troubled Debt Restructurings. It is the Company's policy during the reporting period to record a specific provision for credit losses to cover the identified impairment on a loan.

Impaired loans at December 31, 2014 were in Leveraged Finance and Real Estate over a range of industries impacted by the then current economic environment including the following: Media and Communications, Industrial, Commercial Real Estate, Other Business Services, Consumer/Retail, and Building Materials. For impaired Leveraged Finance loans, the Company measured impairment based on expected cash flows utilizing relevant information provided by the borrower and consideration of other market conditions or specific factors impacting recoverability. Such amounts are discounted based on original loan terms. For impaired Real Estate loans, the Company determined that the loans were collateral dependent and measured impairment based on the fair value of the related collateral utilizing recent appraisals from third-party appraisers, as well as internal estimates of market value. As of December 31, 2014, we had impaired loans with an aggregate outstanding balance of \$217.2 million. Impaired loans with an aggregate outstanding balance of \$175.6 million have been restructured and classified as troubled debt restructurings. At December 31, 2014, the Company had a \$20.7 million specific allowance for impaired loans with an aggregate outstanding balance of \$103.2 million. As of December 31, 2014, we had one restructured impaired loan that had an outstanding balance greater than \$20 million and one restructured impaired loan that had an outstanding balance greater than \$30 million. In each of these cases, we added to our position to maximize our potential recovery of the outstanding principal.

Non-interest income. Non-interest income decreased \$2.2 million, to \$11.4 million for 2014 from \$13.6 million for 2013. For 2014, non-interest income was primarily comprised of \$6.7 million of gains recognized from the sale of

equity interests in certain impaired borrowers, \$2.5 million of fee income, \$2.1 million of income from other real estate owned properties, \$1.8 million of unused fees, \$1.1 million of asset management fees, \$0.8 million of equity method of accounting losses, \$0.6 million of net losses on the value of equity interests in certain impaired borrowers, a \$0.9 million unrealized loss on a total return swap, and a \$0.8 million loss on the creation of a new credit fund. For 2013, non-interest income was primarily comprised of \$3.7 million of fee income, \$2.5 million of asset management fees, \$2.5 million of income from other real estate owned properties, \$1.8 million of unused fees, \$0.7 million of one-time proceeds from a revenue sharing agreement with one of our borrowers, a \$0.6 million gain on the value of equity interests in an impaired borrower, \$1.3 million gain on the sale of an equity interest in an impaired borrower, and \$1.0 million of equity method of accounting losses.

As a result of certain of our troubled debt restructurings, we have received equity interests in several of our impaired borrowers. The equity interests in certain impaired borrowers is initially recorded at fair value when the debt is restructured and

## Table of Contents

is subsequently analyzed at the end of each quarter. In situations where we are deemed to be under the equity method of accounting, we record our ownership share of the borrowers' results of operations in non-interest income. Additionally, our corresponding share of our borrowers' results of operations may directly impact the remaining net book value of these respective loans. These equity interests may give rise to potential capital gains or losses, for tax purposes. This could impact future period tax rates depending on our ability to recognize capital losses to the extent of any capital gains.

**Operating expenses.** Operating expenses decreased \$3.7 million, to \$45.8 million for 2014 from \$49.5 million for 2013. Employee compensation and benefits decreased \$2.3 million primarily due to a decrease in equity compensation expense resulting from the vesting of equity awards subsequent to December 31, 2013. General and administrative expenses decreased \$1.6 million.

**Results of Consolidated Variable Interest Entity.** In April 2013, we announced that we had formed a new managed credit fund, the Arlington Fund, in partnership with an institutional investor to co-invest in middle market commercial loans originated by NewStar. As the managing member of Arlington Fund, we retained full discretion over Arlington Fund's investment decisions, subject to usual and customary limitations, and earned management fees as compensation for our services. From inception, the Company was deemed to be the primary beneficiary of Arlington Fund and, therefore, consolidated the financial results of Arlington Fund with the Company's results of operations and statements of financial position since April 2013.

Upon completion of the Arlington Program's term debt securitization on June 26, 2014, our membership interests in Arlington Fund were redeemed and new membership interests in the Arlington Program were issued to its equity investors. As a result of the repayment of our advances as the Class B lender under the warehouse facility and the redemption of our membership interests in the Arlington Fund, we have no ownership or financial interests in the Arlington Fund or its successors except to the extent that we receive management fees as collateral manager of the Arlington Program. Additionally, the Arlington Program employs an independent investment professional who is responsible for investment decision making on behalf of the program. As a result, we deconsolidated the Arlington Fund from our statements of financial position beginning on June 26, 2014 and will not consolidate the Arlington Program's operating results or statements of financial position as of that date.

Although we consolidated all of the assets and liabilities of Arlington Fund during the period from April 4, 2013 through June 26, 2014, our maximum exposure to loss was limited to our investments in membership interests in Arlington Fund, our Class B Note receivable, and the management fee receivable from Arlington Fund. These items defined our economic relationship with Arlington Fund but were eliminated upon consolidation. We managed the assets of Arlington Fund solely for the benefit of its lenders and investors. If we were to have liquidated, the assets of Arlington Fund would not have been available to our general creditors. Conversely, the investors in the debt of Arlington Fund had no recourse to our general assets. Therefore, we did not consider this debt our obligation.

**Income taxes.** For 2014 and 2013, we provided for income taxes based on an effective tax rate of 41% and 40%, respectively. The effective tax rates differed from the federal statutory rate of 35% due largely to state tax expense in both years.

As of December 31, 2014 and 2013, we had net deferred tax assets of \$28.1 million and \$30.2 million, respectively. In assessing if we will be able to realize our deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We considered all available evidence, both positive and negative, in determining the realizability of deferred tax assets at December 31, 2014. We considered carryback availability, the scheduled reversals of deferred tax liabilities, projected future taxable income during the reversal periods, and tax planning strategies in making this assessment. We also considered our recent history of taxable income, trends in our earnings and tax rate, positive financial ratios, and the impact of the downturn in the current economic environment (including the impact of credit on allowance and provision for loan losses; and the impact on funding levels) on the Company. Based upon our assessment, we believe that a valuation allowance was not necessary as of December 31, 2014. As of December 31, 2014, our deferred tax asset was primarily comprised of \$23.9 million related to our allowance for credit losses and \$10.0 million related to equity compensation, which was partially offset by deferred tax liabilities related the Equipment finance portfolio.

Comparison of the Years Ended December 31, 2013 and 2012



Interest income. Interest income increased \$9.1 million, to \$133.0 million for 2013 from \$123.9 million for 2012. The increase was primarily due to an increase in average balance of our interest earning assets to \$2.2 billion from \$2.0 billion, the recognition of \$2.0 million of deferred paid-in-kind interest on certain impaired loans, the acceleration of amortization of deferred fees from loans that paid off during 2013, and the consolidation of interest income from Arlington Fund, partially offset by a decrease in the yield on average interest earning assets to 5.98% from 6.09% primarily due to a decrease in contractual interest rates from new loan origination and re-pricing subsequent to December 31, 2012.

Table of Contents

Interest expense. Interest expense increased to \$46.2 million for 2013 from \$35.6 million for 2012. The increase is primarily due to an increase in the average balance of our interest bearing liabilities and an increase in the average cost of funds, the additional \$100.0 million of debt under our amended corporate credit facility, and the consolidation of interest expense from Arlington Fund.

Net interest margin. Net interest margin decreased to 3.90% for 2013 from 4.34% for 2012. The decrease in net interest margin was primarily due to an increase in our average interest bearing liabilities, an increase in average cost of funds, and a decrease in the yield on average interest earning assets, partially offset by the recognition of deferred paid-in-kind interest on certain impaired loans, and the acceleration of amortization deferred fees from loans that paid off during 2013. The net interest spread, which represents the difference between gross yield on our interest earning assets and the total cost of our interest bearing liabilities, decreased to 3.14% from 3.57%.

The following table summarizes the yield and cost of interest earning assets and interest bearing liabilities for 2013 and 2012:

	Year Ended December 31, 2013 (\$ in thousands)				Year Ended December 31, 2012			
	Average Balance	Interest Income/ Expense	Average Yield/ Cost		Average Balance	Interest Income/ Expense	Average Yield/ Cost	
Total interest earning assets	\$2,223,908	\$133,005	5.98	%	\$2,036,526	\$123,945	6.09	%
Total interest bearing liabilities	1,627,816	46,203	2.84		1,414,967	35,591	2.52	
Net interest spread		\$86,802	3.14	%		\$88,354	3.57	%
Net interest margin			3.90	%			4.34	%

Provision for credit losses. The provision for credit losses decreased to \$9.7 million for 2013 from \$12.7 million for 2012. The decrease in the provision was primarily due to a decrease of \$5.5 million of net specific provisions recorded during 2013 as compared to 2012. During 2013, we recorded net specific provisions for impaired loans of \$11.2 million compared to \$16.7 million recorded during 2012. The decrease in the net specific component of the provision for credit losses was primarily due to the resolution of certain impaired loans which were subsequently charged off and positive credit migration. Our general allowance for credit losses covers probable losses in our loan and lease portfolio with respect to loans and leases that are not impaired and for which no specific impairment has been identified. A specific provision for credit losses is recorded with respect to loans for which it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement for which there is impairment recognized. The Company employs a variety of internally developed and third-party modeling and estimation tools for measuring credit risk, which are used in developing an allowance for loan and lease losses on outstanding loans and leases. The Company's allowance framework addresses economic conditions, capital market liquidity and industry circumstances from both a top-down and bottom-up perspective. The Company considers and evaluates changes in economic conditions, credit availability, industry and multiple obligor concentrations in assessing both probabilities of default and loss severities as part of the general component of the allowance for loan and lease losses.

Impaired loans at December 31, 2013 were in Leveraged Finance, Real Estate, and Business Credit over a range of industries impacted by the then current economic environment including the following: Media and Communications, Industrial, Commercial Real Estate, Other Business Services, Consumer/Retail, and Building Materials. For impaired Leveraged Finance loans, the Company measured impairment based on expected cash flows utilizing relevant information provided by the borrower and consideration of other market conditions or specific factors impacting recoverability. Such amounts are discounted based on original loan terms. For impaired Real Estate loans, the Company determined that the loans were collateral dependent and measured impairment based on the fair value of the related collateral utilizing recent appraisals from third-party appraisers, as well as internal estimates of market value. As of December 31, 2013, we had impaired loans with an aggregate outstanding balance of \$271.0 million. Impaired loans with an aggregate outstanding balance of \$240.3 million have been restructured and classified as troubled debt restructurings. At December 31, 2013, the Company had a \$23.3 million specific allowance for impaired loans with an aggregate outstanding balance of \$154.7 million. As of December 31, 2013, we had three restructured impaired loans

which had an outstanding balance greater than \$20 million. In each of these cases, we added to our position to maximize our potential recovery of the outstanding principal.

Non-interest income. Non-interest income increased \$2.0 million, to \$13.6 million for 2013 from \$11.6 million for 2012. The increase is primarily due to \$2.3 million net gains on equity method of accounting interests, and \$2.5 million of income from our other real estate owned properties, partially offset by a \$1.9 million loss on the value of equity interests in certain impaired borrowers. Beginning in 2013, the income and expenses from our other real estate owned properties were presented on a gross basis in our consolidated statement of operations.

## Table of Contents

As a result of certain of our troubled debt restructurings, we have received an equity interest in several of our impaired borrowers. The equity interest in certain impaired borrowers is initially recorded at fair value when the debt is restructured and is subsequently analyzed at the end of each quarter. In situations where we are deemed to be under the equity method of accounting, we record our ownership share of the borrowers' results of operations in non-interest income. Additionally, our corresponding share of our borrowers' results of operations may directly impact the remaining net book value of these respective loans. These equity interests may give rise to potential capital gains or losses, for tax purposes. This could impact future period tax rates depending on our ability to recognize capital losses to the extent of any capital gains.

**Operating expenses.** Operating expenses increased \$3.2 million, to \$49.5 million for 2013 from \$46.3 million for 2012. Employee compensation and benefits increased \$1.5 million primarily due to an increase in headcount and higher incentive compensation accruals, which were partially offset by lower equity compensation expense. General and administrative expenses increased \$1.6 million due primarily to \$4.0 million of operating expenses from our other real estate owned properties and an increase of \$0.4 million in occupancy expense, partially offset by a decrease of \$3.1 million in loan workout costs. Beginning in 2013, the income and expenses from our other real estate owned properties were presented on a gross basis in our consolidated statement of operations.

**Income taxes.** For 2013 and 2012, we provided for income taxes based on an effective tax rate of 40% and 41%, respectively. The effective tax rates differed from the federal statutory rate of 35% due largely to state tax expense in both years. Our tax rate for 2013, reflects the consolidation of the results of our variable interest entities.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity consist of cash flow from operations, credit facilities, term debt securitizations and proceeds from equity and debt offerings.

We believe that these sources will be sufficient to fund our current operations, lending activities and other short-term liquidity needs. Subject to market conditions, we continue to explore opportunities for the Company to increase its leverage, including through the issuance of high yield debt securities, convertible debt securities, share repurchases, secured or unsecured senior debt or revolving credit facilities, to support loan portfolio growth and/or strategic acquisitions, which may be material to us. In addition to opportunistic funding related to potential growth initiatives, our future liquidity needs will be determined primarily based on prevailing market and economic conditions, the credit performance of our loan portfolio and loan origination volume. We may need to raise additional capital in the future based on various factors including, but not limited to: faster than expected increases in the level of non-accrual loans; lower than anticipated recoveries or cash flow from operations; and unexpected limitations on our ability to fund certain loans with credit facilities. We may not be able to raise debt or equity capital on acceptable terms or at all. The incurrence of additional debt will increase our leverage and interest expense, and the issuance of any equity or securities exercisable, convertible or exchangeable into Company common stock may be dilutive for existing shareholders.

During the fourth quarter of 2014, the U.S. economy continued to show improvement and growth as the quarter saw favorable trends in personal consumption, auto sales, durable goods and consumer confidence despite continued geopolitical uncertainty and the increasing likelihood of rising interest rates. We expect the broader favorable trends and modest growth in the U.S. to continue and monetary policy to remain conducive to growth in the near term. We expect the broader favorable trends and slow growth in the U.S. to continue and monetary policy to remain conducive to growth in the near term. Despite tapering, we expect Treasury and investment grade bond rates remain relatively low and investors to continue to focus on allocating capital to riskier, higher yielding, fixed and floating rate asset classes in order to generate additional yield from their investments. The larger, more liquid segments of the securitization markets also continued to display strong volume and pricing. With the strengthening of the high yield loan markets as well as the broader securitization market, conditions in the securitization market for loans (the CLO market) remain attractive for issuers such as NewStar, despite some lingering uncertainty surrounding regulatory changes. We believe that the CLO market, which the Company partially relies upon for funding, has stabilized to a point that it will provide a reliable source of capital for companies like NewStar. In addition to these signs of stabilizing market conditions, we believe the Company has substantially greater financial flexibility and increased

financing options due to the improvement in our financial performance.

We believe that our ability to access the capital markets, secure new credit facilities, and renew and/or amend our existing credit facilities continues to demonstrate an overall improvement in the market conditions for funding and indicates progress in our ability to obtain financings on improved terms in the future. Despite these signs of improving market conditions and relative stability in recent years, we cannot assure these conditions will continue, and it is possible that the financial markets could experience stress, volatility, and/or illiquidity. If they do, we could face materially higher financing costs and reductions in leverage, which would affect our operating strategy and could materially and adversely affect our financial condition.

## Table of Contents

### Strategic Relationship

On November 4, 2014, we announced a strategic relationship GSO and Franklin Square and entered into an investment agreement with FS Investment Corporation, FS Investment Corporation II, and FS Investment Corporation III (collectively the “Franklin Square Funds”) pursuant to which we agreed to issue \$300 million of 8.25% subordinated notes due 2024 and warrants exercisable for 12 million shares of the Company’s common stock at an exercise price of \$12.62 per share (the “Warrants”).

On December 4, 2014, we issued \$200 million of the subordinated notes. The Warrants were issued in two tranches on December 4, 2014 and January 23, 2015. We are required to issue the remaining \$100 million of 8.25% subordinated notes due 2024 within one year of the initial purchase.

### Cash and Cash Equivalents

As of December 31, 2014 and 2013, we had \$33.0 million and \$43.4 million, respectively, in cash and cash equivalents. We may invest a portion of cash on hand in short-term liquid investments. From time to time, we may use a portion of our unrestricted cash to pay down our credit facilities creating undrawn capacity which may be redrawn to meet liquidity needs in the future or to equity fund loans.

### Restricted Cash

Separately, we had \$95.4 million and \$167.9 million of restricted cash as of December 31, 2014 and 2013, respectively, and the Arlington Fund had \$2.0 million of restricted cash as of December 31, 2013. The restricted cash represents the balance of the principal and interest collections accounts and pre-funding amounts in our credit facilities, our term debt securitizations and customer holdbacks and escrows. The use of the principal collection accounts’ cash is limited to funding the growth of our loan and portfolio within the facilities or paying down related credit facilities or term debt securitizations. As of December 31, 2014, we could use \$32.8 million of restricted cash to fund new or existing loans. The interest collection account cash is limited to the payment of interest, servicing fees and other expenses of our credit facilities and term debt securitizations and, if either a ratings downgrade or failure to receive ratings confirmation occurs on the rated notes in a term debt securitization at the end of the funding period or if coverage ratios are not met, paying down principal with respect thereto. Cash to fund the growth of our loan portfolio and to pay interest on our term debt securitizations represented a large portion of our restricted cash balance at December 31, 2014.

### Asset Quality and Allowance for Loan and Lease Losses

If a loan is 90 days or more past due, or if management believes it is probable we will be unable to collect contractual principal and interest in the normal course of business, it is our policy to place the loan on non-accrual status. If a loan financed by a term debt securitization is placed on non-accrual status, the loan may remain in the term debt securitization and excess interest spread cash distributions to us will cease until cash accumulated in the term debt securitization equals the outstanding balance of the non-accrual loan, or if an overcollateralization test is present, excess interest spread cash is diverted, and used to de-lever the securitization to bring the ratio back into compliance. When a loan is on non-accrual status, accrued interest previously recognized as interest income subsequent to the last cash receipt in the current year will be reversed, and the recognition of interest income on that loan will stop until factors indicating doubtful collection no longer exist and the loan has been brought current. We may make exceptions to this policy if the loan is well secured and is in the process of collection. As of December 31, 2014 we had impaired loans with an aggregate outstanding balance of \$217.2 million. Impaired loans with an aggregate outstanding balance of \$175.6 million have been restructured and classified as troubled debt restructurings. Impaired loans with an aggregate outstanding balance of \$87.8 million were on non-accrual status. During 2014, \$25.3 million of impaired loans were charged-off. Impaired loans of \$43.6 million were greater than 60 days past due and classified as delinquent. During 2014, we recorded \$22.1 million of net specific provisions for impaired loans. Included in our specific allowance for impaired loans was \$8.7 million related to delinquent loans.

We closely monitor the credit quality of our loans and leases which are partly reflected in our credit metrics such as loan delinquencies, non-accruals, and charge-offs. Changes to these credit metrics are largely due to changes in economic conditions and seasoning of the loan and lease portfolio.

We have provided an allowance for loan and lease losses to provide for probable losses inherent in our loan and lease portfolio. Our allowance for loan and lease losses as of December 31, 2014 and 2013 was \$43.0 million and \$41.4

million, respectively, or 1.81% and 1.78% of loans and leases, gross, respectively. As of December 31, 2014, we also had a \$0.7 million allowance for unfunded commitments, resulting in an allowance for credit losses of 1.84%. The allowance for credit losses is based on a review of the appropriateness of the allowance for credit losses and its two components on a quarterly basis. The estimate of each component is based on observable information and on market and third-party data believed to be reflective of the underlying credit losses being estimated.

Table of Contents

It is the Company's policy that during the reporting period to record a specific provision for credit losses for all loans which we have identified impairments. Subsequently, we may charge-off the portion of the loan for which a specific provision was recorded. All of these loans are classified as impaired (if they have not been so classified already as a result of a troubled debt restructuring) and are disclosed in the Allowance for Credit Losses footnote to the financial statements.

Activity in the allowance for loan and lease losses for the years ended December 31, 2014, 2013 and 2012 was as follows:

	Year Ended December 31,		
	2014	2013	2012
	(\$ in thousands)		
Balance as of beginning of period	\$41,403	\$49,636	\$63,700
General provision for loan and lease losses	4,779	(1,544 )	(3,918 )
Specific provision for loan losses	22,070	11,159	16,653
Net charge offs	(25,269 )	(17,848 )	(26,799 )
Balance as of end of period	42,983	41,403	49,636
Allowance for losses on unfunded loan commitments	710	451	328
Allowance for credit losses	\$43,693	\$41,854	\$49,964

During 2014 we recorded a total provision for credit losses of \$27.1 million. The Company increased its allowance for credit losses four basis points to 1.84% of gross loans at December 31, 2014 from 1.80% at December 31, 2013.

**Borrowings and Liquidity**

As of December 31, 2014 and 2013, we had outstanding borrowings totaling \$2.2 billion and \$2.0 billion, respectively. Borrowings under our various credit facilities and term debt securitizations are used to partially fund our positions in our loan portfolio.

As of December 31, 2014, our funding sources, maximum debt amounts, amounts outstanding and unused debt capacity, subject to certain covenants and conditions, are summarized below:

Funding Source	Maximum Debt Amount	Amounts Outstanding	Unused Debt Capacity	Maturity
	(\$ in thousands)			
Credit facilities	\$585,000	\$487,768	\$97,232	2015 – 2019
Term debt securitizations(1)	1,208,187	1,193,187	15,000	2017 – 2023
Corporate debt	238,500	238,500	—	2016-2018
Subordinated notes	300,000	200,000	100,000	2024
Repurchase agreements	57,227	57,227	—	2017
Total	\$2,388,914	\$2,176,682	\$212,232	

(1) Maturities for term debt are based on contractual maturity dates. Actual maturities may occur earlier.

We must comply with various covenants. The breach of certain of these covenants could result in a termination event and the exercise of remedies if not cured. At December 31, 2014, we were in compliance with all such covenants.

These covenants are customary and vary depending on the type of facility. These covenants include, but are not limited to, failure to service debt obligations, failure to meet liquidity covenants and tangible net worth covenants, and failure to remain within prescribed facility portfolio delinquency, charge-off levels, and overcollateralization tests. In addition, we are required to make termination or make whole payments in the event that certain of our existing credit facilities are prepaid. These termination or make-whole payments, if triggered, could be material to us individually or in the aggregate, and in the case of certain facilities, could be caused by factors outside of our control, including as a result of loan prepayment by the borrowers under the loan facilities that collateralize these credit facilities.

**Credit Facilities**

As of December 31, 2014 we had four credit facilities through certain of our wholly-owned subsidiaries: (i) a \$275 million credit facility with Wells Fargo Bank, National Association ("Wells Fargo") to fund leveraged finance loans, (ii) a \$125





## Table of Contents

million credit facility with DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt (“DZ Bank”) to fund asset-based loans, (iii) a \$110 million credit facility with Wells Fargo to fund asset-based loans, and (iv) a \$75 million credit facility with Wells Fargo to fund equipment leases and loans. Prior to the completion of its term debt securitization, the Arlington Fund had one credit facility, consisting of a \$147.0 million of Class A Notes (as defined below) with Wells Fargo and \$28.0 million of Class B Notes (as defined below) with the Company. The liability under the Class B Notes was eliminated in consolidation in accordance with GAAP.

We have a \$275.0 million credit facility with Wells Fargo to fund leveraged finance loans. On January 13, 2015, we entered into an amendment to this credit facility which, among other things, increased the commitment amount to \$375.0 million, with the ability to further increase the commitment amount to \$425.0 million, subject to lender approval and other customary conditions, and modified certain concentration amounts and specified threshold amounts. The credit facility had an outstanding balance of \$261.7 million and unamortized deferred financing fees of \$2.9 million as of December 31, 2014. Interest on this facility accrued at a variable rate per annum. The facility provides for a revolving reinvestment period which ends on November 5, 2015 with a two-year amortization period. We have a \$125.0 million credit facility with DZ Bank that had an outstanding balance of \$114.8 million and unamortized deferred financing fees of \$0.2 million as of December 31, 2014. Interest on this facility accrues at a variable rate per annum. As part of the agreement, there is a minimum interest charge of \$1.6 million per annum. If the facility is not utilized to cover this minimum requirement, then a make-whole fee is assessed to satisfy the minimum requirement. We are permitted to use the proceeds of borrowings under the credit facility to fund advances under asset-based loan commitments. The commitment amount under the credit facility provides for reinvestment until it matures on June 30, 2015 with no amortization period.

We have a \$110.0 million credit facility with Wells Fargo to fund asset-based loan origination. The credit facility had an outstanding balance of \$94.4 million and unamortized deferred financing fees of \$0.8 million as of December 31, 2014. On December 8, 2014, we entered into an amendment which increased the commitment amount under this credit facility to \$110.0 million from \$100.0 million. The credit facility may be increased to an amount up to \$300.0 million subject to lender approval and other customary conditions. Interest on this facility accrues at a variable rate per annum. The credit facility provides for reinvestment until it matures on December 7, 2017 with no amortization period.

We have a note purchase agreement with Wells Fargo under the terms of which Wells Fargo agreed to provide a \$75.0 million credit facility to fund equipment leases and loans. The credit facility had an outstanding balance of \$17.0 million and unamortized deferred financing fees of \$1.1 million as of December 31, 2014. Interest on this facility accrues at a variable rate per annum. The credit facility matures on November 16, 2016.

On April 4, 2013, Arlington Fund entered into an agreement establishing \$147.0 million of Class A Notes and \$28.0 million of Class B Notes to partially fund eligible leveraged loans. Wells Fargo funded the Class A Notes as the initial Class A lender and we funded the Class B Notes as the initial Class B lender. On June 26, 2014, the Class A Notes and the Class B notes were redeemed in connection with the completion of the Arlington Program term debt securitization.

### Corporate Credit Facility

On January 5, 2010, we entered into a note agreement with Fortress Credit Corp., which was subsequently amended on August 31, 2010, January 27, 2012, November 5, 2012, and December 4, 2012. The agreement was amended and restated on May 13, 2013 and further amended on June 3, 2013. On March 6, 2014, as permitted under the corporate credit facility with Fortress Credit Corp., we requested and received an increase of \$28.5 million to the Initial Funding under this credit facility. On May 15, 2014, as permitted under the corporate credit facility with Fortress Credit Corp., we requested and received a new \$10.0 million term loan (the “Term C Loan”). The credit facility, as amended, consists of a \$238.5 million term note with Fortress Credit Corp. as agent, which consists of the existing outstanding balance of \$100.0 million (the “Existing Funding”), an initial funding of \$98.5 million (the “Initial Funding”), and three subsequent borrowings, of \$5.0 million (the “Delay Draw Term A”), \$25.0 million (the “Delay Draw Term B”) and the \$10.0 million Term C Loan. The Existing Funding, the Initial Funding, the Delay Draw Term A, and the Term C Loan mature on May 11, 2018. The Delay Draw Term B matures on June 3, 2016. The Initial Funding, the Existing Funding and the Delay Draw Term A accrue interest at the London Interbank Offered Rate (LIBOR) plus 4.50% with an

interest rate floor of 1.00%. The Delay Draw Term B accrues interest at LIBOR plus 3.375% with an interest rate floor of 1.00%. The Term C Loan accrues interest at LIBOR plus 4.25% with an interest rate floor of 1.00%. We are permitted to use the proceeds of borrowings under the credit facility for general corporate purposes including, but not limited to, funding loans, working capital, paying down outstanding debt, acquisitions and repurchasing capital stock and dividend payments up to \$37.5 million, The \$37.5 million may be adjusted upward by the amount of fiscal year-end net income excluding depreciation and amortization expense.

## Table of Contents

The term note may be prepaid at any time without a prepayment penalty including in the event of a change of control. As of December 31, 2014, the term note had an outstanding principal balance of \$238.5 million and unamortized deferred financing fees of \$4.1 million.

### Subordinated notes

On December 4, 2014, we completed the initial closing of an investment of long-term capital from funds sponsored by Franklin Square Capital Partners ("Franklin Square") and sub-advised by GSO Capital Partners. The Franklin Square funds purchased \$200.0 million of 10-year subordinated notes (the "Subordinated Notes") that rank junior to our existing and future senior debt. The Subordinated Notes were recorded at par less the initial relative fair value of the warrants issued in connection with the investment which was \$43.2 million. The debt discount will accrete to par over time and will be recorded as non-cash interest expense. The Subordinated Notes bear interest at 8.25% and include a Payment-in-Kind ("PIK Toggle") feature that allows us, at our option, to elect to have interest accrued at a rate of 8.75% added to the principal of the Subordinated Notes instead of paying it in cash. The Subordinated Notes have a ten year term and will mature on December 4, 2024. They are callable during the first three years with payment of a make-whole premium. The prepayment premium decreases to 103% and 101% after the third and fourth anniversaries of the closing, respectively. They are callable at par after December 4, 2019. The Subordinated Notes require a mandatory payment at the end of each accrual period, beginning on December 5, 2019. We are required to make a cash payment of principal plus accrued interest in an amount required to prevent the Subordinated Notes from being treated as an "Applicable High Yield Discount Obligation" within the meaning of Section 163(i)(1) of the Internal Revenue Code of 1986, as amended. Events of default under the Subordinated Notes include failure to pay interest or principal when due subject to applicable grace periods, material uncured breaches of the terms of the Subordinated Notes, and bankruptcy/insolvency events.

### Subordinated debt - Fund membership interest

Prior to the completion of the Arlington Program's term debt securitization on June 26, 2014, we had purchased membership interests totaling \$5.0 million in the Arlington Fund and a third-party investor had purchased membership interests totaling \$30.0 million. The Company was the primary beneficiary of the Arlington Fund, and as a result of consolidating the Arlington Fund as a variable interest entity, or VIE, the membership interests representing equity ownership of Arlington Fund were characterized as debt in our consolidated statement of financial position. We applied an imputed interest rate to that debt and recorded the resulting interest expense in its consolidated statement of operations. In the consolidation, we eliminated the economic results of our related portion of the membership interests and the applied interest expense from our results of operations and statements of financial position. A portion of the proceeds from the Arlington Program's term debt securitization were used to redeem the membership interests in the Arlington Fund. As a result, we deconsolidated the Arlington Fund from our statements of financial position beginning on June 26, 2014. We are not the primary beneficiary of the Arlington Program and will not consolidate the Arlington Program's operating results or statements of financial position as of that date.

### Term Debt Securitizations

In June 2007 we completed a term debt securitization transaction. In conjunction with this transaction we established a separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Trust 2007-1 (the "2007-1 CLO Trust") and sold and contributed \$600 million in loans and investments (including unfunded commitments), or portions thereof, to the 2007-1 CLO Trust. We remain the servicer of the loans. Simultaneously with the initial sale and contribution, the 2007-1 CLO Trust issued \$546.0 million of notes to institutional investors. We retained \$54.0 million, comprising 100% of the 2007-1 CLO Trust's trust certificates. At December 31, 2014, the \$316.8 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$377.0 million. At December 31, 2014, deferred financing fees were \$0.5 million. The 2007-1 CLO Trust permitted reinvestment of collateral principal repayments for a six-year period which ended in May 2013. During 2012, we purchased \$0.2 million of the 2007-1 CLO Trust's Class C notes. During 2010, we purchased \$5.0 million of the 2007-1 CLO Trust's Class D notes. During 2009, we purchased \$1.0 million of the 2007-1 CLO Trust's Class D notes.

During 2009, Moody's downgraded all of the notes of the 2007-1 CLO Trust. As a result of the downgrade, amortization of the 2007-1 CLO Trust changed from pro rata to sequential, resulting in scheduled principal payments

thereafter made in order of the notes seniority until all available funds are exhausted for each payment. During 2010, Standard and Poor's downgraded the Class A-1 notes, the Class A-2 notes, the Class C notes and the Class D notes of the 2007-1 CLO Trust. The downgrade did not have any material consequence as the amortization of the 2007-1 CLO Trust changed from pro rata to sequential after the Moody's downgrade in 2009. During the second quarter of 2011, Moody's upgraded the Class C notes, the Class D notes, and the Class E notes. During 2011, Standard and Poor's upgraded the Class D notes. During the fourth quarter of 2011, Moody's upgraded all of the notes of the 2007-1 CLO Trust. During the third quarter of 2012, Fitch affirmed its ratings of all of the notes of the 2007-1 CLO Trust. During the second quarter of 2013, Moody's upgraded the Class B notes, the Class C notes, the Class D notes, and the Class E notes and affirmed its ratings of the Class A-1 notes and the Class A-2 notes of the

Table of Contents

2007-1 CLO Trust. During the third quarter of 2013, Fitch affirmed its ratings on all of the notes of the 2007-1 CLO Trust. During the first quarter of 2014, Standard and Poor's upgraded its ratings on all notes of the 2007-1 CLO Trust. During the second quarter of 2014, Moody's affirmed the ratings of the Class B notes, the Class C notes, and the Class D notes of the 2007-1 CLO Trust.

We receive a loan collateral management fee and excess interest spread. We also receive payments with respect to the classes of notes we own in accordance with the transaction documents. We expect to receive a principal distribution as owner of the trust certificates when the term debt is retired. If loan collateral in the 2007-1 CLO Trust is in default under the terms of the indenture, the excess interest spread from the 2007-1 CLO Trust could not be distributed until the undistributed cash plus recoveries equals the outstanding balance of the defaulted loan or if we elected to remove the defaulted collateral.

The following table sets forth selected information with respect to the 2007-1 CLO Trust:

	Notes originally issued	Outstanding balance December 31, 2014	Borrowing spread to LIBOR	Ratings (S&P/Moody's/ Fitch)(1)
(\$ in thousands)				
2007-1 CLO Trust				
Class A-1	\$336,500	\$162,405	0.24	% AAA/Aaa/AAA
Class A-2	100,000	51,089	0.26	AAA/Aaa/AAA
Class B	24,000	24,000	0.55	AA+/Aa1/AA
Class C	58,500	58,293	1.30	A-/A2/A
Class D	27,000	21,000	2.30	BBB-/Baa2/BBB+
Total notes	546,000	316,787		
Class E (trust certificates)	29,100	29,100	N/A	CCC-/Ba3/BB
Class F (trust certificates)	24,900	24,900	N/A	N/A
Total for 2007-1 CLO Trust	\$600,000	\$370,787		

These ratings were initially given in June 2007, are unaudited and are subject to change from time to time. During the first quarter of 2009, Fitch affirmed its ratings on all of the notes. During the first quarter of 2009, Moody's downgraded the Class C notes and the Class D notes. During the third quarter of 2009, Moody's downgraded the Class A-1 notes, the Class A-2 notes and the Class B notes. During the second quarter of 2010, Standard and Poor's downgraded the Class A-1 notes, the Class A-2 notes, the Class C notes, and the Class D notes. During the second quarter of 2011, Moody's upgraded the Class C notes and the Class D notes. During the second quarter of 2011, (1) Standard and Poor's upgraded the Class D notes. During the fourth quarter of 2011, Moody's upgraded all of the notes. During the third quarter of 2012, Fitch affirmed its ratings on all of the notes. During the second quarter of 2013, Moody's upgraded the Class B notes, the Class C notes, the Class D notes and the Class E notes to the ratings shown above, and affirmed its ratings of the Class A-1 notes and the Class A-2 notes. During the third quarter of 2013, Fitch affirmed its ratings on all of the notes. During the first quarter of 2014, Standard and Poor's upgraded its ratings on all notes to the ratings shown above. During the second quarter of 2014, Moody's affirmed the above ratings of the Class B notes, the Class C notes, and the Class D notes (source: Bloomberg Finance L.P.).

On December 18, 2012, we completed a term debt securitization transaction. In conjunction with this transaction we established a separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2012-2 LLC (the "2012-2 CLO") and sold and contributed \$325.9 million in loans and investments (including unfunded commitments), or portions thereof, to the 2012-2 CLO. We remain the servicer of the loans. Simultaneously with the initial sale and contribution, the 2012-2 CLO issued \$263.3 million of notes to institutional investors. We retained \$62.6 million, comprising 100% of the 2012-2 CLO's membership interests, Class E notes, Class F notes, and subordinated notes. At December 31, 2014, the \$263.3 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$325.9 million. At December 31, 2014, deferred financing fees were \$2.2 million. The 2012-2 CLO permits reinvestment of collateral principal repayments for a three-year period ending in January 2016. Should we determine that reinvestment

of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

We receive a loan collateral management fee and excess interest spread. We also receive payments with respect to the classes of notes we own in accordance with the transaction documents. We expect to receive a principal distribution as owner of

Table of Contents

the membership interests when the term debt is retired. If loan collateral in the 2012-2 CLO is in default under the terms of the indenture, the excess interest spread from the 2012-2 CLO may not be distributed if the overcollateralization ratio, or other collateral quality tests, is not satisfied.

The following table sets forth selected information with respect to the 2012-2 CLO:

	Notes originally issued	Outstanding balance December 31, 2014	Borrowing spread to LIBOR	Ratings (Moody's/ S&P)(1)
(\$ in thousands)				
2012-2 CLO				
Class A	\$190,700	\$ 190,700	1.90	Aaa/AAA
Class B	26,000	26,000	3.25	Aa2/N/A
Class C	35,200	35,200	4.25	A2/N/A
Class D	11,400	11,400	6.25	Baa2/N/A
Total notes	\$263,300	\$ 263,300		
Class E	16,300	16,300	N/A	Ba1/N/A
Class F	24,100	24,100	N/A	B2/N/A
Subordinated notes	22,183	22,183	N/A	N/A
Total for 2012-2 CLO	\$325,883	\$ 325,883		

(1) These ratings were initially given in December 2012, are unaudited and are subject to change from time to time. On September 11, 2013, we completed a term debt securitization transaction through our separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2013-1 LLC (the "2013-1 CLO") and sold and contributed \$247.6 million in loans and investments (including unfunded commitments), or portions thereof, to the 2013-1 CLO. We remain the servicer of the loans. Simultaneously with the initial sale and contribution, the 2013-1 CLO issued \$338.6 million of notes to institutional investors. We retained \$61.4 million, comprising 100% of the 2013-1 CLO's membership interests, Class F notes, Class G notes, and subordinated notes. At December 31, 2014, the \$323.6 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$385.0 million. At December 31, 2014, deferred financing fees were \$4.6 million. The 2013-1 CLO permits reinvestment of collateral principal repayments for a three-year period ending in September 2016. Should we determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

We receive a loan collateral management fee and excess interest spread. We also receive payments with respect to the classes of notes we own in accordance with the transaction documents. We expect to receive a principal distribution as owner of the membership interests when the term debt is retired. If loan collateral in the 2013-1 CLO is in default under the terms of the indenture, the excess interest spread from the 2013-1 CLO may not be distributed if the overcollateralization ratio, or other collateral quality tests, is not satisfied.



Table of Contents

The following table sets forth selected information with respect to the 2013-1 CLO:

	Notes originally issued	Outstanding balance December 31, 2014	Borrowing spread to LIBOR	Ratings (S&P/ Moody's)(2)
	(\$ in thousands)			
2013-1 CLO				
Class A-T	\$202,600	\$ 202,600	1.65	AAA/Aaa
Class A-R	35,000	20,000	(1)	AAA/Aaa
Class B	38,000	38,000	2.30	AA/N/A
Class C	36,000	36,000	3.80	A/N/A
Class D	21,000	21,000	4.55	BBB/N/A
Class E	6,000	6,000	5.30	BBB-/N/A
Total notes	338,600	323,600		
Class F	17,400	17,400	N/A	N/A
Class G	15,200	15,200	N/A	N/A
Subordinated notes	28,800	28,800	N/A	N/A
Total for 2013-1 CLO	\$400,000	\$ 385,000		

(1) Class A-R Notes accrue interest at the Class A-R CP Rate so long as they are held by a CP Conduit, and otherwise will accrue interest at the Class A-R LIBOR Rate or, in certain circumstances, the Class A-R Base Rate, but in no event shall interest rate payable pari passu with the Class A-T Notes exceed the Class A-R Waterfall Rate Cap.

(2) These ratings were initially given in September 2013, are unaudited and are subject to change from time to time. On April 17, 2014, we completed a term debt securitization transaction through our separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2014-1 LLC (the "2014-1 CLO") and sold and contributed \$249.6 million in loans and investments (including unfunded commitments), or portions thereof, to the 2014-1 CLO. We remain the servicer of the loans. Simultaneously with the initial sale and contribution, the 2014-1 CLO issued \$289.5 million of notes to institutional investors. We retained \$58.9 million, comprising 100% of the 2014-1 CLO's membership interests, Class E notes, Class F notes, and subordinated notes. At December 31, 2014, the \$289.5 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$348.4 million. At December 31, 2014, deferred financing fees were \$3.1 million. The 2014-1 CLO permits reinvestment of collateral principal repayments for a four-year period ending in April 2018. Should we determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

We receive a loan collateral management fee and excess interest spread. We also receive payments with respect to the classes of notes we own in accordance with the transaction documents. We expect to receive a principal distribution as owner of the membership interests when the term debt is retired. If loan collateral in the 2014-1 CLO is in default under the terms of the indenture, the excess interest spread from the 2014-1 CLO may not be distributed if the overcollateralization ratio, or other collateral quality tests, is not satisfied.

Table of Contents

The following table sets forth selected information with respect to the 2014-1 CLO:

	Notes originally issued	Outstanding balance December 31, 2014	Borrowing spread to LIBOR	Ratings (Moody's)(2)
	(\$ in thousands)			
2014-1 CLO				
Class A	\$202,500	\$202,500	1.80	Aaa
Class B-1	20,000	20,000	3	Aa2
Class B-2	13,250	13,250	(1)	Aa2
Class C	30,250	30,250	3.60	A2
Class D	23,500	23,500	4.75	Baa3
Total notes	289,500	289,500		
Class E	18,500	18,500	N/A	N/A
Class F	14,000	14,000	N/A	N/A
Subordinated notes	26,375	26,375	N/A	N/A
Total for 2014-1 CLO	\$348,375	\$348,375		

(1) Class B-2 Notes accrue interest at a fixed rate of 4.902%.

(2) These ratings were initially given in April 2014, are unaudited and are subject to change from time to time.

In June 2006 we completed a term debt securitization transaction. In conjunction with this transaction we established a separate single-purpose bankruptcy remote subsidiary, NewStar Commercial Loan Trust 2006-1 (the "2006 CLO Trust") and sold and contributed \$500 million in loans and investments (including unfunded commitments), or portions thereof, to the 2006 CLO Trust. Simultaneously with the initial sale and contribution, the 2006 CLO Trust issued \$456.3 million of notes to institutional investors. We retained \$43.8 million, comprising 100% of the 2006 CLO Trust's trust certificates. The 2006 CLO Trust permitted reinvestment of collateral principal repayments for a five-year period which ended in June 2011. During 2011, we purchased \$7.0 million of the 2006 CLO Trust's Class C notes, \$6.0 million of the 2006 CLO Trust's Class D notes and \$2.0 million of the 2006 CLO Trust's Class E notes. During 2010, we purchased \$3.0 million of the 2006 CLO Trust's Class D notes and \$3.0 million of the 2006 CLO Trust's Class E notes. During 2009, we purchased \$6.5 million of the 2006 CLO Trust's Class D notes and \$1.8 million of the 2006 CLO Trust's Class E notes. During 2008, we purchased \$3.3 million of the 2006 CLO Trust's Class D and \$2.5 million of the 2006 CLO Trust's Class E notes, respectively. On September 30, 2014, we called the 2006 CLO Trust and redeemed the notes at par. In conjunction with the call, we received a principal distribution of \$9.7 million.

In August 2005 we completed a term debt securitization transaction. In conjunction with this transaction we established a separate single-purpose bankruptcy-remote subsidiary, NewStar Trust 2005-1 (the "2005 CLO Trust") and sold and contributed \$375 million in loans and investments (including unfunded commitments), or portions thereof, to the 2005 CLO Trust. Simultaneously with the initial sale and contribution, the 2005 CLO Trust issued \$343.4 million of notes to institutional investors and issued \$31.6 million of trust certificates of which we retained 100%. The 2005 CLO Trust permitted reinvestment of collateral principal repayments for a three-year period which ended in October 2008. During 2013, we purchased \$5.0 million of the 2005 CLO Trust's Class C notes and \$2.4 million of the Class D notes. During 2012, we purchased \$9.8 million of the 2005 CLO Trust's Class D notes and \$0.9 million of the Class E notes. During 2011, we purchased \$3.9 million of the 2005 CLO Trust's Class E notes. During 2010, we purchased \$4.6 million of the 2005 CLO Trust's Class D notes. During 2009, we purchased \$1.4 million of the 2005 CLO Trust's Class D notes and \$1.2 million of the Class E notes. During 2008, we purchased \$5.8 million of the 2005 CLO Trust's Class E notes. During 2007, we purchased \$5.0 million of the 2005 CLO Trust's Class E notes. On October 25, 2013, we called the 2005 CLO Trust and redeemed the notes at par. In conjunction with the call, we received a principal distribution of \$9.2 million.

Repurchase Agreement

On June 7, 2011, we entered into a five-year, \$68.0 million financing arrangement with Macquarie Bank Limited backed primarily by a portfolio of commercial mortgage loans previously originated by us. The financing was structured as a master repurchase agreement under which we sold the portfolio of commercial mortgage loans to Macquarie for an aggregate purchase price of \$68.0 million. We also agreed to repurchase the commercial mortgage loans from time to time (including a minimum quarterly amount), and agreed to repurchase all of the commercial mortgage loans by June 7, 2016. Upon the repurchase of a commercial mortgage loan, we are obligated to repay the principal amount related to such mortgage loan plus accrued interest

Table of Contents

(at a rate based on LIBOR plus a margin) to the date of repurchase. We will continue to service the commercial mortgage loans. On October 2, 2013, we entered into an amendment to this financing arrangement which, among other things, extended the date it had agreed to repurchase all of the commercial mortgage loans by one year to June 7, 2017, provided for \$25.5 million of additional advances for existing eligible assets owned by us, allowed for the advance of up to \$15.0 million to fund an additional commercial mortgage loan, and released \$41.1 million of principal payments to us as unrestricted cash. The facility accrues interest at a variable rate per annum, which was 5.16% as of December 31, 2014. As of December 31, 2014, unamortized deferred financing fees were \$0.9 million and the outstanding balance was \$57.2 million. During 2014, we made principal payments totaling \$10.7 million. As part of the amended agreement, there is a minimum aggregate interest margin payment of \$9.2 million required to be made over the life of the facility. We cannot control the rate at which the underlying commercial mortgage loans are repaid. If the facility is not utilized to cover this minimum requirement, then a make-whole fee is required to be made to satisfy the minimum aggregate interest margin payment.

**Stock Repurchase Program**

On December 22, 2014, we repurchased 1,000,000 shares of the Company's common stock in a privately negotiated transaction with an unaffiliated third party for an aggregate purchase price of \$10.2 million.

On August 13, 2014, our Board of Directors authorized the repurchase of up to \$10.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased are determined by our management based on its evaluation of market conditions and other factors. The repurchase program, which will expire on August 15, 2015 unless extended by the Board of Directors, may be suspended or discontinued at any time without notice. As of December 31, 2014, we had repurchased 382,999 shares of our common stock under this program at a weighted average price per share of \$11.54.

On May 5, 2014, our Board of Directors authorized the repurchase of up to \$20.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased were determined by our management based on its evaluation of market conditions and other factors. We completed this repurchase program during July 2014. Under this stock repurchase program, we repurchased 1,519,615 shares of our common stock at a weighted average price per share of \$13.13 in the aggregate.

On November 19, 2012, our Board of Directors authorized the repurchase of up to \$10 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased were determined by the company's management based on its evaluation of market condition and other factors. The repurchase program expired on December 31, 2013. Upon completion of the stock repurchase program, we had repurchased 17,665 shares of its common stock under the program at a weighted average price per share of \$12.22.

On September 29, 2011, our Board of Directors authorized the repurchase of up to \$10 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased will be determined by management based on its evaluation of market conditions and other factors and required use of cash. The repurchase program expired on September 29, 2012. Upon the expiration of the stock repurchase program, the Company had repurchased 252,450 shares of its common stock at a weighted average price per share of \$10.26.

**Contractual Obligations**

The following table sets forth information relating to our contractual obligations as of December 31, 2014:

	Payments due by period				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
	(\$ in thousands)				
Credit facilities (1)	\$114,751	\$373,017	\$—	\$—	\$487,768
Term debt (1)	—	—	—	1,193,187	1,193,187
Corporate debt	—	238,500	—	—	238,500
Subordinated notes	—	—	—	200,000	200,000
Repurchase agreement	—	57,227	—	—	57,227

Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

Non-cancelable operating leases	1,462	2,697	2,285	150	6,594
Total	\$116,213	\$671,441	\$2,285	\$1,393,337	\$2,183,276

47

---

## Table of Contents

Amounts for credit facilities and term debt presented represent principal amounts due based on contractual (1) maturity dates and do not include interest amounts owed. The actual timing of payments will ultimately vary from the above data due to future fundings and repayments we expect to occur.

### DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We maintain an overall risk management strategy that may incorporate the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our operations are subject to risks resulting from interest rate fluctuations on our interest-earning assets and our interest-bearing liabilities. We seek to provide maximum levels of net interest income, while maintaining acceptable levels of interest rate and liquidity risk. As such, we may enter into interest rate swap and interest rate cap agreements to hedge interest rate exposure to interest rate fluctuations on floating rate funding agreement liabilities that are matched with fixed rate securities. Under the interest rate swap contracts, we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated on an agreed-upon notional principal amount. We record the exchanged amount in net interest income in our statements of operations. Under the interest rate cap contracts, we agree to exchange, at specified intervals, the difference between a specified fixed interest (the cap) and floating interest amounts calculated on an agreed-upon notional principal amount, but only if the floating interest rate exceeds the cap rate. The interest rate caps may not be matched to specific assets or liabilities and would not qualify for hedge accounting. Interest rate risk mitigation products are offered to enable customers to meet their financing and risk management objectives. Derivative financial instruments consist predominantly of interest rate swaps, interest rate caps and floors. The interest rate risks to the Company of these customer derivatives is mitigated by entering into similar derivatives having offsetting terms with other counterparties consisting primarily of large financial institutions. The interest rate mitigation products do not qualify for hedge accounting treatment.

Gains and losses on derivatives not designated as hedges, including any cash payments made or received, are reported as gain or (loss) on derivatives in our consolidated statements of operations.

On December 4, 2014, we entered into a total return swap ("TRS") for senior floating rate loans with Citibank, N.A. ("Citibank"). The TRS with Citibank enables us, through a wholly owned financing subsidiary NewStar TRS I LLC, to obtain the economic benefits of the loans subject to the TRS, despite the fact that such loans will not be directly owned by us, in return for an interest payment to Citibank. The underlying loan portfolio of the TRS are typically large, liquid broadly syndicated loans. We act as the manager of the TRS and select the specific loans to be subject to the TRS. The TRS does not qualify for hedge accounting treatment as it does not offset the risks of another investment position. The initial maximum market value (determined at the time such loan becomes subject to the TRS) of the portfolio of loans subject to the TRS was \$75.0 million. On December 15, 2014, we entered into an amendment to the TRS that increased the maximum value to \$125.0 million. As of December 31, 2014, the fair value of the underlying loan portfolio was \$109.2 million. Interest accrues at one-month LIBOR+1.60% per annum. We are required to cash collateralize a specified percentage of each loan included under the TRS in accordance with margin requirements. As of December 31, 2014, we had cash collateral on deposit with Citibank of \$39.0 million. Our obligations under the TRS are non-recourse to us, and or exposure is limited to the value of the cash collateral. Citibank may terminate the TRS on or after December 4, 2015, and we can terminate the TRS at any time upon providing 10 days notice, subject to a termination fee if terminated prior to December 4, 2015. At December 31, 2014 the TRS had an unrealized loss of \$0.9 million.

We did not have any material outstanding derivatives as of December 31, 2013.

### OFF BALANCE SHEET ARRANGEMENTS

We are party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our borrowers. These financial instruments include unfunded commitments, standby letters of credit and interest rate mitigation products. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.

Unused lines of credit are commitments to lend to a borrower if certain conditions have been met. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because certain

## Table of Contents

commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each borrower's creditworthiness on a case-by-case basis. The amount of collateral required is based on factors that include management's credit evaluation of the borrower and the borrower's compliance with financial covenants. Due to their nature, we cannot know with certainty the aggregate amounts that will be required to fund our unfunded commitments. The aggregate amount of these unfunded commitments currently exceeds our available funds and will likely continue to exceed our available funds in the future.

At December 31, 2014, we had \$317.6 million of unused lines of credit. Of these unused lines of credit, unfunded commitments related to revolving credit facilities were \$266.7 million and unfunded commitments related to delayed draw term loans were \$44.9 million. \$6.0 million of the unused revolving commitments are unavailable to the borrowers, which may be related to the borrowers' inability to meet covenant obligations or other similar events.

Revolving credit facilities allow our borrowers to draw up to a specified amount, subject to customary borrowing conditions. The unfunded revolving commitments of \$266.7 million are further categorized as either contingent or unrestricted. Contingent commitments limit a borrower's ability to access the revolver unless it meets an enumerated borrowing base covenant or other restrictions. At December 31, 2014, we categorized \$159.7 million of the unfunded commitments related to revolving credit facilities as contingent. Unrestricted commitments represent commitments that are currently accessible, assuming the borrower is in compliance with certain customary loan terms and conditions. At December 31, 2014 we had \$107.0 million of unfunded unrestricted revolving commitments.

During the three months ended December 31, 2014, revolver usage averaged approximately 53%, which is line with the average of 47% over the previous four quarters. Management's experience indicates that borrowers typically do not seek to exercise their entire available line of credit at any point in time. During the three months ended December 31, 2014, revolving commitments increased \$60.9 million.

Delayed draw credit facilities allow our borrowers to draw predefined amounts of the approved loan commitment at contractually set times, subject to specific conditions, such as capital expenditures or acquisitions in corporate loans or for tenant improvements in commercial real estate loans. During the three months ended December 31, 2014, delayed draw credit facility commitments increased \$10.5 million.

Standby letters of credit are conditional commitments issued by us to guarantee the performance by a borrower to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending credit to our borrowers. At December 31, 2014 we had \$7.9 million of standby letters of credit.

Interest rate risk mitigation products are offered to enable customers to meet their financing and risk management objectives. Derivative financial instruments consist predominantly of interest rate swaps, interest rate caps and floors. The interest rate risks to the Company of these customer derivatives is mitigated by entering into similar derivatives having offsetting terms with other counterparties. At December 31, 2014 and 2013, the fair value of the interest rate mitigation products was \$0.1 million and \$0, respectively.

On December 4, 2014, we entered into a TRS for senior floating rate loans with Citibank. The TRS with Citibank enables us, through a wholly owned financing subsidiary NewStar TRS I LLC, to obtain the economic benefits of the loans subject to the TRS, despite the fact that such loans will not be directly owned by us, in return for an interest payment to Citibank. As of December 31, 2014, the fair value of the underlying loan portfolio was \$109.2 million. We are required to cash collateralize a specified percentage of each loan included under the TRS in accordance with margin requirements. As of December 31, 2014, we had cash collateral on deposit with Citibank of \$39.0 million. Our obligations under the TRS are non-recourse to us, and our exposure is limited to the value of the cash collateral.

### Critical Accounting Policies

Accounting policies involving significant estimates and assumptions by management, which have, or could have, a material impact on our financial statements, are considered critical accounting policies. The following are our critical accounting policies:

#### Allowance for credit losses

A general allowance is provided for loans and leases that are not impaired and for which no specific impairment has been identified. The Company employs a variety of internally developed and third-party modeling and estimation tools for measuring credit risk, which are used in developing an allowance for loan and lease losses on outstanding loans and leases. The Company's allowance framework addresses economic conditions, capital market liquidity and



industry circumstances from both a top-down and bottom-up perspective. The Company considers and evaluates a number of factors, including but not limited to, changes in economic conditions, credit availability, industry, loss emergence period and multiple obligor concentrations in assessing both probabilities of default and loss severities as part of the general component of the allowance for loan and lease losses.

## Table of Contents

On at least a quarterly basis, loans and leases are internally risk-rated based on individual credit criteria, including loan and lease type, loan and lease structures (including balloon and bullet structures common in the Company's Leveraged Finance and Real Estate loans), borrower industry, payment capacity, location and quality of collateral if any (including the Company's Real Estate loans). Borrowers provide the Company with financial information on either a monthly or quarterly basis. Ratings, corresponding assumed default rates and assumed loss severities are dynamically updated to reflect any changes in borrower condition or profile.

For Leveraged Finance loans and Equipment Finance products, the data set used to construct probabilities of default in its allowance for loan losses model, Moody's CRD Private Firm Database, primarily contains middle market loans that share attributes similar to the Company's loans. The Company also considers the quality of the loan or lease terms and lender protections in determining a loan loss in the event of default.

For Business Credit loans, the Company utilizes a proprietary model to risk rate the loans on a monthly basis. This model captures the impact of changes in industry and economic conditions as well as changes in the quality of the borrower's collateral and financial performance to assign a final risk rating. The Company has also evaluated historical loss trends by risk rating from a comprehensive industry database covering more than twenty-five years of experience of the majority of the asset based lenders operating in the United States. Based upon the monthly risk rating from the model, the reserve is adjusted to reflect the historical average for expected loss from the industry database.

For Real Estate loans, the Company employs two mechanisms to capture the impact of industry and economic conditions. First, a loan's risk rating, and thereby its assumed default likelihood, can be adjusted to account for overall commercial real estate market conditions. Second, to the extent that economic or industry trends adversely affect a substandard rated borrower's loan-to-value ratio enough to impact its repayment ability, the Company applies a stress multiplier to the loan's probability of default. The multiplier is designed to account for default characteristics that are difficult to quantify when market conditions cause commercial real estate prices to decline.

For consolidated variable interest entities to which the Company is providing transitional capital, we utilize a qualitative analysis which considers the business plans related to the entity, including expected hold periods, the terms of the agreements related to the entity, the Company's historical credit experience, the credit migration of the entity's loans in determining expected loss, as well as conditions in the capital markets. The Company provided capital on a transitional basis to the Arlington Fund. At December 31, 2013, the expected and actual loss on Arlington Fund was zero and no allowance was recorded. The Company deconsolidated the Arlington Fund on June 26, 2014. The Company did not recognize any losses on loans on the date of deconsolidation.

The Company periodically reviews its allowance for credit loss methodology to assess any necessary adjustments based upon changing economic and capital market conditions. If the Company determines that changes in its allowance for credit losses methodology are advisable, as a result of changes in the economic environment or otherwise, the revised allowance methodology may result in higher or lower levels of allowance. There have been no material modifications to the allowance for credit losses methodology during the three months ended December 31, 2014. Given uncertain market conditions, actual losses under the Company's current or any revised allowance methodology may differ materially from the Company's estimate.

Additionally, when determining the amount of the general allowance, the Company supplements the base amount with an environmental reserve amount which is governed by a score card system comprised of ten individually weighted risk factors. The risk factors are designed based on those outlined in the Comptrollers of the Currency's Allowance for Loan and Lease Losses Handbook. The Company also performs a ratio analysis of comparable money center banks, regional banks and finance companies. While the Company does not rely on this peer group comparison to set the level of allowance for credit losses, it does assist management in identifying market trends and serves as an overall reasonableness check on the allowance for credit losses computation.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impairment of a loan is based upon (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price, or (iii) the fair value of the collateral if the loan is collateral dependent, depending on the circumstances and our collection strategy. Impaired loans are identified based on the loan-by-loan risk rating process described above. Impaired loans include all non-accrual loans, loans with partial charge-offs and loans which are Troubled Debt Restructurings. It is the

Company's policy during the reporting period to record a specific provision for credit losses to cover the identified impairment on a loan.

Impaired loans at December 31, 2014 were in Leveraged Finance and Real Estate over a range of industries impacted by the then current economic environment including the following: Media and Communications, Industrial, Commercial Real Estate, Other Business Services, Consumer/Retail, and Building Materials. For impaired Leveraged Finance loans, the Company measured impairment based on expected cash flows utilizing relevant information provided by the borrower and consideration of other market conditions or specific factors impacting recoverability. Such amounts are discounted based on original loan terms. For impaired Real Estate loans, the Company determined that the loans were collateral dependent and

## Table of Contents

measured impairment based on the fair value of the related collateral utilizing recent appraisals from third-party appraisers, as well as internal estimates of market value.

Loans deemed to be uncollectible are charged off and the allowance is reduced by the charged off balance of the loan. The provision for credit losses and recoveries on loans previously charged off are added to the allowance.

### Valuation of deferred tax assets

We recognize deferred tax assets and liabilities resulting from the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We regularly review our deferred tax assets to assess their potential realization and whether or not a valuation allowance is necessary. In performing these reviews we make estimates about future profits and tax planning strategies that would affect future taxable income and the realization of these deferred tax assets. A change in these assumptions could result in a difference in valuation and impact our results of operations. Based upon our assessment, we believe that a valuation allowance was not necessary as of December 31, 2014.

ASC 740 (Accounting for Uncertainty in Income Taxes—An interpretation of FASB Statement No. 109) provides that a company can only recognize the tax position in the financial statements if the position is more-likely-than-not to be upheld on audit, based only on the technical merits of the tax position. If the recognition threshold is met, the tax benefit is measured at the largest amount that is more than 50% likely of being realized upon ultimate settlement. ASC 740 also addresses how interest and penalties should be accrued for uncertain tax positions, requiring that interest expense should be recognized in the first period interest would be accrued under the tax law. The Company classifies all interest and penalties on recognized tax benefits as a part of income tax expense.

The Company files U.S. federal and state income tax returns. As of December 31, 2014, the Company is subject to examination by the Internal Revenue Service and most state tax authorities for tax years after December 31, 2010. A few states remain subject to examination for the year ended December 31, 2009.

### Revenue recognition

Interest income is recorded on the accrual basis in accordance with the terms of the respective loan and debt product. The accrual of interest on loans and other debt products is discontinued when principal or interest payments are past due by 90 days or more or when, in the opinion of management, it is probable we will be unable to collect contractual principal and interest in the normal course of business. If loans are placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Interest income on non-accrual loans is subsequently recognized only to the extent that cash is received and the principal balance is deemed collectible.

Nonrefundable fees and related direct costs associated with the origination or purchase of loans and other debt products are deferred and netted against balances outstanding. The net deferred fees or costs are recognized as an adjustment to interest income over the contractual life of the loans using a method which approximates the effective interest method. In connection with the prepayment of a loan or other debt product, a partial amount of the remaining unamortized net deferred fees, costs, premiums or discounts are accelerated and recognized as interest income. The amortization of fees is discontinued on non-accrual loans. Depending on the terms of a loan or other debt product, we may charge a prepayment fee and recognize it in the period of the prepayment. We accrete any discount and amortize any premium from purchased debt products or acquired loans in a business combination into interest income as a yield adjustment over the contractual life. Syndication, arrangement and structuring fees are recognized in the period the service is completed as a component of non-interest income.

### Equity method of accounting

As the result of a troubled debt restructuring, we may acquire a portion of the equity in the borrower. In certain cases where we have the ability to exercise significant influence over the borrower, we account for our equity interest under the equity method of accounting. Under the equity method of accounting, we recognize our proportional share of the borrower's net income as determined under U.S. generally accepted accounting principles ("GAAP") in our results of operations. In cases where the equity of the underlying company has no value, and the borrower incurs losses, we will apply our proportional share of the GAAP loss against the principal of the outstanding loan to the borrower.

Valuation of investments in debt securities

51

---

## Table of Contents

We review the fair value of our other debt products quarterly. The fair value of our investments in debt securities, non-investment grade securities and residual securities, are based on independent third-party quoted market prices, when available, at the reporting date for those or similar investments. When no market is available, we estimate fair value using various valuation methodologies, including cash flow analysis and internally generated financial models that incorporate significant assumptions and judgments, as well as qualitative factors.

Even if the general accuracy of our valuation models are validated, there are no assurances that our valuations are accurate because of the high number of variables that affect cash flows associated with these complex cash flow structures, which differ on each securitization. Valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships that drive the results of the model. Because of the inherent uncertainty of determining the fair value of investments that do not have a readily ascertainable market value, the fair value of investments may differ significantly from the values that would have been used had a market existed for the investments, and the differences could be material. In addition, if our estimates or assumptions with respect to these assets prove to be incorrect, we may be required to write down some or all of the value of these assets.

A debt product is considered impaired when the fair value of the debt product declines below its amortized cost. The cost basis of the investment is then written down to fair value. If management determines the impairment to be temporary, it is recorded in other comprehensive income, a component of stockholders' equity. If management determines the impairment to be other than temporary, it is recorded as an offset to other income on our statements of operations. From time to time we may become aware of cash flow or credit issues with respect to our other debt products and these other debt products are then monitored by management to determine if a write-down is appropriate. Although we view write-downs of our other debt products as a normal and anticipated aspect of our business, material write-downs of the fair value of our other debt products could adversely affect our results of operations and financial condition. Our allowance for credit losses does not cover write-downs because we classify these assets as available-for-sale securities.

The description of certain instruments as "debt securities" is intended to describe the accounting treatment of those instruments and is not a characterization of those instruments as securities for any other purpose.

### Valuation of debt and equity linked instruments

We account for the subordinated notes and associated warrants issued to Franklin Square as debt and equity-linked instruments. The warrants are freestanding, indexed to the Company's common stock and are classified as equity. They were initially recorded at relative fair value, with no subsequent re-measurement. The allocation of the proceeds from the issuance of debt and warrants to Franklin Square was determined using the relative fair value method. The allocation of proceeds to the warrants created a debt discount to the subordinated debt and will be amortized over the life of the subordinated notes. The subordinated debt is presented net of the debt discount.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to changes in market values of our loans held-for-sale, which are carried at lower of cost or market, and our investment in debt securities, available-for-sale and derivatives, which are carried at fair value. Fair value is defined as the market price for those securities for which a market quotation is readily available and for all other investments and derivatives, fair value is determined pursuant to a valuation policy and a consistent valuation process. Where a market quotation is not readily available, we estimate fair value using various valuation methodologies, including cash flow analysis, as well as qualitative factors.

As of December 31, 2014 and 2013, investments in debt securities available-for-sale totaled \$46.9 million and \$22.2 million, respectively. At December 31, 2014 and 2013, our net unrealized gain on those debt securities totaled \$0.01 million and \$1.0 million, respectively. Any unrealized gain or loss on these investments is included in Other Comprehensive Income in the equity section of the balance sheet, until realized.

Interest rate risk represents a market risk exposure to us. Interest rate risk is measured as the potential volatility to our net interest income caused by changes in market interest rates.

As of December 31, 2014, approximately 5% of the loans in our portfolio were at fixed rates and approximately 95% were at variable rates. Additionally, for the loans at variable rates, approximately 94% contain an interest rate floor. Our credit facilities and term debt securitizations all bear interest at variable rates without interest rate floors,

however, our corporate credit facility contains an interest rate floor set at a rate of 1.00%.

The presence of interest rate floors in our loan agreements results in assets with hybrid fixed and floating rate loan characteristics. Provided that the contractual interest rate remains at or below the interest rate floor, a performing loan will

Table of Contents

typically behave as a fixed rate instrument. If contractual interest rates are in excess of the interest rate floor, a performing loan will typically behave as a floating rate instrument. In a low interest rate environment, floors provide a benefit as we are able to earn additional income equal to the difference between the stated rate of the interest rate floor and the corresponding contractual rate. If interest rates rise, the potential benefit provided by interest rate floors would decrease resulting in lower net interest income. The cost of our variable rate debt would increase, while interest income from loans with interest rate floors would not change until interest rates exceed the stated rate of the interest rate floors or upon the re-pricing or principal repayment of the loans.

The following table shows the hypothetical estimated change in net interest income over a 12-month period based on a static, instantaneous parallel shift in interest rates applied to our portfolio and cash and cash equivalents as of December 31, 2014. Our modeling is based on contractual terms and does not consider prepayment or changes in the composition of our portfolio or our current capital structure. It further generalizes that both variable rate assets and liabilities are indexed to a flat 3 month LIBOR yield curve. Although we believe these measurements are representative of our interest rate sensitivity, we can give no assurance that actual results would not differ materially from our modeled outcomes.

	Rate Change (Basis Points)	Estimated Change in Net Interest Income Over 12 Months (\$ in thousands)
Decrease of	100	\$ 11,390
Increase of	100	(9,690 )
Increase of	200	(4,570 )
Increase of	300	1,340

The estimated changes in net interest income reflect the potential effect of interest rate floors on loans totaling approximately \$2.1 billion. Due to the presence of these interest rate floors, as interest rates begin to rise from current levels, the cost of our variable rate debt increases. The interest rate on performing loans will remain fixed until the contractual rate exceeds the stated rate on the interest rate floors. Consequently, the result is a negative net interest income impact as interest rates initially increase until they reach an inflection point. Beyond this inflection point, which is typically close to the portfolios weighted average stated floor rate, the benefit of rising rates begins to accrue to us as the interest rate on performing loans starts to adjust upward.



Table of Contents

Item 8. Financial Statements and Supplementary Data

NEWSTAR FINANCIAL, INC.  
INDEX TO FINANCIAL STATEMENTS

<u>Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting</u>	<u>55</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>56</u>
<u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u>	<u>57</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012</u>	<u>58</u>
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012</u>	<u>59</u>
<u>Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2014, 2013 and 2012</u>	<u>60</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012</u>	<u>61</u>
<u>Notes to Consolidated Financial Statements</u>	<u>62</u>

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

NewStar Financial, Inc.:

We have audited NewStar Financial, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). NewStar Financial, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, NewStar Financial, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of NewStar Financial, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated March 3, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Boston, Massachusetts

March 3, 2015

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

NewStar Financial, Inc.:

We have audited the accompanying consolidated balance sheets of NewStar Financial, Inc. and subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NewStar Financial, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control -Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 3, 2015 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ KPMG LLP

Boston, Massachusetts

March 3, 2015

Table of ContentsNEWSTAR FINANCIAL, INC.  
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
	(\$ in thousands, except share and par value amounts)	
Assets:		
Cash and cash equivalents	\$33,033	\$43,401
Restricted cash	95,411	167,920
Cash collateral on deposit with custodian	38,975	—
Investments in debt securities, available-for-sale	46,881	22,198
Loans held-for-sale, net	200,569	14,831
Loans and leases, net	2,305,896	2,095,250
Deferred financing costs, net	26,514	21,386
Interest receivable	7,477	7,415
Property and equipment, net	660	833
Deferred income taxes, net	28,078	30,238
Income tax receivable	3,388	2,007
Other assets	24,127	24,983
Subtotal	2,811,009	2,430,462
Assets of Consolidated Variable Interest Entity:		
Restricted cash	—	1,950
Loans, net	—	171,427
Deferred financing costs, net	—	997
Interest receivable	—	1,079
Other assets	—	946
Total assets of Consolidated Variable Interest Entity	—	176,399
Total assets	\$2,811,009	\$2,606,861
Liabilities:		
Credit facilities	\$487,768	\$332,158
Term debt securitizations	1,193,187	1,212,374
Corporate debt	238,500	200,000
Subordinated notes	156,831	—
Repurchase agreements	57,227	67,954
Accrued interest payable	6,576	6,333
Other liabilities	29,923	20,211
Subtotal	2,170,012	1,839,030
Liabilities of Consolidated Variable Interest Entity:		
Credit facilities	—	120,344
Accrued interest payable—credit facilities	—	434
Subordinated debt—Fund membership interest	—	30,000
Accrued interest payable—Fund membership interest	—	843
Total liabilities of Consolidated Variable Interest Entity	—	151,621
Total liabilities	2,170,012	1,990,651
Stockholders' equity:		
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 2014 and 2013;		

Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

Shares outstanding 46,620,474 in 2014 and 48,658,606 in 2013	466	487
Additional paid-in capital	718,825	655,143
Retained earnings	14,463	2,624
Common stock held in treasury, at cost \$0.01 par value; 7,581,646 in 2014 and 4,642,202 in 2013	(92,724	) (43,271 )
Accumulated other comprehensive income (loss), net	(33	) 569
Total NewStar Financial, Inc. stockholders' equity	640,997	615,552
Retained earnings of Consolidated Variable Interest Entity	—	658
Total stockholders' equity	640,997	616,210
Total liabilities and stockholders' equity	\$2,811,009	\$2,606,861
The accompanying notes are an integral part of these consolidated financial statements.		

57

Table of Contents

NEWSTAR FINANCIAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2014	2013	2012
	(\$ in thousands, except per share amounts)		
Net interest income:			
Interest income	\$136,171	\$127,684	\$123,945
Interest expense	57,775	42,971	35,591
Net interest income	78,396	84,713	88,354
Provision for credit losses	27,108	9,738	12,651
Net interest income after provision for credit losses	51,288	74,975	75,703
Non-interest income:			
Fee income	2,467	3,670	4,619
Asset management income	1,054	2,482	2,984
Loss on derivatives, net	(39)	) (143	) (315
Gain (loss) on sale of loans, net	(230)	) 72	335
Other income	7,964	7,431	3,948
Total non-interest income	11,216	13,512	11,571
Operating expenses:			
Compensation and benefits	30,383	32,672	31,139
General and administrative expenses	15,133	16,726	15,158
Total operating expenses	45,516	49,398	46,297
Operating income before income taxes	16,988	39,089	40,977
Results of Consolidated Variable Interest Entity:			
Interest income	5,268	5,321	—
Interest expense— credit facilities	2,865	1,879	—
Interest expense—Fund membership interest	1,292	1,353	—
Other income	229	51	—
Operating expenses	249	78	—
Net results from Consolidated Variable Interest Entity	1,091	2,062	—
Income before income taxes	18,079	41,151	40,977
Income tax expense	7,485	16,556	17,000
Net income	\$10,594	\$24,595	\$23,977
Basic income per share	\$0.22	\$0.51	\$0.51
Diluted income per share	0.21	0.46	0.45

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

Table of Contents

NEWSTAR FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2014	2013	2012
	(\$ in thousands, except per share amounts)		
Net income	\$10,594	\$24,595	\$23,977
Other comprehensive income (loss), net of tax:			
Net unrealized securities gains (losses), net of tax expense (benefit)	(583	) 499	1,840
of \$(401), \$345 and \$1,244, respectively			
Net unrealized derivative gains (losses), net of tax expense (benefit)	(19	) 76	152
of \$(10), \$53 and \$115, respectively			
Other comprehensive income (loss)	(602	) 575	1,992
Comprehensive income	\$9,992	\$25,170	\$25,969

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

Table of Contents

## NEWSTAR FINANCIAL, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

## NewStar Financial, Inc. Stockholders' Equity

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss), net	Retained Earnings of Consolidated VIE	Common Stockholders' Equity
	(\$ in thousands)							
Balance at January 1, 2012	\$ —	\$ 494	\$ 635,389	\$ (44,703 )	\$ (25,420 )	\$ (1,998 )	\$ —	\$ 563,762
Net income	—	—	—	23,977	—	—	—	23,977
Other comprehensive income	—	—	—	—	—	1,992	—	1,992
Issuance of restricted stock	—	1	(1 )	—	—	—	—	—
Net shares reacquired from employee transactions	—	(2 )	—	—	(3,227 )	—	—	(3,229 )
Tax benefit from vesting of restricted common stock awards	—	—	2,320	—	—	—	—	2,320
Repurchase of common stock	—	(2 )	2	—	(2,596 )	—	—	(2,596 )
Exercise of common stock options	—	2	1,400	—	—	—	—	1,402
Amortization of restricted common stock awards	—	—	6,418	—	—	—	—	6,418
Amortization of stock option awards	—	—	771	—	—	—	—	771
Balance December 31, 2012	—	493	646,299	(20,726 )	(31,243 )	(6 )	—	594,817
Net income	—	—	—	23,350	—	—	1,245	24,595
Other comprehensive income	—	—	—	—	—	575	—	575
Issuance of restricted stock	—	1	(1 )	—	—	—	—	—
Net shares reacquired from employee transactions	—	(8 )	8	—	(11,812 )	—	—	(11,812 )
Tax benefit from vesting of restricted common stock awards	—	—	4,227	—	—	—	—	4,227
Repurchase of common stock	—	—	—	—	(216 )	—	—	(216 )
Exercise of common stock options	—	1	361	—	—	—	—	362
VIE dividend	—	—	—	—	—	—	(587 )	(587 )



Amortization of restricted common stock awards	—	—	4,150	—	—	—	—	4,150
Amortization of stock option awards	—	—	99	—	—	—	—	99
Balance December 31, 2013	—	487	655,143	2,624	(43,271 )	569	658	616,210
Net income	—	—	—	9,952	—	—	642	10,594
Other comprehensive loss	—	—	—	—	—	(602 )	—	(602 )
Issuance of restricted stock	—	1	(1 )	—	—	—	—	—
Net shares reacquired from employee transactions	—	—	—	—	(533 )	—	—	(533 )
Tax benefit from vesting of restricted common stock awards	—	—	1,819	—	—	—	—	1,819
Repurchase of common stock	—	(29 )	29	—	(34,672 )	—	—	(34,672 )
Issuance of warrants	—	—	41,785	—	—	—	—	41,785
Exercise of warrants	—	3	15,244	—	(14,248 )	—	—	999
Exercise of common stock options	—	4	300	—	—	—	—	304
Tax benefit from exercise of common stock awards	—	—	1,920	—	—	—	—	1,920
Reclassification of VIE dividend	—	—	—	—	—	—	587	587
Deconsolidation of VIE	—	—	—	1,887	—	—	(1,887 )	—
Amortization of restricted common stock awards	—	—	2,532	—	—	—	—	2,532
Amortization of stock option awards	—	—	54	—	—	—	—	54
Balance December 31, 2014	\$—	\$ 466	\$718,825	\$ 14,463	\$(92,724 )	\$ (33 )	\$ —	\$ 640,997

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

NEWSTAR FINANCIAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2014	2013	2012
	(\$ in thousands)		
Cash flows from operating activities:			
Net income	\$10,594	\$24,595	\$23,977
Adjustments to reconcile net income to net cash used for operations:			
Provision for credit losses	27,108	9,738	12,651
Depreciation and amortization and accretion, net	(9,381)	) (13,156	) (10,963)
Amortization of debt issuance costs	6,938	6,314	4,326
Equity compensation expense	2,586	4,249	7,189
Loss (gain) on sale of loans, net	230	(72)	) (335)
Gain on repurchase of debt	—	(442)	) (2,708)
Losses (gains) on other real estate owned	(15)	) —	324
Losses (gains) from equity method investments, net	(1,625)	) (1,037	) 469
Unrealized loss from total return swap	863	—	—
Net change in deferred income taxes	2,573	11,829	5,439
Loans held-for-sale originated	(328,157)	) (41,856	) (143,769)
Proceeds from sale and repayment of loans held-for-sale	174,985	78,627	130,445
Net change in interest receivable	(62)	) 1,588	854
Net change in other assets	(10,462)	) 31,283	(38,915)
Net change in accrued interest payable	243	3,003	477
Net change in accounts payable and other liabilities	9,867	(56,947)	) 48,277
Consolidated Variable Interest Entity:			
Amortization of debt issuance costs	1,247	156	—
Depreciation and amortization and accretion	(315)	) (281)	) —
Net change in interest receivable	1,079	(1,079)	) —
Net change in other assets	946	(946)	) —
Net change in accrued interest payable	(606)	) 1,277	—
Net change in accounts payable	587	—	—
Net cash provided by (used in) operating activities	(110,777)	) 56,843	37,738
Cash flows from investing activities:			
Net change in restricted cash	72,509	40,747	(124,852)
Net change in loans	(261,756)	) (369,203	) (22,758)
Proceeds from sale of other real estate owned	10,276	—	—
Purchase of debt securities available-for-sale	(38,255)	) —	—
Proceeds from repayments of debt securities available-for-sale	14,000	—	—
Acquisition of property and equipment	(80)	) (771)	) (200)
Consolidated Variable Interest Entity:			
Net change in loans	171,427	(172,645)	) —
Net change in restricted cash	1,950	(1,950)	) —
VIE cash dividends	(671)	) (587)	) —
Net cash used in investing activities	(30,600)	) (504,409)	) (147,810)
Cash flows from financing activities:			
Proceeds from exercise of stock options, net	300	361	1,400
Proceeds from exercise of warrants	999	—	—
Tax benefit from exercise of stock options	1,920	—	—
Tax benefit from vesting of restricted stock	1,819	4,227	2,320
Borrowings on credit facilities	1,557,162	1,184,356	583,878

Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

Repayment of borrowings on credit facilities	(1,401,552	) (1,082,139	) (568,648	)
Issuance of term debt	289,500	319,600	303,700	
Borrowings on term debt	77,900	72,572	91,876	
Repayment of borrowings on term debt	(386,587	) (301,120	) (294,209	)
Borrowings on corporate debt	38,500	100,000	50,000	
Issuance of subordinated notes	200,000	—		
Borrowings on repurchase agreements	—	40,524	—	
Repayment of borrowings on repurchase agreements	(10,727	) (3,153	) (34,285	)
Payment of cash collateral for total return swap	(38,975	) —	—	
Payment of deferred financing costs	(13,451	) (8,636	) (11,393	)
Purchase of treasury stock	(35,205	) (12,028	) (5,823	)
Consolidated Variable Interest Entity:				
Borrowings on credit facilities	17,156	135,094	—	
Repayment of borrowings on credit facilities	(137,500	) (14,750	) —	
Borrowings on subordinated debt	—	30,000	—	
Repayment of borrowings on subordinated debt	(30,000	) —	—	
Payment of deferred financing costs	(250	) (1,153	) —	
Net cash provided by financing activities	131,009	463,755	118,816	
Net increase (decrease) in cash during the period	(10,368	) 16,189	8,744	
Cash and cash equivalents at beginning of period	43,401	27,212	18,468	
Cash and cash equivalents at end of period	\$33,033	\$43,401	\$27,212	
Supplemental cash flows information:				
Interest paid	\$57,532	\$42,767	\$35,114	
Interest paid by VIE	4,763	—	—	
Taxes paid, net of refund	2,554	(1,848	) 14,606	
Increase (decrease) in fair value of investments in debt securities	(984	) 844	3,084	
Transfers of loans held-for-sale to loans, net	—	5,158	—	
Transfers of loans, net to loans held-for-sale, at fair value	32,567	—	14,587	
Transfers of loans to other real estate owned, at fair value	—	—	14,884	

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

Table of Contents

NEWSTAR FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

NewStar Financial, Inc. is an internally-managed, commercial finance company with specialized lending platforms focused on meeting the complex financing needs of companies and private investors in the middle market. The Company is also a registered investment adviser and provides asset management services to institutional investors through a series of managed credit funds that co-invest in certain types of loans originated by the Company. Through its specialized lending platforms, the Company provides a range of senior secured debt financing options to mid-sized companies to fund working capital, growth strategies, acquisitions and recapitalizations, as well as, purchases of equipment and other capital assets.

These lending activities require specialized skills and transaction experience, as well as a significant investment in personnel and operating infrastructure. To meet these demands, our loans and leases are originated directly by teams of credit-trained bankers and experienced marketing officers organized around key industry and market segments. These teams represent specialized lending groups that are supported by centralized credit management and operating platforms. This structure enables us to leverage common standards, systems, and industry and professional expertise across multiple businesses.

The Company targets its marketing and origination efforts at private equity firms, mid-sized companies, corporate executives, banks, real estate investors and a variety of other referral sources and financial intermediaries to develop new customer relationships and source lending opportunities. The Company's origination network is national in scope and it targets companies with business operations across a broad range of industry sectors. The Company employs highly experienced bankers, marketing officers and credit professionals to identify and structure new lending opportunities and manage customer relationships. The Company believes that the quality of its professionals, the breadth of their relationships and referral networks, and their ability to develop creative solutions for customers position it to be a valued partner and preferred lender for mid-sized companies and private equity funds with middle market investment strategies.

The Company's emphasis on direct origination is an important aspect of its marketing and credit strategy. The Company's national network is designed around specialized origination channels intended to generate a large set of potential lending opportunities. That allows the Company to be highly selective in its credit process and to allocate capital to market segments that we believe represent the most attractive opportunities. The Company's direct origination network also generates proprietary lending opportunities with yield characteristics that we believe would not otherwise be available through intermediaries. In addition, direct origination provides the Company with direct access to management teams and enhances its ability to conduct detailed due diligence and credit analysis of prospective borrowers. It also allows the Company to negotiate transaction terms directly with borrowers and, as a result, advise its customers on financial strategies and capital structures, which it believes benefits its credit performance.

The Company typically provides financing commitments to companies in amounts that range in size from \$10 million to \$50 million. The size of financing commitments depends on various factors, including the type of loan, the credit characteristics of the borrower, the economic characteristics of the loan, and the Company's role in the transaction. The Company also selectively arranges larger transactions that it may retain on its balance sheet or syndicate to other lenders, which may include funds that it manages for third party institutional investors. By syndicating loans to other lenders and the Company's managed funds, it is able to provide larger financing commitments to its customers and generate fee income, while limiting our risk exposure to single borrowers. From time to time, however, the Company's balance sheet exposure to a single borrower may exceed \$30 million.

NewStar offers a set of credit products and services that have many common attributes, but which are highly specialized by lending group and market segment. Although both the Leveraged Finance and Business Credit lending groups structure loans as revolving credit facilities and term loans, the style of lending and approach to credit management is highly specialized. The Equipment Finance group broadens the Company's product offering to include a range of lease financing options. The operational intensity of each product also varies by lending group.

Although, the Company operates as a single segment, it derives revenues from its asset management activities and four specialized lending groups that target market segments in which it believes that it has competitive advantages: Leveraged Finance, provides senior, secured cash flow loans and, to a lesser extent, second lien and unitranche loans, which are primarily used to finance acquisitions of mid-sized companies with annual cash flow (EBITDA) typically between \$10 million and \$50 million by private equity investment funds managed by established professional alternative asset managers;

- Business Credit, provides senior, secured asset-based loans primarily to fund working capital needs of mid-sized companies with sales typically totaling between \$25 million and \$500 million;

## Table of Contents

• Real Estate, provides first mortgage debt primarily to finance acquisitions of commercial real estate properties typically valued between \$10 million and \$50 million by professional commercial real estate investors;

• Equipment Finance, provides leases, loans and lease lines to finance equipment purchases and other capital expenditures typically for companies with annual sales of at least \$25 million; and

• Asset Management, provides opportunities for qualified institutions to invest in credit funds managed by the Company with strategies to co-invest in loans originated by its Leveraged Finance lending group.

### Note 2. Summary of Significant Accounting Policies

#### Consolidation

On June 26, 2014, the NewStar Arlington Senior Loan Program LLC (the “Arlington Program”) completed a \$409.4 million term debt securitization comprised of all of the loans of NewStar Arlington Fund LLC (“Arlington Fund”) as well as a portion of the Company’s loans classified as held-for-sale. A portion of the proceeds from this term debt securitization were used to repay all advances under the Class A Notes and the Class B Notes. Following repayment, the Class A Notes and the Class B Notes were redeemed. The Company’s membership interests in Arlington Fund were also redeemed and new membership interests in the Arlington Program were issued to its equity investors. The Company acts as collateral manager for the Arlington Program. As a result of the repayment of the Company’s advances as the Class B lender under the warehouse facility and the redemption of its membership interests in the Arlington Fund, the Company has no ownership or financial interests in the Arlington Fund or its successors except to the extent that it receives management fees as collateral manager of the Arlington Program. Additionally, the Arlington Program employs an independent investment professional who is responsible for investment decision making on behalf of the program. As a result, the Company deconsolidated the Arlington Fund from its statement of financial position beginning on June 26, 2014. The Company is not the primary beneficiary of the Arlington Program and will not consolidate the Arlington Program’s operating results or statements of financial position as of that date.

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Estimates most susceptible to change in the near-term are the Company’s estimates of their allowance for credit losses, impairment of loans and recorded amounts of deferred income taxes.

#### Prior Period Reclassifications

Certain prior period disclosure amounts have been reclassified to conform to current period presentation. Equipment Finance balances are no longer included with Business Credit and are presented separately in the footnote disclosures.

#### Cash and Cash Equivalents

Cash and cash equivalents include all demand deposits held in banks and certain highly liquid instruments with original maturities of 90 days or less.

#### Investments in Debt Securities

Management determines the classification of securities at the time of purchase. If management has the intent and the Company has the ability at the time of purchase to hold securities until maturity, they are classified as held-to-maturity. Investment securities held-to-maturity are stated at amortized cost. Securities to be held for indefinite periods of time, but not necessarily to be held-to-maturity or on a long-term basis, are classified as available-for-sale and carried at fair value with unrealized gains or losses reported in other comprehensive income, net of applicable income taxes. The carrying values of all securities are adjusted for amortization of premiums and accretion of discounts over the shorter of the period to call or maturity of the related security using a method that approximates the interest method. Realized gains or losses on the sale of securities, if any, are determined using the amortized cost of the specific securities sold. If a decline in the fair value of a security below its amortized cost is judged by management to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in operations. The fair value of debt securities are based on quoted market prices, when available, at the reporting date for those or similar investments. When no market is available, the Company estimates fair value using various valuation tools, including cash flow analyses that utilize financial statements, business plans, as well as qualitative factors. The Company also recognizes an other than temporary impairment on an investment in debt security in an unrealized loss position if (i) the Company does not expect full

recovery of its amortized cost based on the estimate of cash flows expected to be collected, (ii) the Company intends to sell the debt security, or (iii) it is more likely than not that the Company will be required to sell the debt security prior to recovery.

Loans Held-for-Sale

## Table of Contents

Loans classified as held-for-sale consist of loans originated by the Company, intended to be sold or syndicated to third parties (including credit funds managed by the Company) or impaired loans for which a sale of the loan is expected as a result of a workout strategy. These loans are carried at the lower of aggregate cost, net of any deferred origination costs or fees, or fair value.

### Loans

Loans are stated at the principal amount outstanding. Interest income is recorded on the accrual basis in accordance with the terms of the respective loan. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is typically discontinued when principal or interest payments are past due 90 days or when, in the opinion of management, it is probable it will be unable to collect contractual principal and interest in the normal course of business. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Nonrefundable loan fees and related direct costs associated with the origination of loans are deferred and included in loans, net in the consolidated balance sheet. The net deferred fees or costs are recognized as an adjustment to interest income over the contractual life of the loans using a method which approximates the interest method or taken into income when the related loans are paid off or sold. The Company accretes any discount from purchased loans into loan fee income as a yield adjustment over the contractual life of the loan. The amortization of loan fees is discontinued on non-accrual loans.

### Provision and Allowance for Credit Losses

Our general allowance for credit losses covers probable losses in our loan and lease portfolio with respect to loans and leases that are not impaired and for which no specific impairment has been identified. A specific provision for credit losses is recorded with respect to loans for which it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement for which there is impairment recognized. The Company employs a variety of internally developed and third-party modeling and estimation tools for measuring credit risk, which are used in developing an allowance for loan and lease losses on outstanding loans and leases. The Company's allowance framework addresses economic conditions, capital market liquidity and industry circumstances from both a top-down and bottom-up perspective. The Company considers and evaluates a number of factors, including but not limited to, changes in economic conditions, credit availability, industry, loss emergence period, and multiple obligor concentrations in assessing both probabilities of default and loss severities as part of the general component of the allowance for loan and lease losses.

On at least a quarterly basis, loans and leases are internally risk-rated based on individual credit criteria, including loan and lease type, loan and lease structures (including balloon and bullet structures common in the Company's Leveraged Finance and Real Estate loans), borrower industry, payment capacity, location and quality of collateral if any (including the Company's Real Estate loans). Borrowers provide the Company with financial information on either a monthly or quarterly basis. Ratings, corresponding assumed default rates and assumed loss severities are dynamically updated to reflect any changes in borrower condition or profile.

For Leveraged Finance loans and Equipment Finance products, the data set used to construct probabilities of default in its allowance for loan losses model, Moody's CRD Private Firm Database, primarily contains middle market loans that share attributes similar to the Company's loans. The Company also considers the quality of the loan or lease terms and lender protections in determining a loan loss in the event of default.

For Business Credit loans, the Company utilizes a proprietary model to risk rate the loans on a monthly basis. This model captures the impact of changes in industry and economic conditions as well as changes in the quality of the borrower's collateral and financial performance to assign a final risk rating. The Company has also evaluated historical loss trends by risk rating from a comprehensive industry database covering more than twenty-five years of experience of the majority of the asset based lenders operating in the United States. Based upon the monthly risk rating from the model, the reserve is adjusted to reflect the historical average for expected loss from the industry database.

For Real Estate loans, the Company employs two mechanisms to capture the impact of industry and economic conditions. First, a loan's risk rating, and thereby its assumed default likelihood, can be adjusted to account for overall commercial real estate market conditions. Second, to the extent that economic or industry trends adversely affect a



substandard rated borrower's loan-to-value ratio enough to impact its repayment ability, the Company applies a stress multiplier to the loan's probability of default. The multiplier is designed to account for default characteristics that are difficult to quantify when market conditions cause commercial real estate prices to decline.

For consolidated variable interest entities to which the Company is providing transitional capital, we utilize a qualitative analysis which considers the business plans related to the entity, including expected hold periods, the terms of the agreements related to the entity, the Company's historical credit experience, the credit migration of the entity's loans in determining expected loss, as well as conditions in the capital markets. The Company provided capital on a transitional basis to the

## Table of Contents

Arlington Fund. At December 31, 2013, the expected and actual loss on Arlington Fund was zero and no allowance was recorded. The Company deconsolidated the Arlington Fund on June 26, 2014. The Company did not recognize any losses on loans on the date of deconsolidation.

The Company periodically reviews its allowance for credit loss methodology to assess any necessary adjustments based upon changing economic and capital market conditions. If the Company determines that changes in its allowance for credit losses methodology are advisable, as a result of changes in the economic environment or otherwise, the revised allowance methodology may result in higher or lower levels of allowance. There have been no material modifications to the allowance for credit losses methodology during 2014. Given uncertain market conditions, actual losses under the Company's current or any revised allowance methodology may differ materially from the Company's estimate.

Additionally, when determining the amount of the general allowance, the Company supplements the base amount with an environmental reserve amount which is governed by a score card system comprised of ten individually weighted risk factors. The risk factors are designed based on those outlined in the Comptrollers of the Currency's Allowance for Loan and Lease Losses Handbook. The Company also performs a ratio analysis of comparable money center banks, regional banks and finance companies. While the Company does not rely on this peer group comparison to set the level of allowance for credit losses, it does assist management in identifying market trends and serves as an overall reasonableness check on the allowance for credit losses computation.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impairment of a loan is based upon (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price, or (iii) the fair value of the collateral if the loan is collateral dependent, depending on the circumstances and our collection strategy.

Impaired loans are identified based on the loan-by-loan risk rating process described above. Impaired loans include all non-accrual loans, loans with partial charge-offs and loans which are Troubled Debt Restructurings (see Note 3). It is the Company's policy during the reporting period to record a specific provision for credit losses to cover the identified impairment on a loan.

Impaired loans at December 31, 2014 were in Leveraged Finance and Real Estate over a range of industries impacted by the then current economic environment including the following: Media and Communications, Industrial, Commercial Real Estate, Other Business Services, Consumer/Retail, and Building Materials. For impaired Leveraged Finance loans, the Company measured impairment based on expected cash flows utilizing relevant information provided by the borrower and consideration of other market conditions or specific factors impacting recoverability. Such amounts are discounted based on original loan terms. For impaired Real Estate loans, the Company determined that the loans were collateral dependent and measured impairment based on the fair value of the related collateral utilizing recent appraisals from third-party appraisers, as well as internal estimates of collateral market value.

Loans deemed to be uncollectible are charged off and the allowance is reduced by the charged off balance of the loan. The provision for credit losses and recoveries on loans previously charged off are added to the allowance.

### **Deferred Financing Costs**

Deferred financing costs represent fees and other direct incremental costs incurred in connection with borrowings and term debt securitizations. These amounts are amortized using the straight-line method into earnings as interest expense ratably over the contractual term of the facility or the estimated life of the term debt securitization.

### **Valuation of debt and equity linked instruments**

We account for the subordinated notes and associated warrants issued to Franklin Square as debt and equity-linked instruments. The warrants are freestanding, indexed to the Company's common stock and are classified as equity. They were initially recorded at relative fair value, with no subsequent re-measurement. The allocation of the proceeds from the issuance of debt and warrants to Franklin Square was determined using the relative fair value method. The allocation of proceeds to the warrants created a debt discount to the subordinated debt and will be amortized over the life of the subordinated notes. The subordinated debt is presented net of the debt discount.

### **Property and Equipment**

Property and equipment are carried at cost and are depreciated or amortized on a straight-line basis over the following useful lives:

Leasehold improvements	Shorter of estimated life or remaining lease term
Computer equipment and software	3 years
Income Taxes	

## Table of Contents

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company classifies all interest and penalties on recognized tax benefits as a part of income tax expense. As of December 31, 2014 and 2013, the Company did not have any significant accrued interest, penalties or uncertain tax positions.

### Fee Income Recognition

Origination fees and costs are deferred and amortized as yield adjustments over the contractual life of the loans and investments. In connection with the prepayment of a loan or other debt product, any remaining unamortized net deferred fees for that loan are accelerated and, depending on the terms of the loan, there may be an additional fee charged based upon the prepayment and recognized in the period of the prepayment. Syndication and structuring fees are recognized in the period the service is completed as fee income.

### Asset Management Income

NewStar Financial, Inc. earns asset management income for investment management services performed for the Arlington Program, Clarendon Fund, and NewStar Credit Opportunities Fund, Ltd. NewStar accrues this income when earned, on a monthly basis, and classifies it as asset management income in the consolidated statements of operations.

### Stock Based Compensation

Effective January 1, 2006, the Company adopted ASC 718 (Share-Based Payment), which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values on the grant date. The Company adopted ASC 718 using the prospective method.

For awards granted, modified, repurchased or cancelled after January 1, 2006, the Company estimates the fair value of stock-based awards using the Black-Scholes valuation model, which requires the input of subjective assumptions, including expected term and expected price volatility. Changes in these assumptions can materially affect the calculated fair value of stock-based compensation and the related expense to be recognized. Further, for awards that contain performance measures and conditions, the Company makes an assessment, based on management's judgment, of the probability of these conditions being satisfied, which affects the timing and the amount of expense to be recognized. If the Company's judgment as to whether these conditions are probable of occurrence are not appropriate, the financial statements could be materially affected.

### Gain (loss) on sale of loans

All loans sold to date have been sold without recourse. When loans are sold, a gain or loss is recognized to the extent that the sales proceeds plus unamortized fees and costs exceed or are less than the carrying value of the loans. Gains and losses are determined using the specific identification method.

### Equity Method of Accounting

As the result of a troubled debt restructuring, the Company may acquire a portion of the equity in the borrower. In cases where the Company has the ability to exercise significant influence over the borrower, it accounts for its equity interest under the equity method of accounting. Under the equity method of accounting, the Company recognizes its proportional share of the borrower's GAAP net income in its results of operations. In cases where the equity of the underlying company has no value, and the borrower incurs losses, the Company will apply its proportional share of the GAAP loss against the principal of the outstanding loan to the borrower.

### Derivative Instruments and Hedging Activities

The Company accounts for derivatives and hedging activities on the balance sheet in either other assets or other liabilities at their respective fair values.

On the date a derivative contract is entered into, the Company designates the derivative as either (1) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge) or as (2) a derivative trading instrument. For all hedging relationships the Company formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the

hedging instrument, the item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as hedges to specific assets and liabilities on the balance sheet or to forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly

## Table of Contents

effective in offsetting changes in cash flows of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash-flow hedge is reported in earnings.

The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is de-designated as a hedging instrument because it is unlikely that a forecasted transaction will occur, or management determines that designation of the derivative as a hedging instrument is no longer appropriate. In all situations in which hedge accounting is discontinued or was never applied, the Company continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur by the date (or within the time period) originally specified or within an additional two-month period of time thereafter, the Company recognizes immediately in earnings gains and losses that were accumulated in other comprehensive income. Gains and losses on derivatives not designated as hedges, including any cash payments made or received, are reported as gain (loss) on derivatives in the accompanying consolidated statements of operations.

### Comprehensive Income (Loss), net of tax

The Company records the change in fair value of cash flow hedge derivatives and unrealized gains and losses on available-for-sale securities in comprehensive income. Gains and losses on available-for-sale securities are reclassified to net income as the gains and losses are realized upon sale of the securities. Other than temporary impairment charges are reclassified to earnings at the time of the charge.

### Note 3. Loans Held-for-Sale, Loans and Leases, and Allowance for Credit Losses

Although, the Company operates as a single segment, and derives revenues from its asset management activities and four specialized lending groups that target market segments in which it believes it has competitive advantages:

Leveraged Finance, provides senior, secured cash flow loans and, to a lesser extent, second lien and unitranche loans, which are primarily used to finance acquisitions of mid-sized companies by private equity investment funds managed by established professional alternative asset managers;

Business Credit, provides senior, secured asset-based loans primarily to fund working capital needs of mid-sized companies;

Real Estate, provides first mortgage debt primarily to finance acquisitions of commercial real estate properties;

Equipment Finance, provides leases, loans and lease lines to finance equipment purchases and other capital expenditures; and

Asset Management, provides opportunities for qualified institutions to invest in credit funds managed by the Company with strategies to co-invest in loans originated by its Leveraged Finance lending group.

The Company's loan portfolio consists primarily of loans to small and medium-sized, privately-owned companies, most of which do not publicly report their financial condition. Compared to larger, publicly traded firms, loans to these types of companies may carry higher inherent risk. The companies that the Company lends to generally have more limited access to capital and higher funding costs, may be in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks.

Loans classified as held-for-sale may consist of loans originated by the Company and intended to be sold or syndicated to third parties (including credit funds managed by the Company) or impaired loans for which a sale of the loan is expected as a result of a workout strategy. At December 31, 2014 loans held-for-sale consisted of \$202.4 million leveraged finance loans.

These loans are carried at the lower of aggregate cost, net of any deferred origination costs or fees, or market value. As of December 31, 2014 and 2013, loans held-for-sale consisted of the following:



Table of Contents

	December 31, 2014	December 31, 2013
	(\$ in thousands)	
Leveraged Finance	\$202,369	\$14,897
Gross loans held-for-sale	202,369	14,897
Deferred loan fees, net	(1,800)	(66)
Total loans, net	\$200,569	\$14,831

At December 31, 2014, loans held-for-sale include loans with an aggregate outstanding balance of \$190.3 million that were intended to be sold to credit funds managed by the Company. As of February 27, 2015, the Company had sold \$104.6 million of the loans intended to be sold to credit funds managed by the Company. The Company sold loans with an outstanding balance totaling \$59.0 million for an aggregate gain of \$0.2 million to entities other than credit funds during 2014. The Company sold loans with an aggregate outstanding balance of \$32 million for a gain of \$0.1 million to entities other than the NCOF during 2013. The Company sold loans with an aggregate outstanding balance of \$45.1 million for a gain of \$0.3 million to entities other than the NCOF during 2012.

As of December 31, 2014 and 2013, loans and leases consisted of the following:

	December 31, 2014	2013
	(\$ in thousands)	
Leveraged Finance	\$1,881,277	\$1,965,130
Business Credit	286,918	182,633
Real Estate	105,394	123,029
Equipment Finance	96,666	54,352
Gross loans and leases	2,370,255	2,325,144
Deferred loan fees, net	(21,376)	(17,064)
Allowance for loan and lease losses	(42,983)	(41,403)
Total loans and leases, net	\$2,305,896	\$2,266,677

The Company provides commercial loans, commercial real estate loans, and leases to customers throughout the United States. The Company's borrowers may be susceptible to economic slowdowns or recessions and, as a result, may have a lower capacity to make scheduled payments of interest or principal on their borrowings during these periods. Adverse economic conditions also may decrease the estimated value of the collateral, particularly real estate, securing some of the Company's loans. Although the Company has a diversified loan and lease portfolio, certain events may occur, including, but not limited to, adverse economic conditions and adverse events affecting specific clients, industries or markets, that could adversely affect the ability of borrowers to make timely scheduled principal and interest payments on their loans and leases.

The Company internally risk rates loans based on individual credit criteria on at least a quarterly basis. Borrowers provide the Company with financial information on either a quarterly or monthly basis. Loan ratings as well as identification of impaired loans are dynamically updated to reflect changes in borrower condition or profile. A loan is considered to be impaired when it is probable that the Company will be unable to collect all amounts due to it according to the contractual terms of the loan agreement. Impaired loans include all non-accrual loans, loans with partial charge-offs and loans which are troubled debt restructurings ("TDR").

The Company utilizes a number of analytical tools for the purpose of estimating probability of default and loss given default for its four specialized lending groups. The quantitative models employed by the Company in its Leveraged Finance and Equipment Finance businesses utilize Moody's KMV RiskCalc credit risk model in combination with a proprietary qualitative model, which generates a rating that maps to a probability of default estimate. Real Estate utilizes a proprietary model that has been developed to capture risk characteristics unique to the lending activities in that line of business. The model produces an obligor risk rating which corresponds to a probability of default and also produces a loss given default. In each case, the probability of default and the loss given default are used to calculate an expected loss for those lending groups. Due to the nature of its borrowers and the structure of its loans, Business Credit utilizes a proprietary model that produces a rating that corresponds to an expected loss, without calculating a



probability of default and loss given default. For variable interest entities for which the Company is providing transitional capital, a qualitative analysis is used to determine expected loss. In each case, the expected loss is the primary component in a formulaic calculation of general reserves attributable to a given loan.

## Table of Contents

Loans and leases which are rated at or below a specified threshold are typically classified as “Pass”, and loans and leases rated above that threshold are typically classified as “Criticized”, a characterization that may apply to impaired loans, including TDR. As of December 31, 2014, \$133.2 million of the Company’s loans were classified as “Criticized”, including \$121.8 million of the Company’s impaired loans, and \$2.2 billion were classified as “Pass”. As of December 31, 2013, \$190.6 million of the Company’s loans were classified as “Criticized”, including \$177.5 million of the Company’s impaired loans, and \$2.1 billion were classified as “Pass”. All of the loans held by the Arlington Fund were classified as “Pass” as of December 31, 2013.

When the Company rates a loan above a certain risk rating threshold and the loan is deemed to be impaired, the Company will establish a specific allowance, and the loan will be analyzed and may be placed on non-accrual. If the asset deteriorates further, the specific allowance may increase, and ultimately may result in a loss and charge-off. A TDR that performs in accordance with the terms of the restructuring may improve its risk profile over time. While the concessions in terms of pricing or amortization may not have been reversed and further amended to “market” levels, the financial condition of the Borrower may improve over time to the point where the rating improves from the “Criticized” classification that was appropriate immediately prior to, or at, restructuring.

As of December 31, 2014, the Company had impaired loans with an aggregate outstanding balance of \$217.2 million. Impaired loans with an aggregate outstanding balance of \$175.6 million have been restructured and classified as TDR. As of December 31, 2014, the aggregate carrying value of equity investments in certain of the Company’s borrowers in connection with troubled debt restructurings totaled \$16.4 million. Impaired loans with an aggregate outstanding balance of \$87.8 million were also on non-accrual status. For impaired loans on non-accrual status, the Company’s policy is to reverse the accrued interest previously recognized as interest income subsequent to the last cash receipt in the current year. The recognition of interest income on the loan only resumes when factors indicating doubtful collection no longer exist and the non-accrual loan has been brought current. During 2014, the Company charged off \$18.8 million of outstanding non-accrual loans. During 2014, the Company placed loans with an aggregate outstanding balance of \$43.5 million on non-accrual status and returned loans with an aggregate outstanding balance of \$1.9 million to performing status. During 2014, the Company recorded \$22.2 million of net specific provisions for impaired loans. At December 31, 2014, the Company had a \$20.7 million specific allowance for impaired loans with an aggregate outstanding balance of \$103.2 million. At December 31, 2014, additional funding commitments for impaired loans totaled \$10.9 million. The Company’s obligation to fulfill the additional funding commitments on impaired loans is generally contingent on the borrower’s compliance with the terms of the credit agreement and the borrowing base availability for asset-based loans, or if the borrower is not in compliance additional funding commitments may be made at the Company’s discretion. As of December 31, 2014, loans to three borrowers totaling approximately \$43.6 million were on non-accrual status and were greater than 60 days past due and classified as delinquent by the Company. Included in the \$20.7 million specific allowance for impaired loans was \$8.7 million related to delinquent loans.

During 2012, as part of the resolution of two impaired commercial real estate loans, the Company took control of the underlying commercial real estate properties. The Company recorded a partial charge-off of \$2.7 million and classified the commercial real estate properties as other real estate owned. During 2014, the Company sold one of the commercial real estate properties for \$9.5 million resulting in a gain on sale of \$0.01 million. The remaining commercial real estate property had an aggregate carrying value of \$3.2 million as of December 31, 2014.

As of December 31, 2013, the Company had impaired loans with an aggregate outstanding balance of \$271.0 million. Impaired loans with an aggregate outstanding balance of \$240.3 million have been restructured and classified as TDR. As of December 31, 2013, the aggregate carrying value of equity investments in certain of the Company’s borrowers in connection with troubled debt restructurings totaled \$6.9 million. Impaired loans with an aggregate outstanding balance of \$70.7 million were also on non-accrual status. During 2013, the Company charged off \$15.8 million of outstanding non-accrual loans and recovered \$0.1 million of previously charged-off impaired loan outstanding balances. During 2013, the Company took previously identified non-accrual loans with an aggregate outstanding balance of \$16.2 million as of December 31, 2012 off non-accrual status and placed loans with an aggregate outstanding balance of \$48.9 million as of December 31, 2013 on non-accrual status. During 2013, the Company recorded \$11.2 million of net specific provisions for impaired loans. At December 31, 2013, the Company had a \$23.3

million specific allowance for impaired loans with an aggregate outstanding balance of \$154.7 million. At December 31, 2013, additional funding commitments for impaired loans totaled \$17.6 million. As of December 31, 2013, \$5.1 million of loans on non-accrual status were greater than 60 days past due and classified as delinquent by the Company. Included in the \$23.3 million specific allowance for impaired loans was \$1.2 million related to delinquent loans.

A summary of impaired loans is as follows:

69

---

Table of Contents

2014	Investment	Unpaid Principal	Recorded Investment with Related Allowance for Credit Losses	Recorded Investment without a Related Allowance for Credit Losses
	(\$ in thousands)			
Leveraged Finance	\$164,886	\$186,002	\$ 103,159	\$ 61,727
Business Credit	—	366	—	—
Real Estate	52,309	55,661	—	52,309
Equipment Finance	—	—	—	—
Total	\$217,195	\$242,029	\$ 103,159	\$ 114,036
2013				
Leveraged Finance	\$208,626	\$238,522	\$ 124,560	\$ 84,066
Business Credit	287	476	287	—
Real Estate	62,106	62,110	29,870	32,236
Equipment Finance	—	—	—	—
Total	\$271,019	\$301,108	\$ 154,717	\$ 116,302

During 2014, 2013 and 2012 the Company recorded net charge-offs of \$25.3 million, \$17.8 million and \$26.8 million, respectively. During 2014, 2013 and 2012 the Company recorded recoveries of previously charged-off loans of \$0.1 million, \$0.1 million and \$1.6 million, respectively. The Company's general policy is to record a specific allowance for an impaired loan to cover the identified impairment of that loan. Any potential charge-off of such loan would typically occur in a subsequent period. The Company may record the initial specific allowance related to an impaired loan in the same period as it records a partial charge-off in certain circumstances such as if the terms of a restructured loan are finalized during that period. When a loan is determined to be uncollectible, the specific allowance is charged off, which reduces the gross investment in the loan.

While charge-offs typically have no net impact on the carrying value of net loans and leases, charge-offs lower the level of the allowance for loan and lease losses; and, as a result, reduce the percentage of allowance for loans and leases to total loans and leases, and the percentage of allowance for loan and lease losses to non-performing loans. Below is a summary of the Company's evaluation of its portfolio and allowance for loan and lease losses by impairment methodology:

	Leveraged Finance		Business Credit		Real Estate		Equipment Finance	
December 31, 2014	Investment	Allowance	Investment	Allowance	Investment	Allowance	Investment	Allowance
	(\$ in thousands)							
Collectively evaluated (1)	\$1,716,391	\$20,045	\$286,918	\$1,334	\$53,085	\$257	\$96,666	\$622
Individually evaluated (2)	164,886	20,725	—	—	52,309	—	—	—
Total	\$1,881,277	\$40,770	\$286,918	\$1,334	\$105,394	\$257	\$96,666	\$622
December 31, 2013	Leveraged Finance		Business Credit		Real Estate		Equipment Finance	
	Investment	Allowance	Investment	Allowance	Investment	Allowance	Investment	Allowance
	(\$ in thousands)							
Collectively evaluated (1)	\$1,756,504	\$16,524	\$182,346	\$773	\$60,923	\$377	\$54,352	\$425
Individually evaluated (2)	208,626	19,828	287	200	62,106	3,276	—	—
Total	\$1,965,130	\$36,352	\$182,633	\$973	\$123,029	\$3,653	\$54,352	\$425

Represents loans and leases collectively evaluated for impairment in accordance with ASC 450-20, Loss Contingencies, and pursuant to amendments by ASU 2010-20 regarding allowance for unimpaired loans and leases. These loans and leases had a weighted average risk rating of 5.1 based on the Company's internally developed 12 point scale at December 31, 2014 and at December 31, 2013.

(2)

Represents loans individually evaluated for impairment in accordance with ASU 310-10, Receivables, and pursuant to amendments by ASU 2010-20 regarding allowance for impaired loans and leases. Below is a summary of the Company's investment in nonaccrual loans.

---

70

Table of Contents

Recorded Investment in Nonaccrual Loans	December 31, 2014 (\$ in thousands)	December 31, 2013
Leveraged Finance	\$84,704	\$63,553
Business Credit	—	287
Real Estate	3,103	6,865
Equipment Finance	—	—
Total	\$87,807	\$70,705

Loans being restructured typically develop adverse performance trends as a result of internal or external factors, the result of which is an inability to comply with the terms of the applicable credit agreement governing their obligations to the Company. In order to mitigate default risk and/or liquidation, assuming that liquidation proceeds are not viewed as a more favorable outcome to the Company and other lenders, the Company will enter into negotiations with the borrower and its shareholders on the terms of a restructuring. When restructuring a loan, the Company undertakes an extensive diligence process which typically includes (i) construction of a financial model that runs through the tenor of the restructuring term, (ii) meetings with management of the borrower, (iii) engagement of third party consultants and (iv) internal analysis. Once a restructuring proposal is developed, it is subject to approval by both the Company's Underwriting Committee and the Company's Investment Committee. Loans will only be removed from TDR classification after a period of performance following the refinancing of outstanding obligations on terms which are determined to be "market" in all material respects, or upon full payoff of the loan. The Company may modify loans that are not determined to be a TDR. Where a loan is modified or restructured but loan terms are considered market and no concessions were given on the loan terms, including price, principal amortization or obligation, or other restrictive covenants, a loan will not be classified as a TDR.

The Company has made the following types of concessions in the context of a TDR:

Group I:

- extension of principal repayment term
- principal holidays
- interest rate adjustments

Group II:

- partial forgiveness
- conversion of debt to equity

A summary of the types of concessions that the Company made with respect to TDRs at December 31, 2014 and 2013 is provided below:

(\$ in thousands)	Group I	Group II
December 31, 2014	\$175,589	\$135,748
December 31, 2013	\$240,319	\$164,150

Note: A loan may be included in both restructuring groups, but not repeatedly within each group.

For 2014 and 2013, the Company had charge-offs totaling \$18.7 million and \$8.8 million, respectively, related to loans previously classified as TDR. As of December 31, 2014, the Company had not removed the TDR classification from any loan previously identified as such, but had charged-off, sold and received repayments of outstanding TDRs. The Company measures TDRs similarly to how it measures all loans for impairment. The Company performs a discounted cash flow analysis on cash flow dependent loans and we assess the underlying collateral value less reasonable costs of sale for collateral dependent loans. Management analyzes the projected performance of the borrower to determine if it has the ability to service principal and interest payments based on the terms of the restructuring. Loans will typically not be returned to accrual status until at least six months of contractual payments have been made in a timely manner or the borrower shows significant ability to maintain servicing of the restructured debt. Additionally, at the time of a restructuring and quarterly thereafter, an impairment analysis is undertaken to determine the measurement of specific reserve, if any, on each impaired loan.

Below is a summary of the Company's loans which were classified as TDR.



Table of Contents

For the Year Ended December 31, 2014	Pre-Modification Outstanding Recorded Investment (\$ in thousands)	Post-Modification Outstanding Recorded Investment	Investment in TDR Subsequently Defaulted
Leveraged Finance	\$—	\$—	\$25,933
Business Credit	—	—	—
Real Estate	—	—	—
Equipment Finance	—	—	—
Total	\$—	\$—	\$25,933
For the Year Ended December 31, 2013	Pre-Modification Outstanding Recorded Investment (\$ in thousands)	Post-Modification Outstanding Recorded Investment	Investment in TDR Subsequently Defaulted
Leveraged Finance	\$23,580	\$23,580	\$27,872
Business Credit	—	—	—
Real Estate	—	—	8,976
Equipment Finance	—	—	—
Total	\$23,580	\$23,580	\$36,848

The following sets forth a breakdown of troubled debt restructurings at December 31, 2014 and 2013:

As of December 31, 2014	Accrual Status		Impaired Balance	Specific Allowance	For the year Charged-off
(\$ in thousands)	Accruing	Nonaccrual			
Loan Type					
Leveraged Finance	\$80,182	\$70,734	\$150,916	\$19,885	\$18,709
Business Credit	—	—	—	—	—
Real Estate	21,570	3,103	24,673	—	—
Equipment Finance	—	—	—	—	—
Total	\$101,752	\$73,837	\$175,589	\$19,885	\$18,709
As of December 31, 2013	Accrual Status		Impaired Balance	Specific Allowance	For the year Charged-off
(\$ in thousands)	Accruing	Nonaccrual			
Loan Type					
Leveraged Finance	\$145,073	\$63,010	\$208,083	\$19,713	\$8,759
Business Credit	—	—	—	—	—
Real Estate	25,371	6,865	32,236	—	—
Equipment Finance	—	—	—	—	—
Total	\$170,444	\$69,875	\$240,319	\$19,713	\$8,759

The Company classifies a loan as Past Due when it is over 60 days delinquent.

An aged analysis of the Company's past due receivables is as follows:



Table of Contents

	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans and Leases	Investment in > 60 Days & Accruing
December 31, 2014	(\$ in thousands)					
Leveraged Finance	\$25,412	\$18,151	\$43,563	\$1,837,714	\$1,881,277	\$—
Business Credit	—	—	—	286,918	286,918	—
Real Estate	—	—	—	105,394	105,394	—
Equipment Finance	—	—	—	96,666	96,666	—
Total	\$25,412	\$18,151	\$43,563	\$2,326,692	\$2,370,255	\$—
December 31, 2013						
Leveraged Finance	\$—	\$4,788	\$4,788	\$1,960,342	\$1,965,130	\$—
Business Credit	—	287	287	182,346	182,633	—
Real Estate	—	—	—	123,029	123,029	—
Equipment Finance	—	—	—	54,352	54,352	—
Total	\$—	\$5,075	\$5,075	\$2,320,069	\$2,325,144	\$—

A general allowance is provided for loans and leases that are not impaired. The Company employs a variety of internally developed and third-party modeling and estimation tools for measuring credit risk, which are used in developing an allowance for loan and lease losses on outstanding loans and leases. The Company's allowance framework addresses economic conditions, capital market liquidity and industry circumstances from both a top-down and bottom-up perspective. The Company considers and evaluates a number of factors, including but not limited to, changes in economic conditions, credit availability, industry, loss emergence period, and multiple obligor concentrations in assessing both probabilities of default and loss severities as part of the general component of the allowance for loan and lease losses.

On at least a quarterly basis, loans and leases are internally risk-rated based on individual credit criteria, including loan and lease type, loan and lease structures (including balloon and bullet structures common in the Company's Leveraged Finance and Real Estate cash flow loans), borrower industry, payment capacity, location and quality of collateral if any (including the Company's Real Estate loans). Borrowers provide the Company with financial information on either a monthly or quarterly basis. Ratings, corresponding assumed default rates and assumed loss severities are dynamically updated to reflect any changes in borrower condition and/or profile.

For Leveraged Finance loans and Equipment Finance loans and leases, the data set used to construct probabilities of default in its allowance for loan losses model, Moody's CRD Private Firm Database, primarily contains middle market loans that share attributes similar to the Company's loans. The Company also considers the quality of the loan or lease terms and lender protections in determining a loan loss in the event of default.

For Business Credit loans, the Company utilizes a proprietary model to risk rate the loans on a monthly basis. This model captures the impact of changes in industry and economic conditions as well as changes in the quality of the borrower's collateral and financial performance to assign a final risk rating. The Company has also evaluated historical net loss trends by risk rating from a comprehensive industry database covering more than twenty-five years of experience of the majority of the asset based lenders operating in the United States. Based upon the monthly risk rating from the model, the reserve is adjusted to reflect the historical average for expected loss from the industry database.

For Real Estate loans, the Company employs two mechanisms to capture the impact of industry and economic conditions. First, a loan's risk rating, and thereby its assumed default likelihood, can be adjusted to account for overall commercial real estate market conditions. Second, to the extent that economic or industry trends adversely affect a substandard rated borrower's loan-to-value ratio enough to impact its repayment ability, the Company applies a stress multiplier to the loan's probability of default. The multiplier is designed to account for default characteristics that are difficult to quantify when market conditions cause commercial real estate prices to decline.

For consolidated VIEs to which the Company is providing transitional capital, we utilize a qualitative analysis which considers the business plans related to the entity, including expected hold periods, the terms of the agreements related

to the entity, the Company's historical credit experience, the credit migration of the entity's loans in determining expected loss, as well as conditions in the capital markets.

The Company was providing capital on a transitional basis to the Arlington Fund, prior to the completion of its term debt securitization on June 26, 2014. During the transitional hold period, the expected and actual loss on the Arlington Fund was zero and no allowance was recorded. The Company deconsolidated the Arlington Fund on June 26, 2014. The Company did not recognize any losses on loans on the date of deconsolidation.

Table of Contents

If the Company determines that changes in its allowance for credit losses methodology are advisable, as a result of changes in the economic environment or otherwise, the revised allowance methodology may result in higher or lower levels of allowance. Moreover, given uncertain market conditions, actual losses under the Company's current or any revised allowance methodology may differ materially from the Company's estimate.

Additionally, when determining the amount of the general allowance, the Company supplements the base amount with an environmental reserve amount which is governed by a score card system comprised of ten individually weighted risk factors. The risk factors are designed based on those outlined in the Comptrollers of the Currency's Allowance for Loan and Lease Losses Handbook. The Company also performs a ratio analysis of comparable money center banks, regional banks and finance companies. While the Company does not rely on this peer group comparison to set the level of allowance for credit losses, it does assist management in identifying market trends and serves as an overall reasonableness check on the allowance for credit losses computation.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The measurement of impairment of a loan is based upon (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price, or (iii) the fair value of the collateral if the loan is collateral dependent, depending on the circumstances and our collection strategy. Impaired loans are identified based on the loan-by-loan risk rating process described above. It is the Company's policy during the reporting period to record a specific provision for credit losses for all loans for which we have serious doubts as to the ability of the borrowers to comply with the present loan repayment terms.

Table of Contents

A summary of the activity in the allowance for credit losses is as follows:

	Year Ended December 31, 2014				
	Leveraged Finance	Business Credit	Real Estate	Equipment Finance	Total
	(\$ in thousands)				
Balance, beginning of period	\$36,803	\$973	\$3,653	\$425	\$41,854
Provision for credit losses—general	4,400	561	(120)	197	5,038
Provision for credit losses—specific	22,201	(200)	69	—	22,070
Loans charged off, net of recoveries	(21,924)	—	(3,345)	—	(25,269)
Balance, end of period	\$41,480	\$1,334	\$257	\$622	\$43,693
Balance, end of period—specific	\$20,725	\$—	\$—	\$—	\$20,725
Balance, end of period—general	\$20,755	\$1,334	\$257	\$622	\$22,968
Average balance of impaired loans	\$172,379	\$525	\$56,995	\$—	\$229,899
Interest recognized from impaired loans	\$9,888	\$—	\$2,173	\$—	\$12,061
Loans and leases					
Loans individually evaluated with specific allowance	\$103,159	\$—	\$—	\$—	\$103,159
Loans individually evaluated with no specific allowance	61,727	—	52,309	—	114,036
Loans and leases collectively evaluated without specific allowance	1,716,391	286,918	53,085	96,666	2,153,060
Total loans and leases	\$1,881,277	\$286,918	\$105,394	\$96,666	\$2,370,255
	Year Ended December 31, 2013				
	Leveraged Finance	Business Credit	Real Estate	Equipment Finance	Total
	(\$ in thousands)				
Balance, beginning of period	\$39,971	\$529	\$9,286	\$178	\$49,964
Provision for credit losses—general	(1,441)	268	(495)	247	(1,421)
Provision for credit losses—specific	13,680	2,602	(5,123)	—	11,159
Loans charged off, net of recoveries	(15,407)	(2,426)	(15)	—	(17,848)
Balance, end of period	\$36,803	\$973	\$3,653	\$425	\$41,854
Balance, end of period—specific	\$19,828	\$200	\$3,276	\$—	\$23,304
Balance, end of period—general	\$16,975	\$773	\$377	\$425	\$18,550
Average balance of impaired loans	\$193,629	\$2,222	\$62,746	\$—	\$258,597
Interest recognized from impaired loans	\$11,480	\$—	\$2,245	\$—	\$13,725
Loans and leases					
Loans individually evaluated with specific allowance	\$124,560	\$287	\$29,870	\$—	\$154,717
Loans individually evaluated with no specific allowance	84,066	—	32,236	—	116,302
Loans and leases collectively evaluated without specific allowance	1,756,504	182,346	60,923	54,352	2,054,125
Total loans and leases	\$1,965,130	\$182,633	\$123,029	\$54,352	\$2,325,144

Included in the allowance for credit losses at December 31, 2014 and 2013 is an allowance for unfunded commitments of \$0.7 million and \$0.5 million, respectively, which is recorded as a component of other liabilities on the Company's consolidated balance sheet with changes recorded in the provision for credit losses on the Company's consolidated statement of operations. The methodology for determining the allowance for unfunded commitments is consistent with the methodology for determining the allowance for loan and lease losses.

During 2014, the Company recorded a total provision for credit losses of \$27.1 million. The Company increased its allowance for credit losses to \$43.7 million as of December 31, 2014 from \$41.9 million at December 31, 2013. The Company had \$25.3 million of net charge-offs and increased its general allowance for credit losses by 17 basis points

during 2014, and recorded new specific provisions for credit losses of \$22.1 million. The general allowance for credit losses covers probable losses in the Company's loan and lease portfolio with respect to loans and leases for which no specific impairment has been

Table of Contents

identified. When a loan is classified as impaired, the loan is evaluated for a specific allowance and a specific provision may be recorded, thereby removing it from consideration under the general component of the allowance analysis. Loans that are deemed to be uncollectible are charged off and deducted from the allowance, and recoveries on loans previously charged off are netted against loans charged off. A specific provision for credit losses is recorded with respect to impaired loans for which it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement for which there is impairment recognized. The outstanding balance of impaired loans, which include all of the outstanding balances of the Company's delinquent loans and its troubled debt restructurings, as a percentage of "Loans and leases, net" was 9% as of December 31, 2014 and 12% as of December 31, 2013. The decrease is primarily due to loan growth, charge offs of impaired loans, improving credit migration, and the better credit quality of the acquired NCOF portfolio purchased during December 2013.

The Company closely monitors the credit quality of its loans and leases which is partly reflected in its credit metrics such as loan delinquencies, non-accruals and charge-offs. Changes in these credit metrics are largely due to changes in economic conditions and seasoning of the loan and lease portfolio.

The Company continually evaluates the appropriateness of its allowance for credit losses methodology. Based on the Company's evaluation process to determine the level of the allowance for loan and lease losses, management believes the allowance to be adequate as of December 31, 2014 in light of the estimated known and inherent risks identified through its analysis.

**Note 4. Restricted Cash**

Restricted cash as of December 31, 2014 and 2013 was as follows:

	December 31,	
	2014	2013
	(\$ in thousands)	
Collections on loans pledged to credit facilities	\$34,508	\$62,231
Principal and interest collections on loans held in trust and prefunding amounts	60,013	107,402
Customer escrow accounts	890	237
Total	\$95,411	\$169,870

As of December 31, 2014, the Company had the ability to use \$32.8 million of restricted cash to fund new or existing loans.

**Note 5. Investments in Debt Securities, Available-for-Sale**

Amortized cost of investments in debt securities as of December 31, 2014 and 2013 was as follows:

	December 31,	
	2014	2013
	(\$ in thousands)	
Investments in debt securities—gross	\$53,098	\$25,298
Unamortized discount	(6,228)	(4,095)
Investments in debt securities—amortized cost	\$46,870	\$21,203

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of available-for-sale securities at December 31, 2014 and 2013 were as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
	(\$ in thousands)			
December 31, 2014:				
Collateralized loan obligations	\$46,870	\$214	\$(203)	\$46,881
	\$46,870	\$214	\$(203)	\$46,881



Table of Contents

	Amortized cost (\$ in thousands)	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
December 31, 2013:				
Collateralized loan obligations	\$21,203	\$ 1,270	\$ (275 )	\$22,198
	\$21,203	\$ 1,270	\$ (275 )	\$22,198

During 2014, the Company purchased \$38.3 million of debt securities, net of an aggregate discount of \$3.5 million and \$14.0 million of debt securities paid off at par.

The Company did not sell any debt securities during 2014 and 2013 or 2012.

The Company did not record any net Other Than Temporary Impairment charges during 2014 and 2013 or 2012.

The following is an analysis of the continuous periods during which the Company has held investment positions which were carried at an unrealized loss as of December 31, 2014 and 2013:

	December 31, 2014		
	Less than 12 Months	Greater than or Equal to 12 Months	Total
	(\$ in thousands)		
Number of positions	8	—	8
Fair value	\$38,740	\$—	\$38,740
Amortized cost	38,943	—	38,943
Unrealized loss	\$203	\$—	\$203
	December 31, 2013		
	Less than 12 Months	Greater than or Equal to 12 Months	Total
	(\$ in thousands)		
Number of positions	—	2	—
Fair value	\$—	\$8,370	\$8,370
Amortized cost	—	8,645	8,645
Unrealized loss	\$—	\$275	\$275

As a result of the Company's evaluation of the securities, management concluded that the unrealized losses at December 31, 2014 and 2013 were caused by changes in market prices driven by interest rates and credit spreads. The Company's evaluation of impairment include quotes from third party pricing services, adjustments to prepayment speeds, delinquency, an analysis of expected cash flows, interest rates, market discount rates, other contract terms, and the timing and level of losses on the loans and leases within the underlying trusts. At December 31, 2014, the Company has determined that it is not more likely than not that it will be required to sell the securities before the Company recovers its amortized cost basis in the security. The Company has also determined that there has not been an adverse change in the cash flows expected to be collected. Based upon the Company's impairment review process, and the Company's ability and intent to hold these securities until maturity or a recovery of fair value, the decline in the value of these investments is not considered to be "Other Than Temporary."

Maturities of debt securities classified as available-for-sale were as follows at December 31, 2014 and 2013:



Table of Contents

	December 31, 2014		December 31, 2013	
	Amortized cost	Fair value	Amortized cost	Fair value
	(\$ in thousands)			
Available-for-sale:				
Due one year or less	\$—	\$—	\$—	\$—
Due after one year through five years	—	—	—	—
Due after five years	46,870	46,881	21,203	22,198
Total	\$46,870	\$46,881	\$21,203	\$22,198

## Note 6. Fixed Assets

	December 31,	
	2014	2013
	(\$ in thousands)	
Leasehold improvements	\$2,235	\$2,235
Non-depreciable assets	20	20
Furniture and equipment	860	800
Software	390	370
	3,505	3,425
Less: Accumulated depreciation and amortization	2,845	2,592
	\$660	\$833

Depreciation expense for 2014, 2013 and 2012 was \$0.3 million, \$0.4 million and \$0.5 million, respectively.

## Table of Contents

### Note 7. Borrowings Credit Facilities

As of December 31, 2014 the Company had four credit facilities through certain of its wholly-owned subsidiaries: (i) a \$275 million credit facility with Wells Fargo Bank, National Association (“Wells Fargo”) to fund leveraged finance loans, (ii) a \$125 million credit facility with DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt (“DZ Bank”) to fund asset-based loans, (iii) a \$110 million credit facility with Wells Fargo to fund asset-based loans, and (iv) a \$75 million credit facility with Wells Fargo to fund new equipment lease origination. Prior to the completion of its term debt securitization on June 26, 2014, the Arlington Fund had one credit facility, consisting of \$147.0 million of Class A Notes (as defined below) with Wells Fargo and \$28.0 million of Class B Notes (as defined below) with the Company. The liability under the Class B Notes was eliminated in consolidation in accordance with GAAP.

The Company must comply with various covenants under these facilities. The breach of certain of these covenants could result in a termination event and the exercise of remedies if not cured. At December 31, 2014, the Company was in compliance with all such covenants. These covenants are customary and vary depending on the type of facility. These covenants include, but are not limited to, failure to service debt obligations, failure to meet liquidity covenants and tangible net worth covenants, and failure to remain within prescribed facility portfolio delinquency, charge-off levels, and overcollateralization tests. In addition, the Company is required to make termination or make whole payments in the event that certain of its existing credit facilities are prepaid. These termination or make-whole payments, if triggered, could be material to the Company individually or in the aggregate, and in the case of certain facilities, could be caused by factors outside of the Company’s control, including as a result of loan prepayment by the borrowers under the loan facilities that collateralize these credit facilities.

The Company has a \$275.0 million credit facility with Wells Fargo to fund leverage finance loans. On January 13, 2015, the Company entered into an amendment to this credit facility which, among other things, increased the commitment amount to \$375.0 million, with the ability to further increase the commitment amount to \$425.0 million, subject to lender approval and other customary conditions, and modified certain concentration amounts and specified threshold amounts. The credit facility had an outstanding balance of \$261.7 million and unamortized deferred financing fees of \$2.9 million as of December 31, 2014. Interest on this facility accrues at a variable rate per annum. The facility provides for a revolving reinvestment period which ends on November 5, 2015 with a two-year amortization period.

The Company has a \$125.0 million credit facility with DZ Bank that had an outstanding balance of \$114.8 million and unamortized fees of \$0.2 million as of December 31, 2014. Interest on this facility accrues at a variable rate per annum. As part of the agreement, there is a minimum interest charge of \$1.6 million per annum. If the facility is not utilized to cover this minimum requirement, then a make-whole fee is assessed to satisfy the minimum requirement. The Company is permitted to use the proceeds of borrowings under the credit facility to fund advances under asset-based loan commitments. The commitment amount under the credit facility provides for reinvestment until it matures on June 30, 2015 with no amortization period.

The Company has a \$110.0 million credit facility with Wells Fargo to fund asset-based loan origination. The credit facility had an outstanding balance of \$94.4 million and unamortized deferred financing fees of \$0.8 million as of December 31, 2014. On December 8, 2014, the Company entered into an amendment which increased the commitment amount under this credit facility to \$110.0 million from \$100.0 million. The credit facility may be increased to an amount up to \$300.0 million subject to lender approval and other customary conditions. Interest on this facility accrues at a variable rate per annum. The credit facility provides for reinvestment until it matures on December 7, 2017 with no amortization period.

The Company has a note purchase agreement with Wells Fargo under the terms of which Wells Fargo agreed to provide a \$75.0 million credit facility to fund new equipment lease originations. The credit facility had an outstanding balance of \$17.0 million and unamortized deferred financing fees of \$1.1 million as of December 31, 2014. Interest on this facility accrues at a variable rate per annum. The credit facility matures on November 16, 2016.

On April 4, 2013, Arlington Fund entered into an agreement establishing \$147.0 million of Class A Notes and \$28.0 million of Class B Notes to partially fund eligible middle market loan origination. Wells Fargo funded the Class A

Notes as the initial Class A lender and the Company funded the Class B Notes as the initial Class B lender. On June 26, 2014, the Class A Notes and the Class B Notes were redeemed in connection with the completion of the Arlington Program term debt securitization.

Corporate Credit Facility

On January 5, 2010, the Company entered into a note agreement with Fortress Credit Corp., which was subsequently amended on August 31, 2010, January 27, 2012, November 5, 2012, and December 4, 2012. The agreement was amended and restated on May 13, 2013 and further amended on June 3, 2013. On March 6, 2014, as permitted under the corporate credit

## Table of Contents

facility with Fortress Credit Corp., the Company requested and received an increase of \$28.5 million to the Initial Funding under this credit facility. On May 15, 2014, as permitted under the corporate credit facility with Fortress Credit Corp., the Company requested and received a new \$10.0 million term loan (the "Term C Loan"). The credit facility, as amended, consists of a \$238.5 million term note with Fortress Credit Corp. as agent, which consists of the existing outstanding balance of \$100.0 million (the "Existing Funding"), an initial funding of \$98.5 million (the "Initial Funding"), and three subsequent borrowings, of \$5.0 million (the "Delay Draw Term A"), \$25.0 million (the "Delay Draw Term B"), and the \$10.0 million Term C Loan. The Existing Funding, the Initial Funding, and the Delay Draw Term A mature on May 11, 2018. The Delay Draw Term B matures on June 3, 2016. The Initial Funding, the Existing Funding and the Delay Draw Term A accrue interest at the London Interbank Offered Rate (LIBOR) plus 4.50% with an interest rate floor of 1.00%. The Delay Draw Term B accrues interest at LIBOR plus 3.375% with an interest rate floor of 1.00%. The Term C Loan accrues interest at LIBOR plus 4.25% with an interest rate floor of 1.00%. The Company is permitted to use the proceeds of borrowings under the credit facility for general corporate purposes including, but not limited to, funding loans, working capital, paying down outstanding debt, acquisitions and repurchasing capital stock and dividend payments up to \$37.5 million. The \$37.5 million may be adjusted upward by the amount of fiscal year-end net income excluding depreciation and amortization expense. The term note may be prepaid at any time without a prepayment penalty including in the event of a change of control. As of December 31, 2014, the term note had an outstanding principal balance of \$238.5 million and unamortized deferred financing fees of \$4.1 million.

### Subordinated notes

On December 4, 2014, the Company completed the initial closing of an investment of long-term capital from funds sponsored by Franklin Square Capital Partners ("Franklin Square") and sub-advised by GSO Capital Partners. The Franklin Square funds purchased \$200.0 million of 10-year subordinated notes (the "Subordinated Notes") that rank junior to the Company's existing and future senior debt. The Company is required to borrow an additional \$100.0 million of notes in increments of at least \$25.0 million by December 2015. The Subordinated Notes were recorded at par less the initial relative fair value of the warrants issued in connection with the investment which was \$43.2 million. The debt discount will amortize over time and will be recorded as non-cash interest expense as the Subordinated Notes accrete to par value. The Subordinated Notes bear interest at 8.25% and include a Payment-in-Kind ("PIK Toggle") feature that allows the Company, at its option, to elect to have interest accrued at a rate of 8.75% added to the principal of the Subordinated Notes instead of paying it in cash. The Subordinated Notes have a ten year term and mature on December 4, 2024. They are callable during the first three years with payment of a make-whole premium. The prepayment premium decreases to 103% and 101% after the third and fourth anniversaries of the closing, respectively. They are callable at par after December 4, 2019. The Subordinated Notes require a mandatory payment at the end of each accrual period, beginning on December 5, 2019. The Company is required to make a cash payment of principal plus accrued interest in an amount required to prevent the Subordinated Notes from being treated as an "Applicable High Yield Discount Obligation" within the meaning of Section 163(i)(1) of the Internal Revenue Code of 1986, as amended. Events of default under the Subordinated Notes include failure to pay interest or principal when due subject to applicable grace periods, material uncured breaches of the terms of the Subordinated Notes, and bankruptcy/insolvency events.

### Subordinated debt—Fund membership interest

Prior to the completion of the Arlington Program's term debt securitization on June 26, 2014, the Company had purchased membership interests totaling \$5.0 million in Arlington Fund and a third-party investor had purchased membership interests totaling \$30.0 million. The Company was the primary beneficiary of the Arlington Fund, and as a result of consolidating Arlington Fund as a variable interest entity, or VIE, the membership interests representing equity ownership of Arlington Fund were characterized as debt in the Company's consolidated statement of financial position. The Company applied an imputed interest rate to that debt and recorded the resulting interest expense in its consolidated statement of operations. In the consolidation, the Company eliminated the economic results of its related portion of the membership interests and the applied interest expense from its results of operations and statements of

financial position. A portion of the proceeds from the Arlington Program's term debt securitization were used to redeem the membership interests in the Arlington Fund. Additionally, the Arlington Program employs an independent investment professional who is responsible for investment decision making on behalf of the program. As a result the Company deconsolidated the Arlington Fund from its statements of financial position beginning on June 26, 2014. The Company is not the primary beneficiary of the Arlington Program and did not consolidate the Arlington Program's operating results or statements of financial position as of that date.

#### Term Debt Securitizations

In June 2007 the Company completed a term debt transaction. In conjunction with this transaction the Company established a separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Trust 2007-1 (the "2007-1

Table of Contents

CLO Trust”) and contributed \$600 million in loans and investments (including unfunded commitments), or portions thereof, to the 2007-1 CLO Trust. The Company remains the servicer of the loans. Simultaneously with the initial contributions, the 2007-1 CLO Trust issued \$546.0 million of notes to institutional investors. The Company retained \$54.0 million, comprising 100% of the 2007-1 CLO Trust’s trust certificates. At December 31, 2014, the \$316.8 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$377.0 million. At December 31, 2014, deferred financing fees were \$0.5 million. The 2007-1 CLO Trust permitted reinvestment of collateral principal repayments for a six-year period which ended in May 2013. During 2012, the Company repurchased \$0.2 million of the 2007-1 CLO Trust’s Class C notes. During 2010, the Company repurchased \$5.0 million of the 2007-1 CLO Trust’s Class D notes. During 2009, the Company repurchased \$1.0 million of the 2007-1 CLO Trust’s Class D notes. During 2009, Moody’s downgraded all of the notes of the 2007-1 CLO Trust. As a result of the downgrade, amortization of the 2007-1 CLO Trust changed from pro rata to sequential, resulting in future scheduled principal payments made in order of the notes seniority until all available funds are exhausted for each payment. During 2010, Standard and Poor’s downgraded the Class A-1 notes, the Class A-2 notes, the Class C notes and the Class D notes of the 2007-1 CLO Trust. The downgrade did not have any material consequence as the amortization of the 2007-1 CLO Trust changed from pro rata to sequential after the Moody’s downgrade in 2009. During the second quarter of, 2011, Moody’s upgraded the Class C notes, the Class D notes, and the Class E notes. During 2011, Standard and Poor’s upgraded the Class D notes. During the fourth quarter of 2011, Moody’s upgraded all of the notes of the 2007-1 CLO Trust. During the third quarter of 2012, Fitch affirmed its ratings of all of the notes of the 2007-1 CLO Trust. During the second quarter of 2013, Moody’s upgraded the Class B notes, the Class C notes, the Class D notes, and the Class E notes and affirmed its ratings of the Class A-1 notes and the Class A-2 notes of the 2007-1 CLO Trust. During the first quarter of 2014, Standard and Poor’s upgraded its ratings on all notes of the 2007-1 CLO Trust. During the second quarter of 2014, Moody’s affirmed the ratings of the Class B notes, the Class C notes, and the Class D notes of the 2007-1 CLO Trust. During the third quarter of 2014, Fitch affirmed its ratings of all of the notes of the 2007-1 CLO Trust. The Company receives a loan collateral management fee and excess interest spread. The Company also receives payments with respect to the classes of notes it owns in accordance with the transaction documents. The Company expects to receive a principal distribution as owner of the trust certificates when the term debt is retired. If loan collateral in the 2007-1 CLO Trust is in default under the terms of the indenture, the excess interest spread from the 2007-1 CLO Trust could not be distributed until the undistributed cash plus recoveries equals the outstanding balance of the defaulted loan or if the Company elected to remove the defaulted collateral.

The following table sets forth selected information with respect to the 2007-1 CLO Trust:

	Notes originally issued  (\$ in thousands)	Outstanding balance December 31, 2014	Interest rate	Original maturity	Ratings (S&P/Moody’s/ Fitch)(1)
2007-1 CLO Trust					
Class A-1	\$ 336,500	\$ 162,405	Libor+0.24%	September 30, 2022	AAA/Aaa/AAA
Class A-2	100,000	51,089	Libor+0.26%	September 30, 2022	AAA/Aaa/AAA
Class B	24,000	24,000	Libor+0.55%	September 30, 2022	AA+/Aa1/AA
Class C	58,500	58,293	Libor+1.30%	September 30, 2022	A-/A2/A
Class D	27,000	21,000	Libor+2.30%	September 30, 2022	BBB-/Baa2/BBB+
	\$ 546,000	\$ 316,787			

These ratings were initially given in June 2007, are unaudited and are subject to change from time to time. During the first quarter of 2009 Fitch affirmed its ratings on all of the notes. During the first quarter of 2009, Moody's downgraded the Class C notes and the Class D notes. During the third quarter of 2009, Moody's downgraded the Class A-1 notes, the Class A-2 notes and the Class B notes. During the second quarter of 2010, Standard and Poor's downgraded the Class A-1 notes, the Class A-2 notes, the Class C notes, and the Class D notes. During the second quarter of 2011, Moody's upgraded the Class C notes and the Class D notes. During the second quarter of 2011, Standard and Poor's upgraded the Class D notes. During the fourth quarter of 2011, Moody's upgraded all of the notes. During the third quarter of 2012, Fitch affirmed its ratings on all of the notes. During the second quarter of 2013, Moody's upgraded the Class B notes, the Class C notes, the Class D notes and the Class E notes to the ratings shown above, and affirmed its ratings of the Class A-1 notes and the Class A-2 notes. During the third quarter of 2013, Fitch affirmed its ratings on all of the notes. During the first quarter of 2014, Standard and Poor's upgraded its ratings on all notes to the ratings shown above. During the second quarter of 2014, Moody's affirmed the above ratings of the Class B notes, the Class C notes, and the Class D notes. During the third quarter of 2014, Fitch affirmed its ratings on all of the notes. (source: Bloomberg Finance L.P.).

Table of Contents

On December 18, 2012, the Company completed a term debt transaction. In conjunction with this transaction the Company established a separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2012-2 LLC (the “2012-2 CLO”) and contributed \$325.9 million in loans and investments (including unfunded commitments), or portions thereof, to the 2012-2 CLO. The Company remains the servicer of the loans. Simultaneously with the initial contributions, the 2012-2 CLO issued \$263.3 million of notes to institutional investors. The Company retained \$62.6 million, comprising 100% of the 2012-2 CLO’s membership interests, Class E notes, Class F notes, and subordinated notes. At December 31, 2014, the \$263.3 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$325.9 million. At December 31, 2014, deferred financing fees were \$2.2 million. The 2012-2 CLO permits reinvestment of collateral principal repayments for a three-year period ending in January 2016. Should the Company determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

The Company receives a loan collateral management fee and excess interest spread. The Company also receives payments with respect to the classes of notes it owns in accordance with the transaction documents. The Company expects to receive a principal distribution as owner of the membership interests when the term debt is retired. If loan collateral in the 2012-2 CLO is in default under the terms of the indenture, the excess interest spread from the 2012-2 CLO may not be distributed if the overcollateralization ratio, or if other collateral quality tests, are not satisfied.

The following table sets forth selected information with respect to the 2012-2 CLO:

	Notes originally issued	Outstanding balance December 31, 2014	Interest rate	Original maturity	Ratings (Moody’s/ S&P)(1)
	(\$ in thousands)				
2012-2 CLO					
Class A	\$ 190,700	\$ 190,700	Libor+1.90%	January 20, 2023	Aaa/AAA
Class B	26,000	26,000	Libor+3.25%	January 20, 2023	Aa2/N/A
Class C	35,200	35,200	Libor+4.25%	January 20, 2023	A2/N/A
Class D	11,400	11,400	Libor+6.25%	January 20, 2023	Baa2/N/A
	\$ 263,300	\$ 263,300			

(1) These ratings were initially given in December 2012, are unaudited and are subject to change from time to time.

On September 11, 2013, the Company completed a term debt transaction through its separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2013-1 LLC (the “2013-1 CLO”) and contributed \$247.6 million in loans and investments (including unfunded commitments), or portions thereof, to the 2013-1 CLO. The Company remains the servicer of the loans. Simultaneously with the initial contributions, the 2013-1 CLO issued \$338.6 million of notes to institutional investors. The Company retained \$61.4 million, comprising 100% of the 2013-1 CLO’s membership interests, Class F notes, Class G notes, and subordinated notes. At December 31, 2014, the \$323.6 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$385.0 million. At December 31, 2014, deferred financing fees were \$4.6 million. The 2013-1 CLO permits reinvestment of collateral principal repayments for a three-year period ending in September 2016. Should the Company determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

The Company receives a loan collateral management fee and excess interest spread. The Company also receives payments with respect to the classes of notes it owns in accordance with the transaction documents. The Company expects to receive a principal distribution as owner of the membership interests when the term debt is retired. If loan



collateral in the 2013-1 CLO is in default under the terms of the indenture, the excess interest spread from the 2013-1 CLO may not be distributed if the overcollateralization ratio, or if other collateral quality tests, are not satisfied.

The following table sets forth selected information with respect to the 2013-1 CLO:

82

---

Table of Contents

	Notes originally issued	Outstanding balance December 31, 2014 (\$ in thousands)	Interest rate	Original maturity	Ratings (S&P/ Moody's)(2)
2013-1 CLO					
Class A-T	\$202,600	\$ 202,600	Libor+1.65%	September 20, 2023	AAA/Aaa
Class A-R	35,000	20,000	(1 )	September 20, 2023	AAA/Aaa
Class B	38,000	38,000	Libor+2.30%	September 20, 2023	AA/N/A
Class C	36,000	36,000	Libor+3.80%	September 20, 2023	A/N/A
Class D	21,000	21,000	Libor+4.55%	September 20, 2023	BBB/N/A
Class E	6,000	6,000	Libor+5.30%	September 20, 2023	BBB-/N/A
	\$338,600	\$ 323,600			

Class A-R Notes will accrue interest at the Class A-R CP Rate so long as they are held by a CP Conduit, and otherwise will accrue interest at the Class A-R LIBOR Rate or, in certain circumstances, the Class A-R Base Rate, but in no event shall interest rate payable pari passu with the Class A-T Notes exceed the Class A-R Waterfall Rate Cap.

(2) These ratings were initially given in September 2013, are unaudited and are subject to change from time to time.

On April 17, 2014, the Company completed a term debt securitization transaction through its separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2014-1 LLC (the "2014-1 CLO") and sold and contributed \$249.6 million in loans and investments (including unfunded commitments), or portions thereof, to the 2014-1 CLO. The Company remains the servicer of the loans. Simultaneously with the initial sale and contribution, the 2014-1 CLO issued \$289.5 million of notes to institutional investors. The Company retained \$58.9 million, comprising 100% of the 2014-1 CLO's membership interests, Class E notes, Class F notes, and subordinated notes. At December 31, 2014, the \$289.5 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling \$348.4 million. At December 31, 2014, deferred financing fees were \$3.1 million. The 2014-1 CLO permits reinvestment of collateral principal repayments for a four-year period ending in April 2018. Should the Company determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

The Company receives a loan collateral management fee and excess interest spread. The Company also receives payments with respect to the classes of notes it owns in accordance with the transaction documents. The Company expects to receive a principal distribution as owner of the membership interests when the term debt is retired. If loan collateral in the 2014-1 CLO is in default under the terms of the indenture, the excess interest spread from the 2014-1 CLO may not be distributed if the overcollateralization ratio, or if other collateral quality tests, are not satisfied.

The following table sets forth selected information with respect to the 2014-1 CLO:

Notes originally issued	Outstanding balance December 31, 2014	Interest rate	Original maturity	Ratings (Moody's)(2)
-------------------------------	--	------------------	----------------------	-------------------------

(\$ in thousands)

2014-1 CLO

Class A	\$202,500	\$202,500	Libor+1.80%	April 20, 2025	Aaa
Class B-1	20,000	20,000	Libor+2.60%	April 20, 2025	Aa2
Class B-2	13,250	13,250	(1 )	April 20, 2025	Aa2
Class C	30,250	30,250	Libor+3.60%	April 20, 2025	A2
Class D	23,500	23,500	Libor+4.75%	April 20, 2025	Baa3
	\$289,500	\$289,500			

(1)Class B-2 Notes accrue interest at a fixed rate of 4.902%.

(2)These ratings were initially given in April 2014, are unaudited and are subject to change from time to time.

In June 2006 the Company completed a term debt transaction. In conjunction with this transaction the Company established a separate single-purpose bankruptcy remote subsidiary, NewStar Commercial Loan Trust 2006-1 (the "2006 CLO

Table of Contents

Trust”) and contributed \$500 million in loans and investments (including unfunded commitments), or portions thereof, to the 2006 CLO Trust. Simultaneously with the initial contributions, the 2006 CLO Trust issued \$456.3 million of notes to institutional investors. The Company retained \$43.8 million, comprising 100% of the 2006 CLO Trust’s trust certificates. The 2006 CLO Trust permitted reinvestment of collateral principal repayments for a five-year period which ended in June 2011. During 2011, the Company repurchased \$7.0 million of the 2006 CLO Trust’s Class C notes, \$6.0 million of the 2006 CLO Trust’s Class D notes and \$2.0 million of the 2006 CLO Trust’s Class E notes. During 2010, the Company repurchased \$3.0 million of the 2006 CLO Trust’s Class D notes and \$3.0 million of the 2006 CLO Trust’s Class E notes. During 2009, the Company repurchased \$6.5 million of the 2006 CLO Trust’s Class D notes and \$1.8 million of the 2006 CLO Trust’s Class E notes. During 2008, the Company repurchased \$3.3 million of the 2006 CLO Trust’s Class D and \$2.5 million of the 2006 CLO Trust’s Class E notes, respectively. On September 30, 2014, the Company called the 2006 CLO Trust and redeemed the notes at par. In conjunction with the call, we received a principal distribution of \$9.7 million.

In August 2005 the Company completed a term debt transaction. In conjunction with this transaction the Company established a separate single-purpose bankruptcy-remote subsidiary, NewStar Trust 2005-1 (the “2005 CLO Trust”) and contributed \$375 million in loans and investments (including unfunded commitments), or portions thereof, to the 2005 CLO Trust. Simultaneously with the initial contributions, the 2005 CLO Trust issued \$343.4 million of notes to institutional investors and issued \$31.6 million of trust certificates of which the Company retained 100%. The 2005 CLO Trust permitted reinvestment of collateral principal repayments for a three-year period which ended in October 2008. During 2013, the Company repurchased \$5.0 million of the 2005 CLO Trust’s Class C notes and \$2.4 million of the Class D notes. During 2012, the Company repurchased \$9.8 million of the 2005 CLO Trust’s Class D notes and \$0.9 million of the Class E notes. During 2011, the Company repurchased \$3.9 million of the 2005 CLO Trust’s Class E notes. During 2010, the Company repurchased \$4.6 million of the 2005 CLO Trust’s Class D notes. During 2009, the Company repurchased \$1.4 million of the 2005 CLO Trust’s Class D notes and \$1.2 million of the Class E notes. During 2008, the Company repurchased \$5.8 million of the 2005 CLO Trust’s Class E notes. During 2007, the Company repurchased \$5.0 million of the 2005 CLO Trust’s Class E notes. On October 25, 2013, the Company called the 2005 CLO Trust and redeemed the notes at par. In conjunction with the call, the Company received a principal distribution of \$9.2 million.

## Debt Maturities

The contractual obligations under credit facilities and term debt as of December 31, 2014 were as follows:

	Credit facilities	Term debt(1)	Corporate debt	Subordinated notes	Total
	(\$ in thousands)				
2015	\$114,751	\$—	\$—	\$—	\$114,751
2016	16,966	—	25,000	—	41,966
2017	356,051	—	—	—	356,051
2018	—	—	213,500	—	213,500
2019	—	—	—	—	—
Thereafter	—	1,193,187	—	200,000	1,393,187
Total	\$487,768	\$1,193,187	\$238,500	\$200,000	\$2,119,455

(1) Maturities for term debt are based on contractual maturity dates. Actual maturities may occur earlier.

## Note 8. Repurchase Agreement

	Year Ended December 31, 2014	Year Ended December 31, 2013
Loans sold under agreements to repurchase	(\$ in thousands)	

Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

Outstanding at end of period	\$57,227	\$67,954		
Maximum outstanding at any month end	57,891	67,954		
Average balance for the period	57,932	35,280		
Weighted average rate at end of period	5.16	% 5.17		%

On June 7, 2011, the Company entered into a five-year, \$68.0 million financing arrangement with Macquarie Bank Limited backed primarily by a portfolio of commercial mortgage loans previously originated by the Company. The financing

Table of Contents

was structured as a master repurchase agreement under which the Company sold the portfolio of commercial mortgage loans to Macquarie for an aggregate purchase price of \$68.0 million. The Company also agreed to repurchase the commercial mortgage loans from time to time (including a minimum quarterly amount), and agreed to repurchase all of the commercial mortgage loans by June 7, 2016. Upon the repurchase of a commercial mortgage loan, the Company is obligated to repay the principal amount related to such mortgage loan plus accrued interest (at a rate based on LIBOR plus a margin) to the date of repurchase. The Company will continue to service the commercial mortgage loans. On October 2, 2013, the Company entered into an amendment to this financing arrangement which, among other things, extended the date it had agreed to repurchase all of the commercial mortgage loans by one year to June 7, 2017, provided for \$25.5 million of additional advances for existing eligible assets owned by the Company, allowed for the advance of up to \$15.0 million to fund an additional commercial mortgage loan, and released \$41.1 million of principal payments to the Company as unrestricted cash. The facility accrues interest at a variable rate per annum, which was 5.16% as of December 31, 2014. As of December 31, 2014, unamortized deferred financing fees were \$0.9 million and the outstanding balance was \$57.2 million. During 2014, the Company made principal payments totaling \$10.7 million. As part of the amended agreement, there is a minimum aggregate interest margin payment of \$9.2 million required to be made over the life of the facility. The Company cannot control the rate at which the underlying commercial mortgage loans are repaid. If the facility is not utilized to cover this minimum requirement, then a make-whole fee is required to be made to satisfy the minimum aggregate interest margin payment.

## Note 9. Commitments

The Company has non-cancelable operating leases for office space and office equipment and furniture. These leases expire over the next five years and contain provisions for certain annual rental escalations. Future minimum lease payments under non-cancelable operating leases as of December 31, 2014 were as follows:

	(\$ in thousands)
2015	\$ 1,462
2016	1,335
2017	1,362
2018	1,260
2019	1,025
Thereafter	150

Rent expense was \$2.0 million, \$1.7 million and \$1.4 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company's office space lease at its corporate headquarters in Boston, MA is scheduled to terminate on February 28, 2020.

## Note 10. Stockholders' Equity

## Stockholders' Equity

As of December 31, 2014 and 2013, the Company's authorized capital consists of preferred and common stock and the following was authorized and outstanding:

	December 31, 2014		December 31, 2013	
	Shares authorized	Shares outstanding	Shares authorized	Shares outstanding
	(In thousands)			
Preferred stock	5,000	—	5,000	—
Common stock	145,000	46,620	145,000	48,659
Preferred Stock				

Since the completion of the Company's initial public offering on December 13, 2006, the Company's authorized capital stock has included 5,000,000 shares of preferred stock with a par value of \$0.01 per share, all of which remain undesignated.

## Common Stock



Table of Contents

In connection with the Company's initial public offering on December 13, 2006, the Company issued and sold 12,000,000 shares of its common stock. On December 19, 2006, the underwriters of the initial public offering purchased an additional 1,800,000 shares of the Company's common stock.

On November 12, 2007, the Company entered into a definitive agreement with institutional investors to issue 12.5 million shares of the Company's common stock in a private placement at a price per share of \$10.00. The gross proceeds from the offering, which closed in two tranches, were \$125 million. The first tranche of 7.25 million shares closed on November 29, 2007. The second tranche of 5.25 million shares was subject to the Company obtaining stockholder approval, and was approved at a special meeting of stockholders held on January 15, 2008. The second tranche closed on January 18, 2008.

In connection with the private placement, the Company entered into a Registration Rights Agreement with the institutional investors, whereby the Company agreed to register common stock as defined in the agreement. The Company registered the stock on Form S-3 on May 1, 2008, and the SEC deemed the registration effective on May 8, 2008.

On January 25, 2010, the Company announced that its Board of Directors had authorized the repurchase of up to \$10 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. On December 3, 2010, the Company had repurchased the entire \$10 million allotment of its stock. The timing and amount of any shares purchased were determined by management based on its evaluation of market condition and other factors and required use of cash. Upon completion of the stock repurchase program, the Company had repurchased 1,372,300 shares of its common stock under the program at a weighted average price per share of \$7.26. On May 4, 2011, the Company announced that its Board of Directors had authorized the repurchase of up to \$10 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. On September 16, 2011, the Company had repurchased the entire \$10 million allotment of its stock. The timing and amount of any shares purchased were determined by management based on its evaluation of market condition and other factors and required use of cash. Upon completion of the stock repurchase program, the Company had repurchased 1,042,208 shares of its common stock under the program at a weighted average price per share of \$9.60. On September 29, 2011, the Company's Board of Directors authorized the repurchase of up to \$10 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased were determined by management based on its evaluation of market conditions and other factors and required use of cash. The repurchase program expired on September 29, 2012. Upon completion of the stock repurchase program, the Company had repurchased 252,450 shares of its common stock under the program at a weighted average price per share of \$10.26.

On November 19, 2012, the Company's Board of Directors authorized the repurchase of up to \$10 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased were determined by the Company's management based on its evaluation of market conditions and other factors. The repurchase program expired on December 31, 2013. Upon completion of the stock repurchase program, the Company had repurchased 17,665 shares of its common stock at a weighted average price per share of \$12.22.

On May 5, 2014, the Company's Board of Directors authorized the repurchase of up to \$20.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased were determined by the Company's management based on its evaluation of market conditions and other factors. The Company completed repurchase program during July 2014. Under this stock repurchase program, the Company repurchased 1,519,615 shares of its common stock at a weighted average price per share of \$13.13 in the aggregate.

On August 13, 2014, the Company's Board of Directors authorized the repurchase of up to \$10.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased are determined by the Company's management based on its evaluation of market conditions and other factors. The repurchase program, which will expire on August 15, 2015 unless extended by the Board of Directors, may be suspended or discontinued at any time without notice. As of December 31, 2014, the Company had repurchased 382,999 shares of its common stock under this program at a weighted average price per



share of \$11.54.

On December 22, 2014, the Company repurchased 1,000,000 shares of its common stock in a privately negotiated transaction with an unaffiliated third party for an aggregate purchase price of \$10.2 million.

#### Warrants

On December 4, 2014, the Company issued warrants to purchase 9.5 million shares of its common stock as part of the strategic relationship with Franklin Square Capital Partners ("Franklin Square"). Each warrant allows the warrant holder to purchase one share of the Company's common stock at a purchase price equal to \$12.62 per share. The warrants were deemed to be freestanding and indexed to the Company's common stock. As such they were recorded at relative fair value, with no

## Table of Contents

required subsequent re-measurement. The warrants expire on December 4, 2024. At December 31, 2014, the warrants had a fair value of \$62.4 million, net of assumed transaction costs.

On January 23, 2015, the Company completed its issuance of warrants as part of the strategic relationship with Franklin Square. The Company issued additional warrants to purchase 2.5 million shares of its common stock subject to the same terms as the warrants that were issued on December 4, 2014.

### Restricted Stock

On May 19, 2010, the Company issued 2,000,000 shares of restricted stock to the Company's Executive Officers and other members of the senior management team. The shares of restricted stock had a fair value of \$5.82 per share. The shares of restricted stock vested on May 20, 2013.

On November 1, 2010 the Company issued 110,000 shares of restricted stock to certain employees of the Company. The shares of restricted stock had a fair value of \$7.52 per share, which is equal to the closing price of the Company's common stock on the date of issuance. The shares of restricted stock vested in their entirety on the third anniversary of the date of grant.

On December 1, 2010 the Company issued 50,000 shares of restricted stock to certain employees of the Company. The shares of restricted stock had a fair value of \$9.89 per share, which is equal to the closing price of the Company's common stock on the date of issuance. The shares of restricted stock vested in their entirety on the third anniversary of the date of grant.

During 2011, the Company issued 42,500 shares of restricted stock to certain employees of the Company pursuant to the Company's 2006 Incentive Plan, as amended and 34,615 shares of restricted stock to certain members of its Board of Directors. The fair value of the shares of restricted stock is equal to the closing price of the Company's stock on the date of issuance. The shares of restricted stock granted to employees vest in three equal installments on each of the first three anniversaries of the date of grant. The shares of restricted stock granted to directors vested in full on the one-year anniversary of the grant date.

During 2012, the Company issued 203,774 shares of restricted stock to certain employees of the Company pursuant to the Company's 2006 Incentive Plan, as amended and 48,714 shares of restricted stock to certain members of its Board of Directors. The fair value of the shares of restricted stock is equal to the closing price of the Company's stock on the date of issuance. The shares of restricted stock vest in three equal installments on each of the first three anniversaries of the date of grant.

During 2013, the Company issued 165,950 shares of restricted stock to certain employees of the Company pursuant to the Company's 2006 Incentive Plan, as amended and 45,376 shares of restricted stock to certain members of the Board of Directors. The fair value of the shares of restricted stock is equal to the closing price of the Company's stock on the date of issuance. The shares of restricted stock vest in three equal installments on each of the first three anniversaries of the date of grant.

During 2014, the Company issued 91,360 shares of restricted stock to certain employees of the Company pursuant to the Company's 2006 Incentive Plan, as amended and 43,648 shares of restricted stock to non-employee members of the Board of Directors. The fair value of the shares of restricted stock is equal to the closing price of the Company's stock on the date of issuance. The shares of restricted stock vest in three equal installments on each of the first three anniversaries of the date of grant.

Restricted stock activity for 2014 and 2013 was as follows:

	Shares	Grant-date fair value (\$ in thousands)
Non-vested as of January 1, 2013	2,418,860	\$ 19,810
Granted	211,326	2,826
Vested	(2,243,757)	) (18,053)
Forfeited	(20,295)	) (242)
Non-vested as of December 31, 2013	366,134	4,341
Granted	135,008	1,915
Vested	(175,484)	) (2,025)

Forfeited	(10,320	) (140	)
Non-vested as of December 31, 2014	315,338	\$ 4,091	

87

---

## Table of Contents

The Company's compensation expense related to its restricted stock was \$2.5 million, \$4.2 million and \$6.4 million for 2014, 2013 and 2012, respectively. The unrecognized compensation cost of \$1.2 million at December 31, 2014 is expected to be recognized over approximately the next three years.

### Stock Options

Under the Company's 2006 Incentive Plan, the Company's compensation committee may grant options to purchase shares of common stock. Stock options may either be incentive stock options ("ISOs") or non-qualified stock options. ISOs may only be granted to officers and employees. The compensation committee will, with regard to each stock option, determine the number of shares subject to the stock option, the manner and time of exercise, vesting, and the exercise price, which will not be less than 100% of the fair market value of the common stock on the date of the grant. The shares of common stock issuable upon exercise of options or other awards or upon grant of any other award may be either previously authorized but unissued shares or treasury shares.

On March 18, 2009 the Company completed an option exchange program with its senior management, including the Company's principal executive officer, principal financial officer and other named executive officers whereby in exchange for a grant of stock options priced at fair market value on March 18, 2009, each executive agreed to surrender to the Company for cancellation the option award granted to him on December 13, 2006 and to abide by the terms of a lock-up agreement. The lock-up agreement requires 50% of the net proceeds from any exercise or partial exercise of the option received as part of the March 2009 option exchange program be held by the Company until the one-year anniversary of the time when the executive ceases to be employed by the Company. During that time, such portion of the proceeds from the option exercise is subject to forfeiture if the senior executive violates the restrictive covenants in his employment agreement with the Company. The option exchange program resulted in the forfeiture of 1,985,262 options to the Company in exchange for 2,725,000 new stock option grants. The options granted vested in three equal installments on each of the first three anniversaries of the March 18, 2009 grant date and have a seven-year life.

On May 12, 2010, stock options exercisable for an aggregate of 629,105 shares of common stock were issued to certain employees of the Company. The stock options have an exercise price of \$8.28, which is equal to the closing price of the Company's common stock on the date of issuance. The options granted vested in three equal installments on each of the first three anniversaries of the May 12, 2010 grant date and have a seven-year life.

On November 1, 2010, stock options exercisable for an aggregate of 60,000 shares of common stock were issued to certain employees of the Company. The stock options have an exercise price of \$7.52, which is equal to the closing price of the Company's common stock on the date of issuance. The options granted vested in two equal installments on each of the first two anniversaries of the November 1, 2010 grant date and have a seven-year life.

On December 1, 2010, stock options exercisable for an aggregate of 50,000 shares of common stock were issued to certain employees of the Company. The stock options have an exercise price of \$8.74, which is equal to the closing price of the Company's common stock on the date of issuance. The options granted vested in two equal installments on each of the first two anniversaries of the December 1, 2010 grant date and have a seven-year life.

During 2011, stock options exercisable for an aggregate of 52,500 shares of common stock were issued to certain employees of the Company pursuant to the Company's 2006 Equity Incentive Plan, as amended and stock options exercisable for an aggregate of 55,000 shares were issued to certain members of its Board of Directors. The stock options have an exercise price equal to the closing price of the Company's common stock on the date of issuance. The options granted to employees vest in three equal installments on each of the first three anniversaries of the date of grant and have a seven-year life. The options granted to directors vest in full on the one-year anniversary of the date of grant and have a seven-year life.

Table of Contents

Stock option activity for 2014 and 2013 was as follows:

	Options	Weighted average exercise price	Weighted average remaining contractual life (in years)
Outstanding as of January 1, 2013	5,618,819	5.03	3
Granted	—	—	0
Exercised	(60,267)	6.00	3
Forfeited	(14,167)	15.97	3
Outstanding as of December 31, 2013	5,544,385	5.00	2
Granted	—	—	0
Exercised	(910,946)	6.78	1
Forfeited	(5,000)	12.45	2
Outstanding as of December 31, 2014	4,628,439	4.64	1
Vested or expected to vest as of December 31, 2014	4,628,439	4.64	1
Exercisable as of December 31, 2014	4,628,439	4.64	1

The Company did not grant any options during 2014 or 2013. As of December 31, 2014 and December 31, 2013, the total unrecognized compensation cost related to nonvested options granted was \$0. During 2014, 2013 and 2012, the Company recognized compensation expense of \$0.1 million for each year related to its stock options.

#### Note 11. Income Per Share

The computations of basic and diluted income per share for the periods ended December 31, 2014, 2013 and 2012 are as follows:

	December 31, 2014      2013      2012 (In thousands)		
Numerator:			
Net income	\$ 10,594	\$ 24,595	\$ 23,977
Denominator:			
Denominator for basic income per common share	48,267	48,157	47,370
Denominator:			
Denominator for diluted income per common share	48,267	48,157	47,370
Potentially dilutive securities—options	3,229	3,671	3,284
Potentially dilutive securities—restricted stock	—	762	2,000
Potentially dilutive securities—warrants	79	352	79
Total weighted average diluted shares	51,575	52,942	52,733

#### Note 12. Consolidated Variable Interest Entity

In April 2013, the Company formed a new managed credit fund, NewStar Arlington Fund LLC (“Arlington Fund”) in partnership with an institutional investor to co-invest in middle market commercial loans originated by the Company’s Leveraged Finance group. As the managing member of Arlington Fund, the Company retained full discretion over Arlington Fund’s investment decisions, subject to usual and customary limitations, and earned management fees as compensation for its services. For 2014 and 2013, the management fee was \$0.5 million for each year.

On April 4, 2013, Arlington Fund entered into an agreement establishing \$147.0 million of Class A variable funding notes (the “Class A Notes”) and \$28.0 million of Class B variable funding notes (the “Class B Notes”) to partially fund eligible middle market loan origination for Arlington Fund. Wells Fargo Bank, National Association funded the Class A Notes as the initial Class A lender and the Company funded the Class B Notes as the initial Class B lender. For 2014 and 2013 interest



## Table of Contents

expense on the Class B Notes totaled \$0.7 million for each year. For 2014 and 2013 the Fund distributed excess cash to its institutional investor totaling \$0.7 million and \$0.6 million, respectively.

From inception, the Company was deemed to be the primary beneficiary of Arlington Fund and, therefore, consolidated the financial results of Arlington Fund with the Company's results of operations and statements of financial position since April 2013.

On June 26, 2014, the NewStar Arlington Senior Loan Program LLC (the "Arlington Program") completed a \$409.4 million term debt securitization comprised of all of the Arlington Fund's loans as well as a portion of the Company's loans classified as held-for-sale. A portion of the proceeds from this term debt securitization were used to repay all advances under the Class A Notes and the Class B Notes. Following repayment, the Class A Notes and the Class B Notes were redeemed. As a result the amortization of \$1.1 million of deferred financing fees was accelerated and recognized during the three months ended June 30, 2014. The Company's membership interests in Arlington Fund were also redeemed and new membership interests in the Arlington Program were issued to its equity investors. The Company did not recognize a gain or a loss on the redemption of its membership interests in the Arlington Fund. The Company acts as collateral manager for the Arlington Program. As a result of the repayment of the Company's advances as the Class B lender under the warehouse facility and the redemption of its membership interests in the Arlington Fund, the Company has no ownership or financial interests in the Arlington Fund or its successors except to the extent that it receives management fees as collateral manager of the Arlington Program. Additionally, the Arlington Program employs an independent investment professional who is responsible for investment decision making on behalf of the program. As a result, the Company deconsolidated the Arlington Fund from its statements of financial position beginning on June 26, 2014. The Company determined that it is not the primary beneficiary of the Arlington Program and will not consolidate the Arlington Program's operating results or statements of financial position as of that date.

Although the Company consolidated all of the assets and liabilities of Arlington Fund, during the period from April 4, 2013 through June 26, 2014, its maximum exposure to loss was limited to its investments in membership interests in Arlington Fund, its Class B Note receivable, as well as the management fee receivable from Arlington Fund. These items defined the Company's economic relationship with Arlington Fund but were eliminated upon consolidation. The Company managed the assets of Arlington Fund solely for the benefit of its lenders and investors. If the Company were to have liquidated, the assets of Arlington Fund would not have been available to the Company's general creditors. Conversely, the investors in the debt of Arlington Fund had no recourse to the Company's general assets. Therefore, the Company did not consider this debt its obligation.

During the period from April 4, 2013 through June 26, 2014 when the Company consolidated the Arlington Fund as a variable interest entity, or VIE, the membership interests representing equity ownership of Arlington Fund were characterized as debt in the Company's consolidated statement of financial position. The Company applied an imputed interest rate to that debt and recorded the resulting interest expense in its consolidated statement of operations. In the consolidation, the Company eliminated the economic results of its related portion of the membership interests and the applied interest expense from its results of operations and statements of financial position.

The following tables present the unconsolidated, stand alone balance sheet of Arlington Fund.

	As of December 31, 2013 (unaudited) (\$ in thousands)
Restricted cash	\$ 1,950
Loans, net	171,427
Other assets	3,022
Total assets	\$ 176,399
Credit facilities—Class A Notes	\$ 120,344
Class A Notes interest payable	434
Class B Notes payable	19,375

Class B Notes interest payable	183
Other liabilities	173
Total liabilities	140,509
Equity	35,890
Total liabilities and equity	\$ 176,399

90

---



## Table of Contents

### Note 13. Financial Instruments with Off-Balance Sheet Risk

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its borrowers. These financial instruments include unfunded commitments, standby letters of credit and interest rate mitigation products. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Unused lines of credit are commitments to lend to a borrower if certain conditions have been met. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because certain commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each borrower's creditworthiness on a case-by-case basis. The amount of collateral required is based on factors that include management's credit evaluation of the borrower and the borrower's compliance with financial covenants. Due to their fluctuating nature, the Company cannot know with certainty the aggregate amounts that will be required to fund its unfunded commitments. The aggregate amount of these unfunded commitments currently exceeds the Company's available funds and will likely continue to exceed its available funds in the future.

At December 31, 2014, the Company had \$317.6 million of unused lines of credit. Of these unused lines of credit, unfunded commitments related to revolving credit facilities were \$266.7 million and unfunded commitments related to delayed draw term loans were \$44.9 million. \$6.0 million of the unused revolving commitments are unavailable to the borrowers, which may be related to the borrowers' inability to meet covenant obligations or other similar events. Revolving credit facilities allow the Company's borrowers to draw up to a specified amount, subject to customary borrowing conditions. The unfunded revolving commitments of \$266.7 million are further categorized as either contingent or unrestricted. Contingent commitments limit a borrower's ability to access the revolver unless it meets an enumerated borrowing base covenant or other restrictions. At December 31, 2014, the Company categorized \$159.7 million of the unfunded commitments related to revolving credit facilities as contingent. Unrestricted commitments represent commitments that are currently accessible, assuming the borrower is in compliance with certain customary loan terms and conditions. At December 31, 2014, the Company had \$107.0 million of unfunded unrestricted revolving commitments.

During the three months ended December 31, 2014, revolver usage averaged approximately 53%, which is in line with the average of 47% over the previous four quarters. Management's experience indicates that borrowers typically do not seek to exercise their entire available line of credit at any point in time. During the three months ended December 31, 2014, revolving commitments increased \$60.9 million.

Delayed draw credit facilities allow the Company's borrowers to draw predefined amounts of the approved loan commitment at contractually set times, subject to specific conditions, such as capital expenditures or acquisitions in corporate loans or for tenant improvements in commercial real estate loans. During the three months ended December 31, 2014, delayed draw credit facility commitments increased \$10.5 million.

Standby letters of credit are conditional commitments issued by us to guarantee the performance by a borrower to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending credit to our borrowers.

Interest rate risk mitigation products are offered to enable customers to meet their financing and risk management objectives. Derivative financial instruments consist predominantly of interest rate swaps, interest rate caps and floors. The interest rate risks to the Company of these customer derivatives is mitigated by entering into similar derivatives having offsetting terms with other counterparties.

These interest rate risk mitigation products do not qualify for hedge accounting treatment. These interest rate swaps and caps contracts are recorded at fair value on the Company's balance sheet in either "Other assets" or "Other liabilities." Gains and losses on derivatives not designated as cash flow hedges, including any cash payments made or received are reported as gains or losses on derivatives in the consolidated statements of operations. The Company's outstanding

interest rate mitigation products had a fair value of \$0.1 million at December 31, 2014 and \$0 at December 31, 2013. On December 4, 2014, the Company entered into a TRS for senior floating rate loans with Citibank. The TRS with Citibank enables the Company, through a wholly-owned financing subsidiary NewStar TRS I LLC, to obtain the economic benefits of the loans subject to the TRS, despite the fact that such loans will not be directly owned by it, in return for an interest

Table of Contents

payment to Citibank. The Company acts as the manager of the TRS and selects the specific loans to be subject to the TRS. The TRS does not qualify for hedge accounting treatment as it does not offset the risks of another investment position. As of December 31, 2014, the fair value of the underlying loan portfolio was \$109.2 million. Interest accrues at one-month LIBOR+1.60% per annum. At December 31, 2014, the Company had interest receivable from the TRS of \$0.1 million included in Other assets. The Company is required to cash collateralize a specified percentage of each loan included under the TRS in accordance with margin requirements. As of December 31, 2014, the Company had cash collateral on deposit with Citibank of \$39.0 million. The Company's obligations under the TRS are non-recourse to it, and its exposure is limited to the value of the cash collateral. At December 31, 2014 the TRS had an unrealized loss of \$0.9 million that was included in Other assets and Non-interest income. Financial instruments with off-balance sheet risk are summarized as follows:

	December 31,	
	2014	2013
	(\$ in thousands)	
Unused lines of credit	\$317,583	\$326,231
Standby letters of credit	7,911	6,880

## Note 14. Income Taxes

The components of income tax expense (benefit) are as follows:

	December 31,		
	2014	2013	2012
	(\$ in thousands)		
Current tax expense (benefit):			
Federal	\$3,245	\$3,212	\$9,756
State	1,667	1,516	3,164
Total current	4,912	4,728	12,920
Deferred tax expense (benefit):			
Federal	2,440	9,910	3,311
State	133	1,918	769
Total deferred	2,573	11,828	4,080
Income tax expense	\$7,485	\$16,556	\$17,000

The Company's effective tax rate for 2014 and 2013 reflects the impact of tax filing in additional states and changes in the tax rate on cumulative temporary differences.

The effective tax rate differed from the statutory federal corporate rate of 35% as follows:

	December 31,		
	2014	2013	2012
	(\$ in thousands)		
Federal statutory rate	\$6,328	\$14,403	\$14,342
State income taxes, net of federal tax benefit	1,170	2,232	2,556
Other	(13)	(79)	102
	\$7,485	\$16,556	\$17,000

Table of Contents

Deferred income taxes are recorded when revenues and expenses are recognized in different periods for financial statement and income tax purposes. As of December 31, 2014 and 2013, components of deferred tax assets and liabilities are as follows:

	December 31,	
	2014	2013
	(\$ in thousands)	
Deferred tax asset:		
Allowance for credit losses	\$23,905	\$20,386
Capitalized startup costs	112	124
Other	420	390
Capital loss carryforward	250	638
Securities fair value adjustments	21	—
Equity compensation	10,012	8,493
Accrued bonus	5,019	5,083
Income from non-performing assets	3,280	3,432
Other real estate owned	282	814
Gross deferred tax asset	43,301	39,360
Deferred tax liability:		
Prepaid expenses	989	1,034
Mark-to-market loans	370	147
Deferred loan costs	1,873	2,117
Cancellation of term debt income	2,371	2,964
Equity positions	2,405	6
Equipment leasing	7,215	2,463
Securities fair value adjustments	—	391
Gross deferred tax liability	15,223	9,122
Net deferred tax asset	\$28,078	\$30,238

As of December 31, 2014 and 2013, we had net deferred tax assets of \$28.1 million and \$30.2 million, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company's management considered all available evidence, both positive and negative, in determining the realizability of deferred tax assets at December 31, 2014. Management considered carryback availability, the scheduled reversals of deferred tax liabilities, projected future taxable income during the reversal periods, and tax planning strategies in making this assessment. Management also considered our recent history of taxable income, trends in our earnings, positive financial ratios, and the impact of the downturn in the current economic environment (including the impact of credit on allowance and provision for loan losses) on the Company. Based upon its assessment, management believes that a valuation allowance was not necessary as of December 31, 2014.

The Company files U.S. federal and various state income tax returns. As of December 31, 2014, the Company is subject to examination by the Internal Revenue Service and most state tax authorities for tax years after December 31, 2010. A few states remain subject to examination for the year ended December 31, 2009.

#### Note 15. Fair Value

ASC 820, Fair Value Measurements ("ASC 820") establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1—inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement.

93

---

## Table of Contents

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

### Investments in debt securities, available-for-sale

Investments in debt securities available-for-sale are recorded at fair value on a recurring basis. The fair value measurement of investments in debt securities is based on third party pricing services or by using internally developed financial models. For securities in less liquid markets where there is limited activity and little transparency around broker quotes used to value such securities, the Company classifies securities valued using broker quotes as level 3. If quoted prices are not available, then fair value is estimated by using internally developed financial models. These securities are not actively traded and require a private sale, and the valuation involves application of significant management judgment. Inputs into the model-based valuations can include changes in market indexes, selling prices of similar securities, management's assumptions related to the credit rating of the security, prepayment assumptions and other factors such as credit loss assumptions and management's assessment of the current market conditions. Such securities are classified as level 3, as the valuation models are based on significant inputs that are unobservable in the market.

### Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses may be established. If it is probable that payment of interest and principal on a loan will not be made in accordance with the contractual terms of the loan agreement, then it is considered impaired. Once a loan is identified as individually impaired, management measures the amount of impairment. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral equals or exceeds the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as level 3. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as level 3.

### Loans held-for-sale

Loans held-for-sale are not recorded at fair value on a recurring basis and are carried at the lower of cost or market value. Fair values for loans held-for-sale are based on quoted prices, where available, or are determined by discounting estimated cash flows using model-based valuation techniques. Inputs into the model-based valuations can include changes in market indexes, selling prices of similar loans, management's assumption related to credit rating of the loan, prepayment assumptions and other factors, such as credit loss assumptions. Where quoted prices are available in an active market, loans held-for-sale are classified as level 1. Level 1 loans include instruments where the fair value is based on a contracted selling price. Loans are classified as level 3 in instances where valuation models are based on significant inputs that are unobservable in the market.

### Other real estate owned

The Company does not record other real estate owned at fair value on a recurring basis. The fair value of other real estate owned is estimated using one of several methods, including collateral value, market value of similar properties, liquidation value and discounted cash flows. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price or inputs, the Company records the other real estate owned as level 3.

### Fair value of derivative instruments

Derivatives are recorded at fair value on a recurring basis. Substantially all derivative instruments held or issued by the Company for risk management or customer-initiated activities are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, the Company measures fair value using broker quotes or financial models that use primarily market observable inputs, such as yield curves and option volatilities,

and include the value associated with the counterparty credit risk. The Company classifies derivative instruments held or issued for risk management or customer-initiated activities as level 2. Examples of level 2 derivatives are interest rate swaps and interest rate cap contracts. The Company also holds a portfolio of warrants for generally non-marketable equity securities, which are carried at \$18.3 million and \$8.0 million, as of December 31, 2014 and 2013, respectively. These warrants are primarily from non-public companies

Table of Contents

obtained as part of the loan origination process. Warrants which contain a net exercise provision are required to be accounted for as derivatives and recorded at fair value. The fair value of the derivative warrant portfolio is reviewed quarterly and adjustments to the fair value are recorded in current earnings. Fair value is determined using internally developed valuation models. Where sufficient data exists, a market approach method is utilized to estimate the current value of the underlying company. The estimated fair value of the underlying securities for warrants requiring valuation at fair value were adjusted for discounts related to lack of liquidity. The Company classifies warrants accounted for as derivatives as level 3.

The following table presents recorded amounts of assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2014, by caption in the consolidated balance sheet and by ASC 820 valuation hierarchy (as described above).

	Quoted Prices in Active Markets for Identical Assets (Level 1) (\$ in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value in Consolidated Balance Sheet
<b>Recurring Basis:</b>				
Investments in debt securities, available-for-sale	\$—	\$—	\$46,881	\$46,881
TRS	—	\$(740)	\$—	\$(740)
Total assets recorded at fair value on a recurring basis	\$—	\$(740)	\$46,881	\$46,141
<b>Nonrecurring Basis:</b>				
Loans, net	\$—	\$—	\$27,719	\$27,719
Total assets recorded at fair value on a nonrecurring basis	\$—	\$—	\$27,719	\$27,719

At December 31, 2014, “Investments in debt securities, available-for-sale” consisted of collateralized loan obligations. The fair value measurement is obtained through a third party pricing service or by using internally developed financial models.

At December 31, 2014, Other assets included TRS with Citibank. the TRS has a maximum notional amount of \$125.0 million and is carried at an estimated fair value of \$(0.8) million, comprised of \$0.1 million of interest receivable and an unrealized loss of \$0.9 million on the underlying loan portfolio.

At December 31, 2014, “Loans, net” measured at fair value on a nonrecurring basis consisted of impaired collateral-dependent commercial real estate loans. The fair values of these loans are based on third party appraisals of the underlying collateral value as well as the Company’s internal analysis. During 2014, the Company recorded \$0.07 million of specific allowance for credit losses related to “Loans, net” measured at fair value at December 31, 2014. The following table presents a summary of significant unobservable inputs and valuation techniques of the Company’s Level 3 fair value measurements at December 31, 2014.

	Fair value (\$ in thousands)	Valuation Techniques	Unobservable Input	Range
<b>Financial assets:</b>				
Investments in debt securities, available-for-sale	\$46,881	Third-party pricing	Pricing assumptions such as prepayment rates, interest rates, loss assumptions, cash flow projections, and comparisons to similar financial instruments	
Loans and leases, net	27,719	Market comparables	Cost to sell	3% - 7%
		Valuation model	Marketability discount	5% - 30%



Total: \$74,600

The following table presents recorded amounts of assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2013, by caption in the consolidated balance sheet and by ASC 820 valuation hierarchy (as described above).

95

---

Table of Contents

	Quoted Prices in Active Markets for Identical Assets (Level 1) (\$ in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value in Consolidated Balance Sheet
Recurring Basis:				
Investments in debt securities, available-for-sale	\$—	\$—	\$22,198	\$22,198
Total assets recorded at fair value on a recurring basis	\$—	\$—	\$22,198	\$22,198
Nonrecurring Basis:				
Loans, net	\$—	\$—	\$26,671	\$26,671
Total assets recorded at fair value on a nonrecurring basis	\$—	\$—	\$26,671	\$26,671

At December 31, 2013, “Investments in debt securities, available-for-sale” consisted of collateralized loan obligations. The fair value measurement is obtained through a third party pricing service or by using internally developed financial models.

At December 31, 2013, “Loans, net” measured at fair value on a nonrecurring basis consisted of impaired collateral-dependent commercial real estate loans. The fair values of these loans are based on third party appraisals of the underlying collateral value as well as the Company’s internal analysis. During 2013, the Company recorded a \$3.2 million of specific provision for credit losses related to “Loans, net” measured at fair value.

The following table presents a summary of significant unobservable inputs and valuation techniques of the Company’s Level 3 fair value measurements at December 31, 2013.

	Fair value (\$ in thousands)	Valuation Techniques	Unobservable Input	Range
Financial assets:				
Investments in debt securities, available-for-sale	\$22,198	Third-party pricing	Pricing assumptions such as prepayment rates, interest rates, loss assumptions, cash flow projections, and comparisons to similar financial instruments	
Loans and leases, net	26,671	Market comparables	Cost to sell	3% - 7%
		Valuation model	Marketability discount	5% - 30%
Total:	\$48,869			

#### Changes in level 3 recurring fair value measurements

The table below illustrates the change in balance sheet amounts during 2014 and 2013 (including the change in fair value), for financial instruments measured on a recurring basis and classified by the Company as level 3 in the valuation hierarchy. When a determination is made to classify a financial instrument as level 3, the determination is based upon the significance of the unobservable parameters to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. The Company did not transfer any financial instruments in or out of level 1, 2, or 3 during 2014 and 2013.

For the year ended December 31, 2014:



Table of Contents

	Investments in Debt Securities, Available-for-sale (\$ in thousands)
Balance as of December 31, 2013	\$ 22,198
Total gains or losses (realized/unrealized)	
Included in earnings	1,412
Included in other comprehensive income	(984 )
Purchases	38,255
Issuances	—
Settlements	(14,000 )
Balance as of December 31, 2014	\$ 46,881
For the year ended December 31, 2013:	

	Investments in Debt Securities, Available-for-sale (\$ in thousands)
Balance as of December 31, 2012	\$ 21,127
Total gains or losses (realized/unrealized)	
Included in earnings	227
Included in other comprehensive income	844
Purchases	—
Issuances	—
Settlements	—
Balance as of December 31, 2013	\$ 22,198

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2014 and 2013. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

	December 31, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	(\$ in thousands)			
Financial assets:				
Cash and cash equivalents	\$33,033	\$33,033	\$43,401	\$43,401
Restricted cash	95,411	95,411	169,870	169,870
Cash collateral on deposit with custodian	38,975	38,975	—	—
Loans held-for-sale	200,569	200,569	14,831	14,831
Loans and leases, net	2,305,896	2,314,271	2,266,677	2,301,053
Investments in debt securities available-for-sale	46,881	46,881	22,198	22,198
Other assets	15,613	15,613	7,955	7,955
Financial liabilities:				
Credit facilities	\$487,768	\$487,768	\$452,502	\$452,502
Term debt securitizations	1,193,187	1,163,803	1,242,374	1,202,900
Corporate debt	238,500	238,500	200,000	200,000
Subordinated notes	156,831	184,087	—	—
Repurchase agreements	57,227	63,507	67,954	66,911



Table of Contents

The carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions. The following table presents the carrying amounts, estimated fair values, and placement in the fair value hierarchy of the Company's financial instruments at December 31, 2014 and 2013. The table excludes financial instruments for which the carrying amount approximates fair value such as cash and cash equivalents, restricted cash, loans held-for-sale (as applicable), investments in debt securities available-for-sale, credit facilities, and financial information disclosed above.

December 31, 2014

	Carrying amount (\$ in thousands)	Fair value	Fair Value Measurements		
			Level 1	Level 2	Level 3
Financial assets:					
Loans and leases, net	\$2,305,896	\$2,314,271	\$—	\$—	\$2,314,271
Financial liabilities:					
Term debt securitizations	1,193,187	1,163,803	—	1,163,803	—
Subordinated notes	156,831	184,087	—	—	184,087
Repurchase agreements	57,227	63,507	—	63,507	—

December 31, 2013

	Carrying amount (\$ in thousands)	Fair value	Fair Value Measurements		
			Level 1	Level 2	Level 3
Financial assets:					
Loans and leases, net	\$2,240,006	\$2,274,382	\$—	\$—	\$2,274,382
Financial liabilities:					
Term debt securitizations	1,242,374	1,202,900	—	1,402,900	—
Repurchase agreements	67,954	66,911	—	66,911	—

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents and restricted cash: The carrying amounts approximate fair value because of the short maturity of these instruments.

Loans held-for-sale, net: The fair values are based on quoted prices, where available, cost, or are determined by discounting estimated cash flows using model-based valuation techniques. Inputs into the model-based valuations can include changes in market indexes, selling prices of similar loans, management's assumption related to credit rating of the loan, prepayment assumptions and other factors, such as credit loss assumptions.

Loans and leases, net: The fair value was determined as the present value of expected future cash flows discounted at current market interest rates offered by similar lending institutions for loans with similar terms to companies with comparable credit risk. This method of estimating fair value does not incorporate the exit price concept of fair value and is based on significant unobservable inputs. The amount included in the above table excludes impaired collateral-dependent commercial real estate loans.

Investments in debt securities: The fair values of debt securities are based on quoted market prices, when available, at the reporting date for those or similar investments. When no market data is available, we estimate fair value using various valuation tools including cash flow models that utilize financial statements and business plans, as well as qualitative factors.

Credit facilities: Due to the adjustable rate nature of the borrowings, the fair values of the credit facilities are estimated to be their carrying values. Rates currently are comparable to those offered to the Company for similar debt instruments of comparable maturities by the Company's lenders.

Term debt securitizations: The fair value was determined by applying prevailing term debt securitization market interest rates to the Company's current term debt securitizations structure.

Subordinated notes: The fair value of the subordinated notes was derived in conjunction with the analysis performed at the issuance of the debt and associated 12 million warrants. At December 31, 2014 the \$200 million of notes issued had a fair value of \$184.2 million.



Table of Contents

Repurchase agreements: The fair value was determined by applying prevailing repurchase agreement market interest rates to the Company's current repurchase agreement structure.

Other assets: Comprised of non-public investments which are initially valued at transaction price and subsequently adjusted when evidence is available to support such adjustments when appropriate and the fair value of the TRS. The estimated fair value of the non-public investments was determined based on the Company's valuation techniques, including discounting estimated cash flows and model-based valuations.

Note 16. Employee Benefit Plans

The Company maintains a contributory 401(k) plan covering all full-time employees. The Company matches 100% of an employee's voluntary contributions up to a limit of 6% of the employee's base salary, subject to IRS guidelines. Expense for 2014, 2013 and 2012 was \$0.7 million, \$0.8 million and \$0.7 million, respectively.

Note 17. Related-Party Transactions

Pursuant to an Investment Management Agreement dated August 3, 2005, the Company serves as investment manager of the NewStar Credit Opportunities Fund, Ltd. (the "Fund"), a Cayman Islands exempted company limited by shares incorporated under the provisions of The Companies Law of the Cayman Islands. Prior to December 6, 2013 when the Fund called the notes of its term debt securitization, the Fund paid the Company a management fee, payable monthly in arrears, based on the carrying value of the total gross assets attributable to the applicable series of each class of shares at the end of each month. For 2013 and 2012, the Fund's asset management fees were \$2.5 million and \$3.0 million, respectively. Subsequent to December 6, 2013, the Fund pays the Company a fee when cash is distributed to its investors. For 2014, the Fund paid the Company \$0.06 million.

Pursuant to a Collateral Management Agreement dated June 26, 2014, the Company serves as collateral manager of the Arlington Program. The Company is entitled to receive a fee, which will accrue quarterly based on the fee basis amount in arrears payable on each payment date. For 2014, the Arlington Program's collateral management fee was \$1.0 million.



# Table of Contents

## Note 18. Selected Quarterly Financial Data (Unaudited)

Unaudited quarterly information for 2014 and 2013 is shown in the following table.

	For the three months ended							
	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013
	(\$ in thousands)							
Summary Results of Operations Data:								
Interest income	\$35,601	\$33,907	\$33,536	\$33,127	\$32,283	\$30,370	\$34,891	\$30,140
Interest expense	17,102	14,304	13,868	12,501	12,173	11,703	9,908	9,187
Net interest income	18,499	19,603	19,668	20,626	20,110	18,667	24,983	20,953
Provision for credit losses	5,280	3,369	12,652	5,807	2,309	2,381	4,330	718
Net interest income after provision for credit losses	13,219	16,234	7,016	14,819	17,801	16,286	20,653	20,235
Total non-interest income (loss)	(259)	3,261	1,496	6,718	3,817	5,131	1,461	3,103
Total operating expenses	10,752	10,981	11,655	12,128	12,193	11,525	12,769	12,911
Operating income (loss) before income taxes	2,208	8,514	(3,143)	9,409	9,425	9,892	9,345	10,427
Results of Consolidated VIE								
Interest income	—	—	2,615	2,653	2,430	1,991	900	—
Interest expense	—	—	2,684	1,473	1,424	1,125	683	—
Other income	—	—	221	8	17	18	16	—
Operating expenses	—	—	189	60	64	10	4	—
Net results from Consolidated VIE	—	—	(37)	1,128	959	874	229	—
Income (loss) before income taxes	2,208	8,514	(3,180)	10,537	10,384	10,766	9,574	10,427
Income tax expense (benefit)	982	3,494	(1,325)	4,334	4,024	4,329	3,930	4,273
Net income (loss)	\$1,226	\$5,020	\$(1,855)	\$6,203	\$6,360	\$6,437	\$5,644	\$6,154
Net income (loss) per share:								
Basic	\$0.03	\$0.10	\$(0.04)	\$0.13	\$0.13	\$0.13	\$0.12	\$0.13
Diluted	0.02	0.10	(0.04)	0.12	0.12	0.12	0.11	0.12

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure  
None.

Item 9A. Controls and Procedures

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission 1992. Based on our evaluation under the framework in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2014. The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included on page 57 of this Annual Report.

In May 2013, COSO issued its Internal Control - Integrated Framework (the "2013 Framework"). While the 2013 Framework's internal control components (i.e., control environment, risk assessment, control activities, information and communication, and monitoring activities) are the same as those in the 1992 Framework, the new framework requires companies to assess whether 17 principles are present and functioning in determining whether their system of internal control is effective. The Company expects to adopt the 2013 Framework during 2015.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Annual Report (the "Evaluation Date"). Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the Evaluation Date, these disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control that occurred during the fourth quarter of 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Table of Contents

## PART III

## Item 10. Directors, Executive Officers and Corporate Governance

Information required by Item 10 is incorporated by reference from the information responsive thereto contained in the sections in our Proxy Statement for the Annual Meeting of Stockholders to be held on May 20, 2015 (the “2015 Proxy Statement”) captioned “Proposal 1: Election of Directors,” “Corporate Governance—Board Committees,” and “Section 16(a) Beneficial Ownership Reporting Compliance.”

## Executive Officers of the Registrant

Name	Age	Position
Timothy J. Conway	60	Chairman, Chief Executive Officer and President
Peter A. Schmidt-Fellner	58	Chief Investment Officer and Director
John K. Bray	58	Chief Financial Officer
Daniel D. McCready	58	Chief Credit Officer
Patrick F. McAuliffe	57	Head—Leveraged Finance Origination
John J. Frishkopf	51	Treasurer/Head—Asset Management

Timothy J. Conway, is our Chief Executive Officer and President and was elected to serve as Chairman of our Board of Directors in September 2006. He has been our Chief Executive Officer and President and has served on our Board of Directors since our inception in June 2004. From July 2002 to June 2004, Mr. Conway worked full-time on our founding. From 1996 to July 2002, Mr. Conway was a Managing Director at FleetBoston Financial Corporation or its predecessors responsible for Corporate Finance and Capital Markets. From 1987 to 1996, Mr. Conway held various senior management positions at Citicorp Securities, Inc. He was a Managing Director and Senior Securities Officer and was responsible for the bank’s private placement, loan syndication and acquisition finance businesses.

Mr. Conway received his undergraduate degree from Fairfield University and his masters of business administration from the University of Connecticut.

Peter A. Schmidt-Fellner, has served as our Chief Investment Officer since our inception in 2004 and was elected to our Board of Directors in November 2006. From 1993 to 2003, Mr. Schmidt-Fellner was at JPMorgan Securities, Inc. and its various subsidiaries and predecessor institutions, where during his tenure, he was responsible for High Yield Bond Sales, Trading and Research, Loan Trading and Co-Head of High Yield Bond Capital Markets.

Mr. Schmidt-Fellner received his undergraduate degree from Colby College and his masters in business administration from the Tuck School of Business at Dartmouth.

John K. Bray, has served as our Chief Financial Officer since January 2005. From April 2004 to October 2004, Mr. Bray was the Business Financial Officer at Bank of America. From August 1979 to April 2004, Mr. Bray held various positions at FleetBoston Financial Corporation or its predecessors, most recently as Director of Finance—Line of Businesses. Mr. Bray received his undergraduate degree from the College of the Holy Cross and his masters of business administration from the University of Hartford.

Daniel D. McCready, has served as our Chief Credit Officer since March 2013. He chairs the Underwriting Committees for Leveraged Finance and Equipment Finance, and is also a member of the firm’s Management Committee. Mr. McCready has thirty years of experience in leveraged finance, asset based finance and sponsor coverage. He joined the company from CIT Group, where he was Chief Credit Officer of Corporate Finance, and a member of the Credit Policy Committee. Mr. McCready has held risk leadership positions for over fourteen years, including credit management and restructuring at GE Capital and CIBC World Markets. His previous experience includes sponsor finance origination and debt capital markets at Bankers Trust/Deutsche Bank and Bank of America. Mr. McCready received his undergraduate degree from the US Naval Academy and his masters of business administration from George Washington University.

Patrick F. McAuliffe, has served as a Managing Director of the Company since 2005 and Head of its Middle Market lending division since 2012. He also serves as a member of the firm’s Management Committee. Prior to joining NewStar Financial in April 2005, he was a Regional Executive in Bank of America’s Metro New York Region, and prior to the merger of FleetBoston Financial and Bank of America, Mr. McAuliffe held numerous positions at FleetBoston Financial between 1984-2004.

John J. Frishkopf, has served as a Managing Director of the Company, Treasurer and Head of Asset Management since 2004. He also serves as a member of the firm's Management and Underwriting Committees. Prior to joining the Company, he

102

---

## Table of Contents

was a Managing Director of Milford Associates, LLC, a turnaround and corporate restructuring advisory firm, which he founded in 1999. In 1992, he co-founded Benson Oak & Company an investment banking boutique operating in the Czech and Slovak Republics. Prior to Benson Oak, he was a vice president at Citicorp's North American Investment Banking and International Corporate Finance Division where he spent five years working in capital markets, originating, structuring and placing loan and private placement transactions.

### Code of Ethics

We have adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Controller, and certain other senior officers. A copy of the code is publicly available on the Investor Relations page of our website at [www.newstarfin.com](http://www.newstarfin.com). If you would like to receive a copy of our Code of Ethics, free of charge, a request should be directed to: Investor Relations, NewStar Financial, Inc., 500 Boylston St., Suite 1250, Boston, Massachusetts 02116. In addition we also have a Code of Business Conduct and Ethics, which applies to all directors, officers and employees in carrying out their responsibilities to and on behalf of the Company. A copy of the code is posted on the Company's website at [www.newstarfin.com](http://www.newstarfin.com).

### Item 11. Executive Compensation

Information required by Item 11 is incorporated by reference from the information responsive thereto contained in the sections of the 2015 Proxy Statement captioned "Board of Directors—Director Compensation" and "Executive Compensation."

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by Item 12 is incorporated by reference from the information responsive thereto contained in the sections of the 2015 Proxy Statement captioned "Shares held by Principal Stockholders and Management" and "Executive Compensation—Equity Plan Information."

### Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by Item 13 is incorporated by reference from the information responsive thereto contained in the sections of the 2015 Proxy Statement captioned "Corporate Governance" and "Corporate Governance—Certain Relationships and Transactions."

### Item 14. Principal Accounting Fees and Services

Information required by Item 14 is incorporated by reference from the information responsive thereto contained in the section of the 2015 Proxy Statement in the proposal titled "Ratification of Independent Registered Public Accounting Firm."

## PART IV

### Item 15. Exhibits, Financial Statement Schedule

#### a. Documents Filed as Part of the Report

The consolidated financial statements and reports of independent auditors have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Financial Statements appearing on page 56 of this report.

#### b. Exhibits

The exhibits filed with this Annual Report on Form 10-K are listed in the Exhibit Index immediately following the signature page hereof, which Exhibit Index is incorporated herein by reference.

#### c. Financial Statement Schedules

Financial Statement Schedules have been omitted because the required information is not present, or not present in amounts sufficient to require submission of the schedules, or because the required information is provided in consolidated financial statements or notes thereto.



Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEWSTAR FINANCIAL, INC.

Date: March 26, 2015

By: /s/ JOHN K. BRAY  
John K. Bray  
Chief Financial Officer

Table of Contents

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
2(a)	Interest Purchase Agreement by and among NewStar Financial, Inc. (the “Company”), Core Financial Holdings, LLC and Core Business Credit, LLC dated as of November 1, 2010.	Previously filed as Exhibit 2.1 to the Company’s Current Report on Form 8-K (File No. 001-33211) filed on November 2, 2010 and incorporated herein by reference.
3(a)	Amended and Restated Certificate of Incorporation of the Company.	Previously filed as Exhibit 3(a) to the Company’s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-33211) filed on April 2, 2007 and incorporated herein by reference.
3(b)	Amended and Restated Bylaws of the Company.	Previously filed as Exhibit 3(b) to the Company’s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-33211) filed on April 2, 2007 and incorporated herein by reference.
4(a)	Stockholders’ Agreement, dated as of June 18, 2004, among the Company (f/k/a Novus Capital, Inc.) and the Stockholders party thereto.	Previously filed as Exhibit 4.1 to the Company’s Registration Statement on Form S-1 (File No. 333-137513) filed on September 21, 2006, and incorporated herein by reference.
4(a)(1)	First Amendment to Stockholders’ Agreement, dated as of August 22, 2005, entered in connection with the Stockholders’ Agreement, dated as of June 18, 2004.	Previously filed as Exhibit 4(a)(1) to the Company’s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-33211) filed on April 2, 2007 and incorporated herein by reference.
4(a)(2)	Second Amendment to Stockholders’ Agreement, dated as of June 5, 2006, entered in connection with the Stockholders’ Agreement, dated as of June 18, 2004.	Previously filed as Exhibit 4(a)(2) to the Company’s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-33211) filed on April 2, 2007 and incorporated herein by reference.
4(a)(3)	Third Amendment to Stockholders’ Agreement, dated as of December 12, 2006, entered in connection with the Stockholders’ Agreement, dated as of June 18, 2004.	Previously filed as Exhibit 4(a)(3) to the Company’s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-33211) filed on April 2, 2007 and incorporated herein by reference.
4(a)(4)	Fourth Amendment to Stockholders’ Agreement, dated as of March 26, 2007, entered in connection with the Stockholders’ Agreement, dated as of June 18, 2004.	Previously filed as Exhibit 4(a)(4) to the Company’s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33211) filed on March 10, 2008 and incorporated herein by reference.



4(b)	Form of Common Stock Certificate.	Previously filed as Exhibit 4.2 to Amendment No. 5 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on November 30, 2006 and incorporated herein by reference.
4(d)(1)	Indenture, dated as of June 8, 2006, by and between NewStar Commercial Loan Trust 2006-01, as Issuer, and U.S. Bank National Association, as Trustee, relating to Class A-1, Class A-2, Class B, Class C, Class D, Class E and Class F Notes due March 30, 2022.	Previously filed as Exhibit 10.8.5 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
4(d)(2)	Indenture, dated as of August 10, 2005, between NewStar Trust 2005-1, as Issuer, and U.S. Bank National Association, as Indenture Trustee.	Previously filed as Exhibit 10.12.5 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
4(d)(3)	Indenture, dated as of December 30, 2005, by and between NewStar Warehouse Funding 2005 LLC, as Issuer, and U.S. Bank National Association, as Indenture Trustee and Custodian.	Previously filed as Exhibit 10.13.3 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
4(d)(4)	Indenture, dated as of June 5, 2007, by and between NewStar Commercial Loan Trust 2007-1, as Issuer, and U.S. Bank National Association, as Trustee.	Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on June 7, 2007 and incorporated herein by reference.

---

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
4(d)(5)	Indenture, dated as of January 7, 2010, by and between NewStar Commercial Loan Trust 2009-1, as Issuer, and U.S. Bank National Association, as Trustee.	Previously filed as Exhibit 4(d)(5) to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33211) filed on March 8, 2010 and incorporated herein by reference.
4(d)(6)	Indenture, dated as of December 18, 2012, by and between NewStar Commercial Loan Funding 2012-2 LLC, as Issuer, and U.S. Bank National Association, as Trustee.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on December 19, 2012 and incorporated herein by reference.
4(d)(7)	Indenture, dated as of September 11, 2013, by and between the NewStar Commercial Loan Funding 2013-1 LLC and U.S. Bank National Association.	Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on September 13, 2013 and incorporated herein by reference.
4(d)(8)	Indenture by and between NewStar Commercial Loan Funding 2014-1 LLC, as Issuer, and U.S. Bank National Association, as Trustee, dated as of April 17, 2014.	Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on April 23, 2014 and incorporated herein by reference.
10(a)(1)	Lease, dated as of October 31, 2012, between Five Hundred Boylston West Venture, as Landlord, and the Company, as Tenant.	Previously filed as Exhibit 10(a)(1) to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-33211) filed on March 13, 2014 and incorporated herein by reference.
10(a)(2)	First Amendment to Lease dated as of September 12, 2013, between Five Hundred Boylston West Venture, as Landlord, and the Company, as Tenant	Previously filed as Exhibit 10(a)(2) to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-33211) filed on March 13, 2014 and incorporated herein by reference.
10(b)(1)(a)	Amended and Restated Sale and Servicing Agreement, dated as of April 5, 2006, by and among NewStar CP Funding LLC, as Seller, the Company, as Originator and Servicer, Wachovia Bank, National Association, as Swingline Purchaser, Wachovia Capital Markets, LLC, as Administrative Agent and VFCC Agent, U.S. Bank National Association, as Trustee, Lyon Financial Services, Inc. as Backup Servicer and each of the conduit purchaser and purchaser agents thereto from time to time.	Previously filed as Exhibit 10.7.1 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.

10(b)(1)(b)	Amendment No. 1 to the Amended and Restated Sale and Servicing Agreement dated as of June 7, 2006.	Previously filed as Exhibit 10.7.2 to Amendment No. 6 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on December 11, 2006 and incorporated herein by reference.
10(b)(1)(c)	Amendment No. 2 to the Amended and Restated Sale and Servicing Agreement, dated as of July 10, 2006.	Previously filed as Exhibit 10(b)(1)(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-33211) filed on April 2, 2007 and incorporated herein by reference.
10(b)(1)(d)	Amendment No. 3 to the Amended and Restated Sale and Servicing Agreement, dated as of August 9, 2006.	Previously filed as Exhibit 10.7.4 to Amendment No. 6 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on December 11, 2006 and incorporated herein by reference.
10(b)(1)(e)	Amended, Restated and Substituted Variable Funding Certificate, dated as of August 9, 2006.	Previously filed as Exhibit 10.7.5 to Amendment No. 6 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on December 11, 2006 and incorporated herein by reference.

---

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
10(b)(1)(f)	Amendment No. 4 and Waiver to the Amended and Restated Sale and Servicing Agreement, dated as of October 30, 2006.	Previously filed as Exhibit 10.7.6 to Amendment No. 6 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on December 11, 2006 and incorporated herein by reference.
10(b)(1)(g)	Amendment No. 5 to the Amended and Restated Sale and Servicing Agreement, dated as of January 26, 2007.	Previously filed as Exhibit 10(b)(1) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007 (File No. 001-33211) filed on May 10, 2007 and incorporated herein by reference.
10(b)(1)(h)	Amendment No. 6 to the Amended and Restated Sale and Servicing Agreement, dated as of February 16, 2007.	Previously filed as Exhibit 10(b)(2) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007 (File No. 001-33211) filed on May 10, 2007 and incorporated herein by reference.
10(b)(1)(i)	Amendment No. 7 and Waiver to the Amended and Restated Sale and Servicing Agreement, dated as of June 4, 2007.	Previously filed as Exhibit 10(b)(1)(i) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33211) filed on March 10, 2008 and incorporated herein by reference.
10(b)(1)(j)	Amendment No. 8 and Waiver to the Amended and Restated Sale and Servicing Agreement, dated as of June 27, 2007.	Previously filed as Exhibit 10(b)(1)(j) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33211) filed on March 10, 2008 and incorporated herein by reference.
10(b)(1)(k)	Amendment No. 9 to the Amended and Restated Sale and Servicing Agreement, dated as of August 8, 2007.	Previously filed as Exhibit 10(h) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-33211) filed on August 8, 2007 and incorporated herein by reference.
10(b)(1)(l)	Amendment No. 10 and Waiver to the Amended and Restated Sale and Servicing Agreement, dated as of September 28, 2007.	Previously filed as Exhibit 10(b)(1)(l) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33211) filed on March 10, 2008 and incorporated herein by reference.
10(b)(1)(m)	Second Amended and Restated Sale and Servicing Agreement, dated as of April 18, 2008, by and among NewStar CP Funding LLC, as Seller, the Company, as Originator and Servicer, Wachovia Bank, National Association, as Swingline	Previously filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33211) filed on August 6, 2008 and incorporated herein by reference.

Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

Purchaser, Wachovia Capital Markets, LLC, as Administrative Agent and WBNA Agent, U.S. Bank National Association, as Trustee, Lyon Financial Services, Inc. as Backup Servicer and each of the conduit purchaser and purchaser agents thereto from time to time.

10(b)(1)(n)	Amendment No. 1 to the Second Amended and Restated Sale and Servicing Agreement, dated as of December 30, 2008.	Previously filed as Exhibit 10(b)(1)(n) to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33211) filed on March 10, 2009 and incorporated herein by reference.
10(b)(1)(o)	Amendment No. 2 to the Second Amended and Restated Sale and Servicing Agreement, dated as of April 17, 2009.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on April 20, 2009 and incorporated herein by reference.
10(b)(1)(p)	Amendment No. 3 to the Second Amended and Restated Sale and Servicing Agreement, dated as of May 22, 2009.	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on May 27, 2009 and incorporated herein by reference.

---

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
10(b)(1)(q)	Third Amended and Restated Sale and Servicing Agreement, dated as of July 15, 2009, by and among NewStar CP Funding LLC, as Seller, the Company, as Originator and Servicer, Wachovia Bank, National Association, as Swingline Purchaser, Wachovia Capital Markets, LLC, as Administrative Agent and WBNA Agent, U.S. Bank National Association, as Trustee, Lyon Financial Services, Inc. as Backup Servicer and each of the conduit purchaser and purchaser agents thereto from time to time.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on July 17, 2009 and incorporated herein by reference.
10(b)(1)(r)	Fourth Amended and Restated Sale and Servicing Agreement, dated as of July 12, 2011, by and among NewStar CP Funding LLC, the Company, Wells Fargo Bank, National Association, Wells Fargo Securities, LLC, and U.S. Bank National Association.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on July 14, 2011 and incorporated herein by reference.
10(b)(1)(s)	First Amendment to the Fourth Amended and Restated Sale and Servicing Agreement, dated as of November 4, 2011, by and among NewStar CP Funding LLC, the Company, Wells Fargo, National Association, and Wells Fargo Securities, LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on November 8, 2011 and incorporated herein by reference.
10(b)(1)(t)	Fifth Amended and Restated Loan and Servicing Agreement, dated as of November 5, 2012, by and among NewStar CP Funding LLC, NewStar Financial, Inc., Wells Fargo Bank, National Association, each of the institutional lenders, conduit lenders, and agents party thereto as lenders, Wells Fargo Securities, LLC, and U.S. Bank National Association.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on November 6, 2012 and incorporated herein by reference.
10(b)(1)(u)	First Amendment to Fifth Amended and Restated Loan and Servicing Agreement, dated as of April 16, 2013, by and among NewStar CP Funding LLC, NewStar Financial, Inc., and Wells Fargo Securities, LLC.	Previously filed as Exhibit 10(b)(1)(u) to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-33211) filed on March 13, 2014 and incorporated herein by reference.
10(b)(1)(v)	Second Amendment to Fifth Amended and Restated Loan and Servicing Agreement, dated as of November 26, 2013, by and among NewStar CP Funding LLC, NewStar Financial, Inc., and Wells Fargo Securities, LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on December 3, 2013 and incorporated herein by reference.
10(b)(2)(a)		

Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

	Sale and Servicing Agreement, dated as of June 8, 2006, by and among NewStar Commercial Loan Trust 2006-1, as Issuer, NewStar Commercial Loan LLC 2006-1, as Trust Depositor, the Company, as Servicer and Originator, U.S. Bank National Association, as Trustee, Lyon Financial Services Inc., as Backup Servicer, and Wilmington Trust Company, as Owner Trustee.	Previously filed as Exhibit 10.8.1 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
10(b)(2)(b)	Commercial Loan Sale Agreement, dated as of June 8, 2006, between the Company, as Originator, and NewStar Commercial Loan LLC 2006-1, as Trust Depositor.	Previously filed as Exhibit 10.8.2 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
10(b)(2)(c)	Note Purchase Agreements by NewStar Commercial Loan Trust 2006-1 dated as of May 25, 2006.	Previously filed as Exhibit 10.8.3 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
10(b)(2)(d)	Purchase Agreement, dated as of May 25, 2006, between NewStar Commercial Loan Trust 2006-1, as Trust Depositor, and Wachovia Capital Markets, LLC, Citigroup Global Markets Inc. and Harris Nesbitt Corp., as Initial Purchasers.	Previously filed as Exhibit 10(b)(2)(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-33211) filed on April 2, 2007 and incorporated herein by reference.

---

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
10(b)(3)	Sale and Servicing Agreement, dated as of November 30, 2005, by and among NewStar Credit Opportunities Funding I Ltd., as Seller, NewStar Credit Opportunities Fund, Ltd., as the Fund, the Company, as Collateral Manager, IXIS Financial Products Inc., as Administrative Agent and Swingline Purchaser, Wachovia Capital Markets, LLC, as Documentation Agent, U.S. Bank National Association as Collateral Administrator and Collateral Custodian, Lyon Financial Services, Inc., as Backup Collateral Manager, and the conduit purchasers party thereto.	Previously filed as Exhibit 10.9.1.1 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
10(b)(4)(a)	Note Purchase Agreement, dated as of March 21, 2006, by and among NewStar Structured Finance Opportunities, LLC, as Issuer, the Company, as Limited Recourse Provider, MMP-5 Funding, LLC, as Swingline Investor, IXIS Financial Products Inc., as Investor Agent, and U.S. Bank National Association, as Trustee and the Investors Party thereto.	Previously filed as Exhibit 10.11.1 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
10(b)(4)(b)	Amendment No. 1 dated as of March 6, 2008 to Note Purchase Agreement.	Previously filed as Exhibit 10(b)(5)(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33211) filed on March 10, 2008 and incorporated herein by reference.
10(b)(4)(c)	Amendment No. 2 dated as of June 1, 2007 to Note Purchase Agreement.	Previously filed as Exhibit 10(b)(5)(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33211) filed on March 10, 2008 and incorporated herein by reference.
10(b)(4)(d)	Assignment and Assumption Agreement, dated June 29, 2007, by and between NewStar Structured Finance Opportunities, LLC and NewStar Structured Finance Opportunities II, LLC.	Previously filed as Exhibit 10(g)(1) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 (File No. 001-33211) filed on August 8, 2007 and incorporated herein by reference.
10(b)(4)(e)	Amendment No. 3, dated as of June 29, 2007, among NewStar Structured Finance Opportunities II, LLC as Issuer, the Company, as Limited Recourse Provider, MMP-5 Funding, LLC, Fenway Capital, LLC, Fenway Funding, LLC, Natixis Financial Products Inc., as Agent, and U.S. Bank National Association, as Trustee.	Previously filed as Exhibit 10(g)(2) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 (File No. 001-33211) filed on August 8, 2007 and incorporated herein by reference.



10(b)(4)(f)	Purchase and Sale Agreement, dated as of March 21, 2006, between NewStar Structured Finance Opportunities, LLC, as Buyer, and the Company, as Seller.	Previously filed as Exhibit 10.11.2 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
10(b)(4)(g)	Collateral Management Agreement, dated as of March 21, 2006, between NewStar Structured Finance Opportunities, LLC, as Issuer, and the Company, as Collateral Manager.	Previously filed as Exhibit 10.11.3 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
10(b)(4)(h)	Security Agreement, dated as of March 21, 2006, between NewStar Structured Finance Opportunities, LLC, as Issuer, and U.S. Bank National Association, as Trustee and Custodian.	Previously filed as Exhibit 10.11.4 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.

---

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
10(b)(5)(a)	Sale and Servicing Agreement, dated as of August 10, 2005, by and among NewStar Trust 2005-1, as Issuer, NewStar LLC 2005-1, as Trust Depositor, the Company, as Originator and Servicer, U.S. Bank National Association, as Indenture Trustee, Lyon Financial Services, Inc., as Backup Servicer, and Wilmington Trust Company, as Owner Trustee.	Previously filed as Exhibit 10.12.1 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
10(b)(5)(b)	Commercial Loan Sale Agreement, date as of August 10, 2005, between the Company, as Originator, and NewStar LLC 2005-1, as Trust Depositor.	Previously filed as Exhibit 10.12.2 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
10(b)(5)(c)	Class A-2 Note Purchase Agreement, dated as of August 10, 2005, between NewStar Trust 2005-1, as Issuer, and U.S. Bank National Association, as Indenture Trustee.	Previously filed as Exhibit 10.12.3 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
10(b)(5)(d)	Purchase Agreement, dated August 10, 2005, between NewStar Trust 2005-1, as Trust Depositor, and Wachovia Capital Markets, LLC, Citigroup Global Markets Inc. and IXIS Securities North America Inc., as Initial Purchasers.	Previously filed as Exhibit 10.12.4 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on September 21, 2006 and incorporated herein by reference.
10(b)(6)(a)	Sale and Servicing Agreement, dated as of December 30, 2005, by and among the Company, as Servicer and Seller, NewStar Warehouse Funding 2005 LLC, as Purchaser, and Lyon Financial Services, Inc. as Backup Servicer.	Previously filed as Exhibit 10.13.1 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
10(b)(6)(b)	Note Purchase Agreement, dated as of December 30, 2005, by and among NewStar Warehouse Funding 2005 LLC, as Issuer, the Company, as Seller and Servicer, and Citigroup Global Markets Realty Corp., as Note Purchaser.	Previously filed as Exhibit 10.13.2 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
10(b)(6)(c)	First Omnibus Amendment to the Note Purchase Agreement, dated as of April 27, 2006.	Previously filed as Exhibit 10.13.4 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.
10(b)(6)(d)	Second Omnibus Amendment to the Note Purchase Agreement, dated as of June 7, 2006.	Previously filed as Exhibit 10.13.5 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 26, 2006 and incorporated herein by reference.

10(b)(6)(e)	Third Omnibus Amendment to the Note Purchase Agreement, dated as of December 22, 2006.	Previously filed as Exhibit 10(c)(1) to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2007 (File No. 001-33211) filed on May 10, 2007 and incorporated herein by reference.
10(b)(6)(f)	Fourth Omnibus Amendment to the Note Purchase Agreement, dated as of February 21, 2007.	Previously filed as Exhibit 10(c)(2) to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2007 (File No. 001-33211) filed on May 10, 2007 and incorporated herein by reference.
10(b)(6)(g)	Fifth Omnibus Amendment to the Note Purchase Agreement, dated as of March 27, 2007.	Previously filed as Exhibit 10(c)(3) to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2007 (File No. 001-33211) filed on May 10, 2007 and incorporated herein by reference.

---

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
10(b)(6)(h)	Sixth Omnibus Amendment to the Note Purchase Agreement, dated as of November 7, 2007.	Previously filed as Exhibit 10(b)(7)(h) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33211) filed on March 10, 2008 and incorporated herein by reference.
10(b)(6)(i)	Note Purchase Agreement, dated as of November 19, 2008, by and among NewStar Warehouse Funding 2005 LLC, as Issuer, the Company, as Seller and Servicer, Citicorp North America, Inc., as Note Purchaser Agent, each of the investors from time to time a party thereto, and each of the liquidity banks from time to time a party thereto.	Previously filed as Exhibit 10(b)(7)(i) to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33211) filed on March 10, 2009 and incorporated herein by reference.
10(b)(6)(j)	Amended and Restated Sale and Servicing Agreement, dated as of November 19, 2008, among the Company, as Servicer and Seller, NewStar Warehouse Funding 2005 LLC, as Purchaser, and Lyon Financial Services, Inc., as Backup Servicer.	Previously filed as Exhibit 10(b)(7)(j) to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33211) filed on March 10, 2009 and incorporated herein by reference.
10(b)(6)(k)	Second Omnibus Amendment to the Note Purchase Agreement, dated as of November 3, 2009.	Previously filed as Exhibit 10(b)(7)(k) to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33211) filed on March 8, 2010 and incorporated herein by reference.
10(b)(6)(l)	Third Omnibus Amendment, dated as of March 19, 2010.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on March 23, 2010 and incorporated herein by reference.
10(b)(6)(m)	Fourth Omnibus Amendment, dated November 16, 2010.	Previously filed as Exhibit 10(b)(7)(m) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-33211) filed on March 4, 2011 and incorporated herein by reference.
10(b)(6)(n)	Fifth Omnibus Amendment, dated November 22, 2010.	Previously filed as Exhibit 10(b)(7)(n) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-33211) filed on March 4, 2011 and incorporated herein by reference.
10(b)(6)(o)	Sixth Omnibus Amendment, dated December 15, 2010	Previously filed as Exhibit 10(b)(7)(o) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010

(File No. 001-33211) filed on March 4, 2011 and incorporated herein by reference.

Previously filed as Exhibit 10(b)(1) to the Company's Quarterly Report on Form 10-Q (File No. 001-33211) filed on May 5, 2011 and incorporated herein by reference.

10(b)(6)(p) Seventh Omnibus Amendment, dated as of January 31, 2011.

Previously filed as Exhibit 10(b)(2) to the Company's Quarterly Report on Form 10-Q (File No. 001-33211) filed on May 5, 2011 and incorporated herein by reference.

10(b)(6)(q) Eighth Omnibus Amendment, dated as of February 7, 2011.

Previously filed as Exhibit 10(b)(3) to the Company's Quarterly Report on Form 10-Q (File No. 001-33211) filed on February 16, 2011 and incorporated herein by reference.

10(b)(6)(r) Omnibus Amendment, dated as of February 14, 2011.

Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on May 21, 2007 and incorporated herein by reference.

10(b)(7)(a) Master Participation Agreement, dated as of May 4, 2007 by and among NewStar ArcTurus CLO I Ltd., Citigroup Financial Products Inc., and NewStar Asset Management LLC.

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
10(b)(7)(b)	Asset Acquisition Agreement, dated as of May 4, 2007 by and among NewStar ArcTurus CLO I Ltd. as Issuer, NewStar Asset Management LLC as Collateral Manager, the Company and Citigroup Financial Products Inc.	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on May 21, 2007 and incorporated herein by reference.
10(b)(8)(a)	Sale and Servicing Agreement, dated as of June 5, 2007, by and among NewStar Commercial Loan Trust 2007-1, as Issuer, NewStar Commercial Loan LLC 2007-1, as Trust Depositor, the Company, as Originator and Servicer, U.S. Bank N.A., as Trustee, Lyon Financial Services, Inc., as Backup Servicer and Wilmington Trust Company as Owner Trustee.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on June 7, 2007 and incorporated herein by reference.
10(b)(8)(b)	Commercial Loan Sale Agreement, dated as of June 5, 2007, by and between the Company, as Originator and NewStar Commercial Loan LLC 2007-1 as Trust Depositor.	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on June 7, 2007 and incorporated herein by reference.
10(b)(8)(c)	Note Purchase Agreements, dated as of June 5, 2007, by NewStar Commercial Loan Trust 2007-1.	Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on June 7, 2007 and incorporated herein by reference.
10(b)(8)(d)	Class A-2 Note Purchase Agreement, dated as of June 5, 2007, among NewStar Commercial Loan Trust 2007-1, as Issuer, U.S. Bank N.A., as Class A-2 Agent and the Class A-2 Holders party thereto.	Previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on June 7, 2007 and incorporated herein by reference.
10(b)(9)(a)	Loan and Servicing Agreement dated as of November 7, 2007 by and among NewStar DB Term Funding LLC, as Borrower, the Company, as Originator and Servicer, Deutsche Bank AG, New York Branch, as the Administrative Agent, U.S. Bank National Association, as Trustee, Lyon Financial Services, Inc. as Backup Servicer, and each of the conduit lenders, each of the institutional lenders and each of the lender agents, from time to time party thereto.	Previously filed as Exhibit 10(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33211) filed on March 10, 2008 and incorporated herein by reference.
10(b)(9)(b)	First Amendment to the Loan and Servicing Agreement, dated as of May 6, 2008.	Previously filed as Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 001-33211) filed on August 6, 2008 and incorporated herein by reference.

Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

10(b)(9)(c)	Omnibus Amendment to the Loan and Servicing Agreement, dated as of January 15, 2009.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on January 22, 2009 and incorporated herein by reference.
10(b)(10)(a)	Revolving Note dated January 5, 2010, executed by the Company in favor of Fortress Credit Corp.	Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on January 7, 2010 and incorporated herein by reference.
10(b)(10)(b)	Note Agreement dated as of January 5, 2010, by and among the Company, Fortress Credit Corp., as Administrative Agent and the holders from time to time party thereto.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on January 7, 2010 and incorporated herein by reference.
10(b)(10)(c)	Amendment to Note Agreement dated as of April 6, 2010 among the Company, Fortress Credit Corp., as administrative agent for the holders from time to time party thereto.	Previously filed as Exhibit 10(a)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 001-33211) filed on May 6, 2010 and incorporated herein by reference.

---

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
10(b)(10)(d)	Amended and Restated Note Agreement, dated as of August 31, 2010 by and among the Company, the holders from time to time party thereto, and Fortress Credit Corp., as administrative agent.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on September 7, 2010 and incorporated herein by reference.
10(b)(10)(e)	Subsidiary Guaranty dated as of January 5, 2010, by NewStar California, LLC, NewStar Asset Management, LLC and NewStar Loan Funding, LLC in favor of Fortress Credit Corp. in its capacity as Administrative Agent.	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on January 7, 2010 and incorporated herein by reference.
10(b)(10)(f)	Joinder Agreement dated as of March 31, 2010 to the Subsidiary Guaranty dated January 5, 2010 by Alameda NS Four Holding, LLC.	Previously filed as Exhibit 10(b)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 001-33211) filed on May 6, 2010 and incorporated herein by reference.
10(b)(10)(g)	Pledge and Security Agreement dated as of January 5, 2010, by and between the Company, NewStar California, LLC, NewStar Asset Management, LLC NewStar Loan Funding, LLC and Fortress Credit Corp. in its capacity as Administrative Agent.	Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on January 7, 2010 and incorporated herein by reference.
10(b)(10)(h)	Supplement No. 1 dated as of March 31, 2010 to the Pledge and Security Agreement, among the Company, its subsidiary guarantors and Fortress Credit Corp.	Previously filed as Exhibit 10(c)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 001-33211) filed on May 6, 2010 and incorporated herein by reference.
10(b)(10)(i)	First Amendment to Amended and Restated Note Agreement, dated as of January 27, 2012, by and among the Company, the holders from time to time party thereto, and Fortress Credit Corp.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on January 31, 2012 and incorporated herein by reference.
10(b)(10)(j)	Consent and Second Amendment to Amended and Restated Note Agreement, dated as of November 5, 2012, by and among the Company, the holders from time to time party thereto, and Fortress Credit Corp.	Previously filed as Exhibit 10(b)(11)(j) to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-33211) filed on March 1, 2013 and incorporated herein by reference.
10(b)(10)(k)	Third Amendment to Amended and Restated Note Agreement, dated as of December 4, 2012, by and among the Company, the holders from time to time party thereto, and Fortress Credit Corp.	Previously filed as Exhibit 10(b)(11)(k) to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-33211) filed on March 1, 2013 and incorporated herein by reference.



Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

10(b)(10)(l)	Second Amended and Restated Note Agreement, dated as of May 13, 2013, by and among the Company, the holders from time to time party thereto, and Fortress Credit Corp.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on May 16, 2013 and incorporated herein by reference.
10(b)(10)(m)	First Amendment to the Second Amended and Restated Note Agreement, dated as of June 3, 2013, by and among the Company, the holders from time to time party thereto, and Fortress Credit Corp.	Previously filed as Exhibit 10(b)(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (File No. 001-33211) filed on August 7, 2013 and incorporated herein by reference.
10(b)(10)(n)	Joinder Agreement to Second Amended and Restated Note Agreement, dated as of March 6, 2014, by and among the Company, the new holders party thereto, and Fortress Credit Corp.	Previously filed as Exhibit 10(b)(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 (File No. 001-33211) filed on May 8, 2014 and incorporated herein by reference.
10(b)(10)(o)	Second Amendment to Second Amended and Restated Note Agreement, dated March 31, 2014, by and among the Company, the holders from time to time party thereto, and Fortress Credit Corp.	Previously filed as Exhibit 10(b)(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 (File No. 001-33211) filed on May 8, 2014 and incorporated herein by reference.

---

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
10(b)(10)(p)	Third Amendment and Joinder to Second Amended and Restated Note Agreement, dated as of May 15, 2014, by and among the Company, AP MA Funding LLC, the holders from time to time party thereto, and Fortress Credit Corp.	Previously filed as Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 001-33211) filed on August 6, 2014, 2014 and incorporated herein by reference.
10(b)(11)(a)	Sale and Servicing Agreement dated as of January 7, 2010, by and among NewStar Commercial Loan Trust 2009-1, as Issuer, NewStar Commercial Loan LLC 2009-1, as Trust Depositor, the Company, as the Originator and the Servicer, U.S. Bank, National Association, as the Trustee, and Wilmington Trust Company, as Owner Trustee.	Previously filed as Exhibit 10(b)(12)(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33211) filed on March 8, 2010 and incorporated herein by reference.
10(b)(11)(b)	Commercial Loan Sale Agreement dated as of January 7, 2010, by and between the Company, as the Originator and NewStar Commercial Loan LLC 2009-1, as Trust Depositor.	Previously filed as Exhibit 10(b)(12)(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33211) filed on March 8, 2010 and incorporated herein by reference.
10(b)(11)(c)	Note Purchase Agreement dated as of January 7, 2010, by NewStar Commercial Loan Trust 2009-1.	Previously filed as Exhibit 10(b)(12)(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33211) filed on March 8, 2010 and incorporated herein by reference.
10(b)(12)(a)	Second Amended and Restated Revolving Credit Agreement among the Company, Core Business Credit, LLC, Core Business Funding LLC, Autobahn Funding Company LLC, DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main and U.S. Bank National Association, dated as of November 1, 2010.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on November 2, 2010 and incorporated herein by reference.
10(b)(12)(b)	Third Amended and Restated Revolving Credit Agreement, dated as of December 7, 2012, by and among NewStar Business Credit, LLC, NewStar Financial, Inc., NewStar Business Funding 2010-1, LLC, Autobahn Funding Company LLC, DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt AM Main, and U.S. Bank National Association.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on December 10, 2012 and incorporated herein by reference.
10(b)(12)(c)	Performance Guaranty made by the Company in favor of DZ Bank AG Deutsche	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211)

Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

	Zentral-Genossenschaftsbank Frankfurt am Main, dated as of November 1, 2010.	filed on November 2, 2010 and incorporated herein by reference.
10(b)(12)(d)	Amended and Restated Purchase and Contribution Agreement between Core Business Credit, LLC and Core Business Funding, LLC, dated as of November 1, 2010.	Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on November 2, 2010 and incorporated herein by reference.
10(b)(13)(a)	Note Purchase Agreement, dated as of January 25, 2011, by and among the Company, NewStar Equipment Finance I, LLC, Wells Fargo Bank, National Association, and Wells Fargo Securities, LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on January 26, 2011 and incorporated herein by reference.
10(b)(13)(b)	Purchase and Sale Agreement, dated as of January 25, 2011, between NewStar Equipment Finance I, LLC and the Company.	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on January 26, 2011 and incorporated herein by reference.
10(b)(14)(a)	Master Repurchase Agreement, dated as of June 7, 2011, by and among the Company, Macquarie Bank Limited and NewStar CRE Finance I LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on June 7, 2011 and incorporated herein by reference.

---

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
10(b)(14)(b)	Guaranty Agreement, dated as of June 7, 2011, by the Company in favor of Macquarie Bank Limited.	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on June 7, 2011 and incorporated herein by reference.
10(b)(14)(c)	Amended and Restated Master Repurchase Agreement, dated as of October 2, 2013, by and among the Company, Macquarie Bank Limited and NewStar CRE Finance I LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on October 4, 2013 and incorporated herein by reference.
10(b)(15)(a)	Note Purchase Agreement, dated as of November 16, 2012, by and among NewStar Commercial Lease Funding I, LLC, NewStar Equipment Finance I, LLC, Wells Fargo Bank, National Association, and Wells Fargo Securities, LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on November 16, 2012 and incorporated herein by reference.
10(b)(15)(b)	First Amendment to Note Purchase Agreement, dated as of September 26, 2013, by and among NewStar Commercial Lease Funding I, LLC, NewStar Equipment Finance I, LLC, Wells Fargo Bank, National Association, and Wells Fargo Securities, LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on September 27, 2013 and incorporated herein by reference.
10(b)(15)(c)	Second Amendment to Note Purchase Agreement, dated as of December 12, 2013, by and among NewStar Commercial Lease Funding I, LLC, NewStar Equipment Finance I, LLC, Wells Fargo Bank, National Association, and Wells Fargo Securities, LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on December 13, 2013 and incorporated herein by reference.
10(b)(15)(d)	Third Amendment to Note Purchase Agreement, dated January 30, 2014, by and among NewStar Commercial Lease Funding I, LLC, NewStar Equipment Finance I, LLC, Wells Fargo Bank, National Association, and Wells Fargo Securities, LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on February 3, 2014 and incorporated herein by reference.
10(b)(15)(e)	Fourth Amendment to Note Purchase Agreement, dated as of February 28, 2014, by and among NewStar Commercial Lease Funding I, LLC, NewStar Equipment Finance I, LLC, Wells Fargo Bank, National Association, and Wells Fargo Securities, LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on March 5, 2014 and incorporated herein by reference.
10(b)(15)(f)		

Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

Fifth Amendment to Note Purchase Agreement, dated as of May 30, 2014, by and among NewStar Commercial Lease Funding I, LLC, NewStar Equipment Finance I, LLC, Wells Fargo Bank, National Association, and Wells Fargo Securities, LLC.

Previously filed as Exhibit 10(b)(15)(f) to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-33211) filed on March 4, 2015.

10(b)(15)(g) Sixth Amendment to Note Purchase Agreement, dated as of August 27, 2014, by and among NewStar Commercial Lease Funding I, LLC, NewStar Equipment Finance I, LLC, Wells Fargo Bank, National Association, and Wells Fargo Securities, LLC.

Previously filed as Exhibit 10(b)(15)(f) to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-33211) filed on March 4, 2015.

10(b)(16)(a) Revolving Credit and Security Agreement, dated as of February 16, 2012, by and among NewStar Commercial Funding 2012-1 LLC, the lenders from time to time party hereto, Natixis, New York Branch, and U.S. Bank National Association.

Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on February 21, 2012 and incorporated herein by reference.

---

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
10(b)(16)(b)	First Amendment to the Revolving Credit and Security Agreement, dated as of July 26, 2012, by and among NewStar Commercial Funding 2012-1 LLC, Versailles Assets LLC, Natixis, New York Branch, and the Company.	Previously filed as Exhibit 10(b)(16)(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-33211) filed on March 13, 2014 and incorporated herein by reference.
10(b)(16)(c)	Second Amendment to the Revolving Credit and Security Agreement, dated as of May 17, 2013, by and among NewStar Commercial Funding 2012-1 LLC, Versailles Assets LLC, Natixis, New York Branch, and the Company.	Previously filed as Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (File No. 001-33211) filed on August 7, 2013 and incorporated herein by reference.
10(b)(16)(d)	Third Amendment to the Revolving Credit and Security Agreement, dated as of August 20, 2013, by and among NewStar Commercial Funding 2012-1 LLC, Versailles Assets LLC, Natixis, New York Branch, and the Company.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on August 21, 2013 and incorporated herein by reference.
10(b)(17)(a)	Loan and Security Agreement, dated as of December 7, 2012, by and among NewStar Business Funding 2012-1, LLC, NewStar Business Credit, LLC, Wells Fargo Bank, National Association, and U.S. Bank National Association.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on December 10, 2012 and incorporated herein by reference.
10(b)(17)(b)	Joinder Agreement and First Amendment by and between NewStar Business Funding 2012-1, LLC, as Borrower, Wells Fargo Bank, National Association, and RBS Citizens Business Capital, dated as of April 1, 2014.	Previously filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 001-33211) filed on August 6, 2014 and incorporated herein by reference.
10(b)(17)(c)	Second Amendment to Loan and Security Agreement, dated as of May 5, 2014, by and among NewStar Business Funding 2012-1, LLC, NewStar Business Credit, LLC, Wells Fargo Bank, National Association, RBS Citizens Business Capital, and U.S. Bank National Association.	Previously filed as Exhibit 10(b)(17)(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-33211) filed on March 4, 2015.
10(b)(17)(d)	Third Amendment to Loan and Security Agreement dated as of December 8, 2014, by and among NewStar Business Funding 2012-1, LLC, NewStar Business Credit, LLC, Wells Fargo Bank, National Association, Citizens Business Capital, and U.S. Bank National Association.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on December 10, 2014 and incorporated herein by reference.
10(b)(18)(a)	Master Loan Sale Agreement, dated as of December 18, 2012, by and between the Company,	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211)

Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

	as Transferor, NewStar Commercial Loan Depositor 2012-2 LLC, as Depositor and NewStar Commercial Loan Funding 2012-2 LLC, as Issuer.	filed on December 19, 2012 and incorporated herein by reference.
10(b)(18)(b)	Collateral Management Agreement, dated as of December 18, 2012, by and between the Company, as Collateral Manager, and NewStar Commercial Loan Funding 2012-2 LLC, as Issuer.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on December 19, 2012 and incorporated herein by reference.
10(b)(19)	Loan and Security Agreement, dated as of April 4, 2013, by and among the Company, NewStar Arlington Funding LLC, Wells Fargo Bank, National Association, Wells Fargo Securities, LLC, and U.S. Bank National Association.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on April 8, 2013 and incorporated herein by reference.
10(c)(1)	Master Loan Sale Agreement, dated as of September 11, 2013, by and among the Company, NewStar Commercial Loan Depositor 2013-1 LLC, and NewStar Commercial Loan Funding 2013-1 LLC.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on September 13, 2013 and incorporated herein by reference.

---

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
10(c)(2)	Collateral Management Agreement, dated as of September 11, 2013, by and among the Company and NewStar Commercial Loan Funding 2013-1 LLC.	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on September 13, 2013 and incorporated herein by reference.
10(d)(1)	Master Loan Sale Agreement by and between the Company, as Transferor, NewStar Commercial Loan Depositor 2014-1 LLC, as Depositor and NewStar Commercial Loan Funding 2014-1 LLC as Issuer, dated as of April 17, 2014.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on April 23, 2014 and incorporated herein by reference.
10(d)(2)	Collateral Management Agreement by and between the Company, as Collateral Manager, and NewStar Commercial Loan Funding 2014-1 LLC, as Issuer, dated as of April 17, 2014.	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on April 23, 2014 and incorporated herein by reference.
10(e)	Management Agreement, dated as of August 3, 2005, by and between NewStar Credit Opportunities Fund, Ltd. and the Company, as Manager.†	Previously filed as Exhibit 10.14.1 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on October 27, 2006 and incorporated herein by reference.
10(f)(1)(a)	Securities Purchase Agreement dated November 12, 2007 by and among the Company and the Investors named therein.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on November 19, 2007 and incorporated herein by reference.
10(f)(1)(b)	Registration Rights Agreement dated November 12, 2007 by and among the Company and the Purchasers named therein.	Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on November 19, 2007 and incorporated herein by reference.
10(f)(1)(c)	Nomination Rights Letter dated November 12, 2007 between the Company and Union Square Partners, L.P.	Previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on November 19, 2007 and incorporated herein by reference.
10(f)(1)(d)	Management Rights Letter dated November 12, 2007 between the Company and Union Square Partners, L.P.	Previously filed as Exhibit 10.5 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on November 19, 2007 and incorporated herein by reference.
10(g)(1)	Form of 2013 Restated Tier I Employment Agreement dated as of October 9, 2013, between the Company, and each of the Chief Executive Officer, Chief Financial Officer and Chief Investment Officer.*	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on October 11, 2013 and incorporated herein by reference.



Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

10(g)(2)	Form of 2013 Restated Tier II Employment Agreement dated as of October 9, 2013, between the Company, and each of its executive officers (excluding the Chief Executive Officer, Chief Financial Officer, Chief Investment Officer and Chief Credit Officer).*	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on October 11, 2013 and incorporated herein by reference.
10(g)(3)	Form of Restated Tier II Employment Agreement dated as of December 11, 2009, between the Company and its Chief Credit Officer.*	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on December 15, 2009 and incorporated herein by reference.
10(h)	Amended and Restated 2006 Incentive Plan, as amended.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on May 14, 2010 and incorporated herein by reference
10(i)	Form of Restricted Stock Award Agreement under the 2006 Incentive Plan.	Previously filed as Exhibit 10.17.1 to Amendment No. 6 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on December 11, 2006 and incorporated herein by reference.

---

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
10(j)	Form of Stock Option Award Agreement under the 2006 Incentive Plan.	Previously filed as Exhibit 10.18.1 to Amendment No. 6 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on December 11, 2006 and incorporated herein by reference.
10(k)(1)	Amended and Restated Restricted Stock Agreement, dated as of December 13, 2006, between the Company and Timothy J. Conway.*	Previously filed as Exhibit 10(h)(1) to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-33211) filed on April 2, 2007 and incorporated herein by reference.
10(k)(2)	Amended and Restated Restricted Stock Agreement, dated as of December 13, 2006, between the Company and Peter A. Schmidt-Fellner.*	Previously filed as Exhibit 10(h)(2) to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-33211) filed on April 2, 2007 and incorporated herein by reference.
10(k)(3)	Amended and Restated Restricted Stock Agreement, dated as of December 13, 2006, between the Company and John Kirby Bray.*	Previously filed as Exhibit 10(h)(3) to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-33211) filed on April 2, 2007 and incorporated herein by reference.
10(k)(4)	Amended and Restated Restricted Stock Agreement, dated as of December 13, 2006, between the Company and David R. Dobies.*	Previously filed as Exhibit 10(h)(5) to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-33211) filed on April 2, 2007 and incorporated herein by reference.
10(l)	Lock Up Agreement, dated March 18, 2009 by and among the Company and the management stockholders named therein.*	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on March 20, 2009 and incorporated herein by reference.
10(m)	Form of Restricted Stock Agreement.	Previously filed as Exhibit 10.21.1 to Amendment No. 6 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on December 11, 2006 and incorporated herein by reference.
10(n)	Form of Management Restricted Stock Agreement.	Previously filed as Exhibit 10.20.1 to Amendment No. 6 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on December 11, 2006 and incorporated herein by reference.

10(o)	Form of Director Restricted Stock Agreement.	Previously filed as Exhibit 10.22.1 to Amendment No. 6 to the Company's Registration Statement on Form S-1 (File No. 333-137513) filed on December 11, 2006 and incorporated herein by reference.
10(p)	Separation Agreement and General Release effective as of June 4, 2013 by and between the Company and David R. Dobies.	Previously filed as Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (File No. 001-33211) filed on August 7, 2013 and incorporated herein by reference.
10(q)	Transition Agreement and General Release by and between the Company and Robert T. Clemmens dated July 1, 2013.	Previously filed as Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 (File No. 001-33211) filed on November 6, 2013 and incorporated herein by reference.
10(r)(1)	Investment Agreement among the Company and the Investors named therein, dated November 4, 2014 (including forms of Note and Warrant).	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on November 10, 2014 and incorporated herein by reference.

---

Table of Contents

EXHIBIT NUMBER	DESCRIPTION	METHOD OF FILING
10(r)(2)	Standstill Agreement between the Company and GSO Capital Partners LP, dated November 4, 2014.	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on November 10, 2014 and incorporated herein by reference.
10(r)(3)	Form of Voting Agreement.	Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on November 10, 2014 and incorporated herein by reference.
10(r)(4)	Amendment No. 1, dated as of December 4, 2014, to the Investment Agreement among the Company and the Investors named therein, dated November 4, 2014 (including Form of Warrant).	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on December 8, 2014 and incorporated herein by reference.
10(s)(1)	ISDA 2002 Master Agreement, together with the Schedule thereto and Credit Support Annex to such Schedule, each dated as of December 4, 2014, by and between NewStar TRS I LLC and Citibank, N.A.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on December 9, 2014 and incorporated herein by reference.
10(s)(2)	Confirmation Letter Agreement, dated as of December 4, 2014, by and between NewStar TRS I LLC and Citibank, N.A.	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on December 9, 2014 and incorporated herein by reference.
10(s)(3)	Confirmation Letter Agreement dated as of December 4, 2014 (amended and restated as of December 15, 2014), by and between NewStar TRS I LLC and Citibank, N.A.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33211) filed on December 18, 2014 and incorporated herein by reference.
	Transition Agreement and General Release by and between the Company and Robert T. Clemmens dated July 1, 2013.	Previously filed as Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 (File No. 001-33211) filed on November 6, 2013 and incorporated herein by reference.
21	Subsidiaries of the Company.	Previously filed as Exhibit 21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-33211) filed on March 4, 2015.
23	Consent of KPMG LLP.	Filed herewith.
31(a)	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.

Edgar Filing: NewStar Financial, Inc. - Form 10-K/A

31(b)	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32	Certifications pursuant to 18 U.S.C. Section 1350.	Filed herewith.
101.INS	XBRL Instance Document	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.

Pursuant to a request for confidential treatment, portions of the exhibit have been redacted from the publicly filed document and have been furnished separately to the SEC as required by Rule 406 under the Securities Act.

---

Table of Contents

\*Indicates management contracts and compensatory arrangements.