NewStar Financial, Inc.
Form S-4
August 21, 2015
Table of Contents

As filed with the Securities and Exchange Commission on August 21, 2015

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

NewStar Financial, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**6172**	**54-2157878**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code)*	*(I.R.S. Employer Identification No.)*

500 Boylston Street, Suite 1250

Boston, MA

(617) 848-2500

(Address, Including ZIP Code, and Telephone Number,

Including Area Code, of Registrant s Principal Executive Offices)

John K. Bray

Chief Financial Officer

500 Boylston Street, Suite 1600

Boston, Massachusetts 02116

(617) 848-2500

(Name, Address, Including ZIP Code and Telephone Number,

Including Area Code, of Agent for Service)

with a copy to:

Stacie Aarestad, Esq.

Locke Lord LLP

111 Huntington Avenue

Boston, Massachusetts 02199-7613

(617) 239-0100

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) ¨

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) ¨

Table of Contents

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit(1)	Proposed maximum aggregate offering price(1)	Amount of registration fee(1)
7.25% Senior Notes due 2020	$300,000,000	100%	$300,000,000	$34,860.00

(1) This registration fee has been calculated pursuant to Rule 457(f)(2) under the Securities Act of 1933, as amended.

The Registrant hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said section 8(a), may determine.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion dated August 21, 2015

Prospectus

NewStar Financial, Inc.

Offer to exchange

Up to $300,000,000

outstanding 7.25% Senior Notes due 2020 issued on April 22, 2015, for a Like Principal Amount of 7.25% Senior Notes due 2020, which have been registered under the Securities Act of 1933

The exchange offer

- We will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of exchange notes that are freely tradable.

- You may withdraw tenders of outstanding notes at any time prior to the expiration date of the exchange offer.

- The exchange offer expires at 12:00 midnight, New York City time, at the end of   , 2015, unless we extend the offer. We currently do not intend to extend the expiration date.

- The exchange of outstanding notes for exchange notes in the exchange offer generally will not be a taxable event to a holder for United States federal income tax purposes.

- We will not receive any proceeds from the exchange offer.

- The exchange offer is subject to customary conditions, including the condition that the exchange offer not violate applicable law or any applicable interpretation of the staff of the Securities and Exchange Commission.

The exchange notes

The exchange notes are being offered in order to satisfy certain of our obligations under the registration rights agreement entered into in connection with the private offering of the outstanding notes.

The terms of the exchange notes to be issued in the exchange offer are substantially identical to the terms of the outstanding notes, except that the exchange notes will be freely tradable.

The exchange notes will be our senior unsecured obligations and will rank equally in right of payment to all of our existing and future senior debt and senior in right of payment to all of our existing and future subordinated debt. The exchange notes will be effectively subordinated to any of our existing and future secured debt to the extent of the value of the assets securing such debt. In addition, the obligations to make payments of principal and interest on the notes will be structurally subordinated to all obligations of our subsidiaries. The exchange notes initially will not be guaranteed by any of our subsidiaries.

We do not intend to apply for listing of the exchange notes on any securities exchange or to arrange for them to be quoted on any quotation system.

Broker-dealers

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. The letter of transmittal states that by so acknowledging and delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act of 1933 (the Securities Act).

This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for outstanding notes where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities.

We have agreed that, for a period of 180 days after consummation of the exchange offer, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

See Risk Factors beginning on page 20 for a discussion of certain risks that you should consider before participating in the exchange offer.

Neither the Securities and Exchange Commission (the SEC or the Commission) nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2015

Table of Contents

Table of contents

	Page
Incorporation of Certain Information by Reference	ii
Where You Can Find More Information	iii
Industry and Market Data	iv
Statements Regarding Forward-Looking Information	iv
Prospectus Summary	1
Risk Factors	20
Use of Proceeds	37
Capitalization	38
Selected Historical Consolidated Financial and Other Data	39
Management s Discussion and Analysis of Financial Condition and Results of Operations	43
Business	69
Management	83
The Exchange Offer	86
Description of Material Indebtedness	96
Description of Exchange Notes	105
Registration Rights Agreement	162
Book-Entry Settlement and Clearance	163
Material United States Federal Income Tax Considerations	165
Plan of Distribution	172
Legal Matters	173
Independent Registered Public Accounting Firm	173
Exchange Agent	173
Information Agent	173

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You should not rely on any unauthorized information or representations. This prospectus is an offer to exchange only the notes offered by this prospectus, and only under the circumstances and in those jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

NewStar Financial, Inc. is a Delaware corporation. Our principal executive offices are located at 500 Boylston Street, Suite 1250, Boston, MA and our telephone number at that address is (617) 848-2500. Our web site is located at http://www.newstarfinancialinc.com. The information on or linked to from the web site is not part of this prospectus.

In this prospectus, except as the context otherwise requires or as otherwise noted, NewStar, the Company, we, us and our refer to NewStar Financial, Inc. and its subsidiaries, except with respect to the notes, in which case such terms refer only to NewStar Financial, Inc.

Table of Contents

Incorporation of certain information by reference

The SEC allows us to incorporate by reference the information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information that we incorporate by reference is considered to be part of this prospectus.

Any reports filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), with the SEC after the filing of the initial registration statement to which this prospectus is a part of and prior to the effectiveness of the registration statement and after the date of this prospectus and prior to the termination of the effectiveness of this prospectus will automatically update and, where applicable, supersede any information contained in this prospectus or incorporated by reference into this prospectus. This means that you must look at all of the SEC filings that we incorporate by reference to determine if any of the statements in this prospectus or in any documents previously incorporated by reference have been modified or superseded. We incorporate by reference into this prospectus the following documents filed with the SEC (other than, in each case, documents or information deemed furnished and not filed in accordance with the SEC rules, including pursuant to Item 2.02 or Item 7.01 of Form 8-K, and no such information shall be deemed specifically incorporated by reference hereby or in any accompanying prospectus supplement):

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on March 4, 2015 and amended on March 26, 2015;

- our Quarterly Reports on Form 10-Q for the quarter ended March 31, 2015, filed with the SEC on May 7, 2015 and amended on May 15, 2015, and for the quarter ended June 30, 2015, filed with the SEC on August 6, 2015;

- the portions of our Definitive Proxy Statement on Schedule 14A that are deemed filed with the SEC under the Exchange Act, filed on April 17, 2015; and

- our Current Reports on Form 8-K filed with the SEC on January 16, 2015, January 23, 2015, March 9, 2015, March 11, 2015, March 24, 2015, March 25, 2015, April 14, 2015, April 17, 2015, April 28, 2015, May 11, 2015, May 15, 2015, August 7, 2015, and August 13, 2015.

You may request a copy of these filings at no cost, by writing or calling us at the following address or number: 500 Boylston Street, Suite 1250, Boston, MA, Tel: (617) 848-2500, Attention: Chief Financial Officer.

Table of Contents

Where you can find more information

We have filed with the Securities and Exchange Commission a registration statement on Form S-4 under the Securities Act , with respect to the exchange notes offered hereby. As permitted by the rules and regulations of the Commission, this prospectus incorporates important information about us that is not included in or delivered with this prospectus but that is included in the registration statement. For further information with respect to us and the exchange notes offered hereby, we refer you to the registration statement, including the exhibits and schedules filed therewith.

We file reports and other information with the Commission. Such reports and other information filed by us may be read and copied at the Commission s public reference room at 100 F Street, NE, Washington, D.C. 20549. For further information about the public reference room, call 1-800-SEC-0330. The Commission also maintains a website on the Internet that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission, and such website is located at http://www.sec.gov.

To obtain timely delivery of any of these documents, you must request them no later than five business days before the date you must make your investment decision. Accordingly, if you would like to request any documents, you should do so no later than , 2015 in order to receive them before the expiration of the exchange offer.

Pursuant to the indenture under which the exchange notes will be issued (and the outstanding notes were issued), we have agreed that, whether or not we are required to do so by the rules and regulations of the Commission, for so long as any of the notes remain outstanding, we will furnish to the holders of the notes copies of all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Forms 10-Q (within forty-five days after the end of each of the first three fiscal quarters of each year) and 10-K (within ninety days after the end of each fiscal year) if we were required to file such forms and all current reports that would be required to be filed with the Commission on Form 8-K (within the time periods specified in the Commission s rules and regulations) if we were required to file such reports. In addition, following the consummation of this exchange offer, whether or not required by the rules and regulations of the Commission, we will file a copy of all such information and reports with the Commission for public availability within the time periods specified above (unless the Commission will not accept such a filing) and make such information available to securities analysts and prospective investors upon request. See Description of Exchange Notes Material Covenants Reports.

Table of Contents

Industry and market data

We obtained the industry and market data included in this prospectus from periodic industry publications, third-party studies and surveys, filings of public companies in our industry and internal company surveys. These sources include government and industry sources. Industry publications and surveys generally state that the information contained therein has been obtained from sources believed to be reliable. Although we believe the industry and market data to be reliable as of the date of this prospectus, this information could prove to be inaccurate. Industry and market data could be wrong because of the method by which sources obtained their data and because information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties. In addition, we do not know all of the assumptions regarding general economic conditions or growth that were used in preparing the forecasts from the sources relied upon or cited herein.

Statements regarding forward-looking information

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act . These are statements that relate to future periods and include statements regarding our anticipated performance.

Generally, the words anticipate, estimate, expect, project, plan, intend, believe, may, should, can have, likely and other wo similar meaning identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements or industry results, to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other important factors include, among others: risk related to our funding and leverage, including our ability to obtain external financing and complete additional term debt securitizations in the future; our lenders and noteholders continuing to use us as a service provider; the early termination of our term debt securitizations; 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, potential changes in previously issued ratings or rating agency methodology; the concentration of our funding sources; risks related to our operations and financial results, including fluctuation in our net interest income, the success of our origination activities, and credit losses and defaults; changes in the regulatory landscape; and risks related to our loan portfolio and lending activities, including our inability to recover amounts owed to us by our borrowers.

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. Although we believe that the statements contained in this prospectus are based upon reasonable assumptions, we can give no assurance that our goals will be achieved. You should understand that these statements are not guarantees of performance or results. Given these uncertainties, prospective investors are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this prospectus. We assume no obligation to update or revise them or provide reasons why actual results may differ. Many factors could cause or contribute to results that differ, including the factors described below under the caption Risk Factors. You should carefully read this entire prospectus and the documents incorporated by reference in this document, particularly the section entitled Risk Factors, before you make an investment decision.

Table of Contents

Prospectus summary

This summary highlights the information contained elsewhere in this prospectus. Because this is only a summary, it does not contain all of the information that may be important to you. For a more complete understanding of this exchange offer, we encourage you to read this entire prospectus. You should read the following summary together with the more detailed information and consolidated financial statements and the notes to those statements included in this prospectus. Unless otherwise indicated, financial information included in this prospectus is presented on an historical basis.

NewStarFinancial, Inc.

We are 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. We are also a registered investment adviser and provide asset management services to institutional investors through a series of managed credit funds that co-invest in certain types of loans that we originate. Through our specialized lending platforms, we provide 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.

We believe 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, which enables us to leverage common standards, systems, and industry and professional expertise across multiple businesses.

We direct our marketing and origination efforts to 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 focus on companies operating 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.

We typically provide financing commitments to companies in amounts that range in size from $10 million to $50 million. The size of our financing commitments depends on various factors, including the type of loan, the credit

Table of Contents

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.

We offer 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 we operate as a single segment, we derive revenues from lending activities and asset management services across 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 us with strategies to co-invest in loans originated by our Leveraged Finance lending group.

Our industry

We provide a range of financing options to mid-sized companies in the United States, targeting a segment of the private financial markets commonly referred to as the Middle Market. Although there are no universally accepted parameters that define the segment precisely, most definitions of the Middle Market include companies with revenues of $50 million to between $500 million and $1 billion and between $5 and $50 million of cash flow, as measured by earnings before interest, taxes, depreciation and amortization (EBITDA). This market segment is comprised primarily of private companies that are professionally managed and either family-owned or owned by professional private investors. Middle Market companies span most stages of development, from emerging growth companies to mature businesses that are community pillars and anchored to local and regional economies. Most have well-developed financial reporting capabilities and are audited by recognized, regional accounting firms. They invest in growth opportunities through acquisitions, product development, marketing capabilities, systems, business process development, research and development, and fixed assets similar to larger corporations. According to the U.S. Census, there were an estimated 40,000 firms

Table of Contents

in the U.S. with revenues between $50 million and $1 billion as of 2007. These firms employed approximately 25 million people and generated $6 trillion in annual sales revenue. As a result, the Middle Market represents a critical economic growth engine for the U.S. economy and an attractive target market for lenders positioned to meet their complex and varied financing needs.

Similar to those of larger corporations, the financing needs of Middle Market companies can be large and complex, requiring lenders with sophisticated capabilities to structure and arrange financing transactions. Small regional banks do not typically offer these capabilities, and the financing needs of Middle Market companies, while often large, may not be on a scale suitable for the public capital markets. As a result, Middle Market companies rely primarily on banks and finance companies to meet their working capital needs or provide financing for acquisitions and investment in fixed assets. They may also tap alternative sources of financing including private equity and mezzanine capital to fund acquisitions or other growth strategies.

Although the segment is large, Middle Market companies are not typically tracked by rating agencies and are too small to be considered investment grade. As a result, the Middle Market tends to be highly intermediated by banks and other capital providers that make unrated loans and manage portfolios of illiquid credit assets. Because these markets are less transparent than those for large public companies, the Middle Market is believed to function less efficiently and, as a result, we believe that Middle Market loans can have performance characteristics that are more favorable than other credit investment alternatives, including large corporate, broadly syndicated loans. This is reflected in Middle Market loans being typically priced at a premium to comparable large corporate loans and structured with lower leverage and more lender protections, including stronger covenant packages, higher amortization, excess cash flow recapture and more frequent financial reporting.

The competitive landscape for Middle Market lending is comprised primarily of finance companies, medium and large regional banks and business development companies (BDCs). The financial crisis and ensuing economic contraction reshaped the competitive landscape by reducing the number of competitors focused on the middle market. Many finance companies were forced to consolidate or failed due to poor credit management or unsustainable funding strategies. Consolidation among regional banks and changes in bank regulations after the financial crisis have left key segments of the Middle Market under-served by banks. Certain Middle Market segments are difficult for regional banks to serve outside of their geographic footprints without significant investment in the development of a national platform due to their large and fragmented nature and credit risk characteristics. Banks are also increasingly constrained by a changing regulatory environment that discourages their participation in these markets through the enforcement of inter-agency lending guidelines that limit their ability to compete effectively. While BDCs are important players in sponsored lending, they generally focus on higher yielding lending opportunities, such as mezzanine or second lien debt in sponsored transactions that is subordinate to first lien senior secured debt provided by lenders such as NewStar.

Although pricing is an important consideration for companies in selecting among options offered by prospective lenders, we believe other factors can be important to their decisions. Based on our experience, the basis of competition also includes: responsiveness, relationship and trust, financial flexibility of a transaction structure, and certainty of execution, as well as a lender s reputation or demonstrated track record for working constructively through challenges with companies and their owners.

Our loan portfolio

Our loan portfolio is comprised of loans, leases and other debt products. As of June 30, 2015, the loan portfolio totaled approximately $3.7 billion of funding commitments, representing $3.2 billion of balances outstanding

Table of Contents

and $0.4 billion of funds committed but undrawn as of June 30, 2015. Consistent with our strategy to focus on senior secured lending, first lien senior debt represented 95.2% of the portfolio.

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

	As of June 30,				As of December 31,					
	2015		2014		2014		2013		2012	
									($ in thousands)	
Composition by Lending Group										
Leveraged Finance	$ 2,751,893	85.3%	$ 1,766,238	82.0%	$ 2,136,744	81.4%	$ 2,005,325	84.8%	$ 1,499,833	80.0%
Business Credit	239,187	7.4	197,776	9.2	286,918	10.9	182,633	7.7	177,587	9.5
Real Estate	94,009	2.9	109,781	5.1	105,394	4.0	123,029	5.2	177,478	9.5
Equipment Finance	139,970	4.4	80,821	3.7	96,666	3.7	54,352	2.3	19,365	1.0
Total	$ 3,225,059	100.0%	$ 2,154,616	100.0%	$ 2,625,722	100.0%	$ 2,365,339	100.0%	$ 1,874,263	100.0%

	As of June 30,				As of December 31,					
	2015		2014		2014		2013		2012	
									($ in thousands)	
Composition Type										
Senior secured cash flow	$ 2,560,569	79.4%	$ 1,718,706	79.8%	$ 2,044,126	77.9%	$ 1,948,965	82.4%	$ 1,448,182	77.3%
Senior secured asset-based	415,675	12.9	280,899	13.0	385,882	14.7	239,314	10.1	201,219	10.7
First mortgage	94,009	2.9	109,781	5.1	105,394	4.0	123,029	5.2	177,462	9.5
Other	154,806	4.8	45,230	2.1	90,320	3.4	54,031	2.3	47,400	2.5
Total	$ 3,225,059	100.0%	$ 2,154,616	100.0%	$ 2,625,722	100.0%	$ 2,365,339	100.0%	$ 1,874,263	100.0%

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.

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.

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.

Table of Contents

Other

As of June 30, 2015, our other loans and debt products are categorized as:

Senior subordinated asset-based: $60.8 million of senior subordinated asset-based, which are equal as to collateral and subordinate as to right of payment to other senior lenders;

Second lien: $67.6 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

Mezzanine or subordinated: $26.4 million of mezzanine or subordinated, which are subordinated as to rights to collateral and right of payment to senior lenders.

Borrowings and liquidity

As of June 30, 2015 and 2014, we had outstanding borrowings totaling $2.8 billion and $1.8 billion, respectively. Borrowings under our various credit facilities and term debt securitizations are used to partially fund our positions in our loan portfolio.

On April 22, 2015, we issued $300 million in aggregate principal amount of our 7.25% Senior Notes due April 22, 2020, which we also refer to as the notes, in a private placement.

As of June 30, 2015, our funding sources, maximum debt amounts, amounts outstanding and unused debt capacity, subject to certain covenants and conditions, are summarized below:

	Maximum debt amounts	Amounts outstanding	Unused debt capacity	Maturity
				($ in thousands)
Funding Source				
7.25% Senior Notes due 2020(1)	$ 300,000	$ 300,000	$	2020
Corporate subordinated notes(2)	300,000	200,000	100,000	2024
Credit facilities	1,015,000	634,923	380,077	2015 2018
Term debt securitizations(3)	1,549,954	1,543,955	5,999	2022 2027
Repurchase agreements	99,210	99,210		2017
Total	$ 3,264,164	$ 2,778,088	$ 486,076	

(1) Reflects aggregate principal amount issued on April 22, 2015, of which all is outstanding.

(2) Reflects gross amount outstanding. Net of debt discount, $138.2 million outstanding.

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

We must comply with various covenants under our various funding sources. The breach of certain of these covenants could result in a termination event and the exercise of remedies if not cured. As of June 30, 2015, we were in compliance with all such covenants. We believe 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 or debt securities 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. The indenture governing the notes also requires us to comply with additional covenants that limit our ability

Table of Contents

and those of our subsidiaries to pay dividends or distributions, repurchase equity, prepay subordinated debt and make certain investments, incur additional debt or issue certain disqualified stock and preferred stock, incur liens on assets, merge or consolidate with another person or sell all or substantially all of our assets to another person, enter into transactions with affiliates, allow to exist certain restrictions on the ability of subsidiaries to pay dividends or make other payments to us, grant guarantees to other persons, and engage in a new or different business. These covenants are subject to important exceptions and qualifications as described under Description of notes Material covenants. Certain of these material covenants will cease to apply for so long as the notes have investment grade ratings from at least two rating agencies, so long as one is Moody s Investors Service, Inc. (Moody s) or Standard & Poor s Ratings Services (S&P) and no event of default has occurred and is continuing.

Our competitive strengths

Our competitive strengths include:

Established middle market lending franchise

We are an internally-managed commercial finance company focused on meeting the complex financing needs of corporate clients and private investors in the middle market segment of the U.S. loan market. Since our inception in 2004, we have provided financing totaling more than $6 billion to over 550 companies through our nationwide network, which includes regional offices in seven U.S. cities. We believe that our specialized transaction skills, market knowledge and reputation have been, and will continue to be, among our most important competitive strengths. More than a decade of experience has allowed us to build relationships with more than 280 different private equity firms with middle market investment strategies. Many of these firms have chosen us to provide financing for multiple transactions, and we believe they will continue to consider us when funding new acquisitions and support the ongoing financing needs of their portfolio companies.

Direct origination capabilities through four specialized lending platforms

We apply our knowledge of middle market corporate finance across multiple specialized lending platforms organized around key markets and product areas, which include leveraged finance, business credit, commercial real estate and equipment leasing. We believe our experienced lending staff of approximately 55 full-time professionals who originate, underwrite and manage our credit investments, is a key competitive strength of our organization. Our team s strong reputation and network of direct relationships with private equity firms, prospective borrowers and their professional advisors, affords us access to a large set of lending opportunities, which in turn allows us to be highly selective in originating new loans. We also believe that our strategy to originate through multiple channels and provide a range of credit products enables us to allocate our capital effectively by focusing on those opportunities offering the best risk/return characteristics. By originating loans directly, we are also able to conduct our own extensive due diligence process, without relying on the diligence performed by intermediaries. In addition, we typically control or strongly influence deal structures and the related transaction documentation, which include important lender protections such as financial covenants, reporting requirements and other controls that may be less lender-friendly in transactions intermediated by others. Importantly, we also believe that directly originated loans reflect premium, wholesale pricing compared to lending opportunities which are intermediated by syndicate banks.

Proven credit strategy and portfolio performance

Our credit strategy focuses on building and managing diversified portfolios of illiquid, credit investments with attractive risk/return characteristics. Because we focus on senior secured debt, we typically have first priority claims on pledged collateral, which places us ahead of other creditors in bankruptcy and is intended to provide significant downside protection. Our portfolio is highly diversified by obligor and industry sector. As of June 30, 2015, our largest exposure to a single obligor was approximately 1.5% of the total portfolio and our exposure to our ten largest obligors represented approximately 10.6%. Our exposure to the energy sector at that time was approximately 5%. Prior to extending credit, our lending teams complete a comprehensive underwriting process typically led by a senior banker and a portfolio manager with relevant industry expertise. Our credit process includes an extensive due diligence investigation of the borrower and a detailed analysis of its current and prospective financial performance and capital position as well as its capacity to meet its obligations under various scenarios. Most of our credit investments are approved by the unanimous vote of our Investment Committee. Our Board of Directors, and in particular the Risk Committee, is also actively involved in monitoring our asset quality and underwriting standards on an ongoing basis. We have experienced no losses on Leveraged Finance loans originated since 2009. Since our inception to June 30, 2015, we have experienced cumulative charge-offs in our leveraged finance portfolio of approximately 27 bps per annum.

Strong management and operational team with significant ownership

Our management team has deep expertise in middle market lending and capital markets, with over 30 years of average experience. Most members of our management team held senior executive positions at large commercial banks and many worked together prior to founding NewStar. With over ten years of track record, the team has led NewStar through periods of both rapid growth and challenging economic conditions, leveraging each individual s expertise in origination, underwriting, transaction management, corporate restructuring and workouts, securitization, capital markets and asset management. As a group, our executive officers have a significant economic stake in the Company, which we believe aligns their incentives with other financial stakeholders. As of June 30, 2015, our executive officers held approximately 3.2 million shares of our outstanding common stock and held options to purchase approximately 2.7 million additional shares.

Strategic relationship with leading alternative asset manager

On November 4, 2014, we announced a strategic relationship with Blackstone s credit division, GSO Capital Partners (GSO), and Franklin Square Capital Partners (Franklin Square). As part of the strategic relationship, funds managed by Franklin Square and sub-advised by GSO committed to underwrite $300 million of ten-year subordinated notes issued by NewStar with warrants exercisable for 12 million shares of common stock at $12.62. We believe this strategic relationship and related capital investment will be an important source of competitive advantage and will be beneficial to the development of our franchise by providing opportunities that could materially increase origination volumes across all lines of business. In addition, the relationship has also begun to generate referrals and co-lending opportunities in segments of the middle market in which we have not historically been active, while also enabling us to provide larger capital commitments and a more complete set of financing options to our clients. GSO and Franklin Square have begun to support the expansion of our asset management platform by providing the first of an expected series of anchor investments in credit funds managed by the company.

Table of Contents

Asset management platform

As a Registered Investment Adviser, we offer qualified institutions opportunities to invest in credit funds that we manage on their behalf. These managed funds are typically established to co-invest in loans that we originate through our leveraged finance business and we allocate a portion of these loans to the funds based on a predetermined set of rules. We launched our first fund in 2005 and now manage approximately $1 billion of assets across four funds and believe that our asset management activities will provide us with important long-term strategic benefits. We earn management fees for our role as investment manager for the funds with nominal incremental expense because the funds invest in the same loans that we originate in the ordinary course of our core lending activities. As a fund manager with discretion over investment decisions for a series of credit funds, we are able to commit up to $50 million of capital to our clients while limiting our direct balance sheet risk exposure by allocating a portion of loans to our managed funds. We believe our ability to make large commitments to our clients is an important factor in their selection of lenders.

Strong capital base and access to funding sources

We fund our balance sheet and lending operations through a combination of equity and debt securities totaling $1.2 billion million as of June 30, 2015, as well as, multi-year committed credit facilities from large banks, institutional term debt, and long-term asset-backed securities issued by our financing subsidiaries. We believe our capital structure and funding strategies are appropriately balanced and diversified, while also retaining the flexibility to pursue opportunities for business growth as needed. We have a strong track record in accessing funding markets, including CLO funding, and believe that the matched asset and liability structure of our balance sheet allowed us to protect book value per share during the 2008 2009 financial crisis, expand our origination platform and execute our asset management strategy over time. We have completed eleven securitization transactions totaling more than $4.5 billion over the last ten years, including three securitizations totaling approximately $1.4 billion for our managed funds. As of June 30, 2015, we had total debt commitments of $3.3 billion and over 90% of our total funding consisted of shareholders equity, senior debt, subordinated debt, term debt and warehouse credit facilities. As of June 30, 2015, our debt to equity ratio was 4.1x. We had $68.6 million of cash and additional capacity under our borrowing and other debt financing arrangements as of June 30, 2015 and access to $100 million of undrawn subordinated debt commitments.

Recent developments

Liquidity

On August 10, 2015, we entered into an amendment to our credit facility with syndicated lenders agented by Wells Fargo Bank, National Association to fund leveraged finance loans which, among other things, increased the commitment amount to $475.0 million from $425.0 million, extended the revolving period to August 10, 2018 and the final maturity date to August 10, 2020, modified the advance rates from a flat structure to a grid structure based on loan type, and modified the concentration limits.

On August 5, 2015, we entered into an amendment to our credit facility with Citibank, N.A to fund leveraged finance loans that increased the commitment amount to $250.0 million from $175.0 million.

On June 19, 2015, we entered into an amendment to our credit facility with syndicated lenders agented by DZ Bank AG Deutsche Zentral-Genossenschaftbank Frankfurt to fund asset-based loans which, among other things, increased the commitment amount to $175.0 million from $125.0 million, and extended the maturity date to June 30, 2018 from June 30, 2015.

Table of Contents

On June 19, 2015, we entered into an amendment to our credit facility with syndicated lenders agented by Wells Fargo Bank, National Association to fund asset-based loans which, among other things, increased the commitment amount to $165.0 million from $110.0 million.

On May 5, 2015, we entered into a $175.0 million credit facility with Citibank, N.A. to fund leverage finance loans. The facility provides for a reinvestment period which ends on May 5, 2018 with a two-year amortization period.

On April 22, 2015, we completed the sale of $300.0 million in aggregate principal amount of 7.25% Senior Notes due 2020. We subsequently repaid in full our corporate credit facility with Fortress Credit Corp. with a portion of the net proceeds from this offering.

On April 10, 2015, we entered into an amendment to our credit facility with Wells Fargo Bank, National Association to fund equipment finance leases and loans. The amendment, among other things, extended the advance termination date from April 10, 2015 to April 10, 2017 and the final legal maturity date to April 10, 2019, and increased the maximum single lessee hold size to $4.0 million, subject to concentration limits.

Stock repurchase

As of June 30, 2015, the Company had repurchased 822,465 shares of its common stock under the stock repurchase program approved on August 13, 2014 at a weighted average price per share of $11.20. The Company completed the stock repurchase program during July 2015.

Our history

We were incorporated in Delaware in June 2004. Our principal executive offices are 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. The information on or accessible through our website is not incorporated by reference into or otherwise made a part of this prospectus.

Table of Contents

Summary of the exchange offer

In this prospectus, the term outstanding notes refers to the outstanding 7.25% Senior Notes due 2020; the term exchange notes refers to the 7.25% Senior Notes due 2020 registered under the Securities Act ; and the term notes refers to both the outstanding notes and the exchange notes. On April 22, 2015, we completed a private offering of $300,000,000 aggregate principal amount of 7.25% Senior Notes due 2020.

General

In connection with the private offering, we entered into a registration rights agreement with the initial purchasers of the outstanding notes in which we agreed, among other things, to deliver this prospectus to you and to use our reasonable best efforts to complete an exchange offer for the outstanding notes.

Exchange offer

We are offering to exchange $300,000,000 principal amount of exchange notes, which have been registered under the Securities Act, for $300,000,000 principal amount of outstanding notes.

The outstanding notes may be exchanged only in denominations of $2,000 and integral multiples of $1,000 in excess of $2,000.

Resale of the exchange notes

Based on the position of the staff of the Division of Corporation Finance of the Commission in certain interpretive letters issued to third parties in other transactions, we believe that the exchange notes acquired in this exchange offer may be freely traded without compliance with the provisions of the Securities Act, if:

- you are acquiring the exchange notes in the ordinary course of your business,
- you have not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the exchange notes, and
- you are not our affiliate as such term is defined in Rule 405 of the Securities Act.

If you fail to satisfy any of these conditions, you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with the resale of the exchange notes.

Broker-dealers that acquired outstanding notes directly from us, but not as a result of market-making activities or other trading activities, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a resale of the exchange notes. See Plan of Distribution.

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer in exchange for outstanding notes that it acquired as a result of market-making or other trading activities must deliver a prospectus in connection with any resale of the exchange notes and provide us with a signed acknowledgement of this obligation.

Expiration date	This exchange offer will expire at 12:00 midnight, New York City time, at the end of , 2015, unless we extend the offer.

Conditions to the exchange offer	The exchange offer is subject to limited, customary conditions, which we may waive.
Procedures for tendering outstanding notes	If you wish to accept the exchange offer, you must deliver to the exchange agent, before the expiration of the exchange offer: either a completed and signed letter of transmittal or, for outstanding notes tendered electronically, an agent s message from The Depository Trust Company (DTC), Euroclear or Clearstream stating that the tendering participant agrees to be bound by the letter of transmittal and the terms of the exchange offer, your outstanding notes, either by tendering them in physical form or by timely confirmation of book-entry transfer through DTC, Euroclear or Clearstream, and all other documents required by the letter of transmittal. If you hold outstanding notes through DTC, Euroclear or Clearstream, you must comply with their standard procedures for electronic tenders, by which you will agree to be bound by the letter of transmittal. By signing, or by agreeing to be bound by, the letter of transmittal, you will be representing to us that: you will be acquiring the exchange notes in the ordinary course of your business, you have no arrangement or understanding with any person to participate in the distribution of the exchange notes, and you are not our affiliate as defined under Rule 405 of the Securities Act. See The Exchange Offer Procedures for Tendering.
Guaranteed delivery procedures for tendering outstanding notes	If you cannot meet the expiration deadline or you cannot deliver your outstanding notes, the letter of transmittal or any other documentation to comply with the applicable procedures under DTC, Euroclear or Clearstream standard operating procedures for electronic tenders in a timely fashion, you may tender your notes according to the guaranteed delivery procedures set forth under The Exchange Offer Guaranteed Delivery Procedures.
Special procedures for beneficial holders	If you beneficially own outstanding notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender in the exchange offer, you should contact that registered holder promptly and instruct that person to tender on your behalf. If you wish to tender

Table of Contents

	in the exchange offer on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your outstanding notes, either arrange to have the outstanding notes registered in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time.
Acceptance of outstanding notes and delivery of exchange notes	We will accept any outstanding notes that are properly tendered for exchange before 12:00 midnight, New York City time, on the day this exchange offer expires. The exchange notes will be delivered promptly after expiration of this exchange offer.
Exchange date	We will notify the exchange agent of the date of acceptance of the outstanding notes for exchange.
Withdrawal rights	If you tender your outstanding notes for exchange in this exchange offer and later wish to withdraw them, you may do so at any time before 12:00 midnight, New York City time, on the day this exchange offer expires.
Consequences if you do not exchange your outstanding notes	Outstanding notes that are not tendered in the exchange offer or are not accepted for exchange will continue to bear legends restricting their transfer. You will not be able to sell the outstanding notes unless: an exemption from the requirements of the Securities Act is available to you, we register the resale of outstanding notes under the Securities Act, or the transaction requires neither an exemption from nor registration under the requirements of the Securities Act. After the completion of the exchange offer, we will no longer have any obligation to register the outstanding notes, except in limited circumstances.
Accrued interest on the outstanding notes	Any interest that has accrued on an outstanding note before its exchange in this exchange offer will be payable on the exchange note on the first interest payment date after the completion of this exchange offer.
United States federal income tax considerations	The exchange of the outstanding notes for the exchange notes generally will not be a taxable event for United States federal income tax purposes. See Material United States Federal Income Tax Considerations.
Exchange agent	The U.S. Bank National Association is serving as the exchange agent. Its address and telephone number are provided in this prospectus under the heading Exchange Agent.

12

Use of proceeds	We will not receive any cash proceeds from this exchange offer. See Use of Proceeds.
Registration rights agreement	When we issued the outstanding notes on April 22, 2015, we entered into a registration rights agreement with the initial purchasers of the outstanding notes. Under the terms of the registration rights agreement, we agreed to use our reasonable best efforts to cause to become effective a registration statement with respect to an offer to exchange the outstanding notes for other freely tradable notes issued by us and that are registered with the Commission and that have substantially identical terms as the outstanding notes. If we fail to effect the exchange offer, we will use our reasonable best efforts to file and cause to become effective a shelf registration statement related to resales of the outstanding notes. We will be obligated to pay additional interest on the outstanding notes if we do not complete the exchange offer by January 17, 2016, or, if required, the shelf registration statement is not declared effective by the later of January 17, 2016 or 90 days after the delivery of a written request from any initial purchaser representing that it holds outstanding notes that are or were ineligible to be exchanged in this exchange offer. See Registration Rights Agreement.
Accounting treatment	We will not recognize any gain or loss for accounting purposes upon the completion of the exchange offer in accordance with generally accepted accounting principles. See The Exchange Offer Accounting Treatment.

Table of Contents

Summary of the terms of the exchange notes

The exchange notes will be identical to the outstanding notes except that:

- the exchange notes will be registered under the Securities Act and therefore will not bear legends restricting their transfer; and

- specified rights under the registration rights agreement, including the provisions providing for registration rights and the payment of additional interest in specified circumstances, will be limited or eliminated.

The exchange notes will evidence the same debt as the outstanding notes and the same indenture will govern both the outstanding notes and the exchange notes. For a more complete understanding of the exchange notes, please refer to the section of this prospectus entitled Description of Exchange Notes.

Issuer	NewStar Financial, Inc.
Securities offered	$300,000,000 principal amount 7.25% Senior Notes due 2020.
Maturity date	May 1, 2020
Interest rate	7.25% per year
Interest payment date	May 1 and November 1 of each year, beginning on November 1, 2015. Interest will accrue from April 22, 2015.
Form and denomination	The exchange notes will be issued in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.
Ranking	The exchange notes will constitute senior debt of NewStar. They will rank:

- pari passu in right of payment with any of our existing and future senior indebtedness;

- senior in right of payment to all of our existing and future subordinated debt;

- effectively subordinated to all of our indebtedness and obligations that are secured by liens to the extent of the value of the collateral securing such indebtedness and obligations; and

structurally subordinated to all existing and future indebtedness and other liabilities, including preferred stock, of our subsidiaries.

As of June 30, 2015, we had $2.8 billion of indebtedness outstanding, none of which was senior secured indebtedness, $300.0 million of which was the notes and $200 million of which was unsecured subordinated notes of the Issuer. As of the same date, our subsidiaries had $2.4 billion of liabilities (including trade payables), to which the notes were structurally subordinated. In addition, as of June 30, 2015, we had $100.0 million of additional capacity under our borrowing and other debt financing arrangements and our subsidiaries had $68.6 million of additional capacity under their borrowing and other debt financing arrangements. We provide certain limited guarantees of subsidiary indebtedness. As of June 30, 2015, the maximum outstanding exposure under these guarantees was $46.8 million.

Optional redemption

On or after May 1, 2017, we may redeem some or all of the exchange notes at the redemption prices listed under Description of Exchange Notes Optional redemption, plus accrued and unpaid interest to the redemption date.

Prior to May 1, 2017, we may redeem some or all of the exchange notes at a price equal to 100% of the principal amount thereof, plus the make-whole premium described under Description of Exchange Notes Optional redemption and accrued and unpaid interest to the redemption date.

At any time prior to May 1, 2017, we may redeem up to 35% of the aggregate principal amount of the exchange notes with the net cash proceeds of certain equity offerings, at a redemption price equal to 107.25% of the aggregate principal amount of the notes, plus accrued and unpaid interest to the redemption date.

Change of control

If a change of control occurs, we must offer to purchase the exchange notes at 101% of their principal amount, plus accrued and unpaid interest. If holders of at least 90% of the aggregate principal amount of the exchange notes tender such notes pursuant to a change of control offer, we may redeem all remaining notes after such purchase at 101% of their principal amount, plus accrued and unpaid interest. See Description of Exchange Notes Change of Control.

Asset sale proceeds

If we or our subsidiaries engage in asset sales, we generally must either invest the net cash proceeds from such asset sales in our business within a specified period of time, repay certain debt or make an offer to purchase a principal amount of the notes equal to the excess net cash proceeds, to the extent such excess net cash proceeds exceed $25 million. The purchase price of the exchange notes will be 100% of their principal amount, plus accrued and unpaid interest. See Description of Exchange Notes Material covenants Limitation on sales of assets and subsidiary stock.

Material covenants

The indenture limits our ability and the ability of our restricted subsidiaries to:

- pay dividends or distributions, repurchase equity, prepay subordinated debt and make certain investments;
- incur additional debt or issue certain disqualified stock and preferred stock;
- incur liens on assets;
- merge or consolidate with another person or sell all or substantially all of our assets to another person;
- enter into transactions with affiliates;
- allow to exist certain restrictions on the ability of subsidiaries to pay dividends or make other payments to us;

grant guarantees to other persons; and

engage in a new or different business.

15

Table of Contents

	These covenants are subject to important exceptions and qualifications as described under Description of Exchange Notes Material covenants. Certain covenants will cease to apply for so long as the notes have investment grade ratings from at least two rating agencies, so long as one is Moody s Investors Service, Inc. (Moody s) or Standard & Poor s Ratings Services (S&P) and no event of default has occurred and is continuing.
Governing law	The indenture and the notes will be governed by the laws of the State of New York.

Table of Contents

Summary consolidated historical financial data

The following table contains our summary historical consolidated information and other operating data for the three years ended December 31, 2012, 2013 and 2014 and for the six months ended June 30, 2014 and 2015. We have prepared this information from audited financial statements for the years ended December 31, 2012 through December 31, 2014 and from unaudited financial statements for the six months ended June 30, 2014 and 2015. This information is only a summary. You should read it in conjunction with our historical financial statements and related notes included in this prospectus.

In our opinion, the information for the six months ended June 30, 2014 and 2015 reflects all adjustments, consisting only of normal recurring adjustments, necessary to fairly present our results of operations and financial condition. Results from interim periods should not be considered indicative of results for any other periods or for the year. This information is only a summary. You should read it in conjunction with our historical financial statements and related notes included in this prospectus, as well as Selected Historical Consolidated Financial and Other Data and Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Six months ended June 30,		Year ended December 31,		
	2015	2014	2014	2013	2012
Dollars in thousands, except for share and per share data		**(unaudited)**			
Statement of Operations Data:					
Net interest income	$ 33,201	$ 40,294	$ 78,396	$ 84,713	$ 88,354
Provision for credit losses	10,186	18,459	27,108	9,738	12,651
Total non-interest income	11,555	8,214	11,216	13,512	11,571
Total operating expenses	21,676	23,783	45,516	49,398	46,297
Operating income before income taxes	12,894	6,266	16,988	39,089	40,977
Net results from consolidated VIE		1,091	1,091	2,062	
Income before income taxes	12,894	7,357	18,079	41,151	40,977
Income tax expense	5,355	3,009	7,485	16,556	17,000
Net income (loss) attributable to NewStar Financial, Inc. common stockholders	$ 7,539	$ 4,348	$ 10,594	$ 24,595	$ 23,977

	As of June 30,		As of December 31,		
	2015	2014	2014	2013	2012
Dollars in thousands		**(unaudited)**			
Balance Sheet Data:					
Total assets	$ 3,506,557	$ 2,410,915	$ 2,811,009	$ 2,606,861	$ 2,157,070
Total liabilities	2,849,180	1,801,814	2,170,012	1,990,651	1,562,253
Total stockholders equity	657,377	609,101	640,997	616,210	594,817
Supplemental Data:					
Total funding commitments	$ 3,672,636	$ 2,459,932	$ 2,951,216	$ 2,698,450	$ 2,124,243
Managed loan portfolio	$ 4,158,349	$ 2,442,311	$ 3,367,555	$ 2,458,602	$ 2,433,591
Total loans, net	$ 3,027,275	$ 2,079,254	$ 2,506,465	$ 2,281,508	$ 1,772,391

Table of Contents

	Six months ended June 30,		Year ended December 31,		
	2015	2014 (unaudited)	2014	2013	2012
Other data:					
Performance Ratios(1):					
Return on average assets	0.61%	(0.29)%	0.42%	1.08%	1.17%
Return on average equity	3.05%	(1.20)%	1.72%	4.07%	4.14%
Net interest margin, before provision	1.99%	3.04%	3.17%	3.90%	4.34%
Loan portfolio yield	6.31%	6.14%	6.09%	6.68%	6.54%
Efficiency ratio	49.30%	55.57%	50.32%	49.30%	46.46%
Credit Quality and Leverage Ratios(1):					
Delinquent loan rate (at period end)	1.67%	1.06%	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)	3.69%	3.70%	3.70%	3.04%	4.05%
Non-performing asset rate (at period end)	3.79%	4.29%	3.84%	3.60%	4.77%
Net charge off rate (end of period loans)	0.58%	2.52%	1.07%	0.77%	1.49%
Net charge off rate (average period loans)	0.56%	2.25%	1.10%	0.91%	1.43%
Allowance for credit losses ratio (at period end)	1.81%	1.87%	1.84%	1.80%	2.78%
Debt to equity (at period end)	4.13x	2.92x	3.32x	3.18x	2.49x
Non-funding indebtedness to equity (at period end)(2)	0.87	0.43	0.68		
Equity to assets (at period end)	18.75%	25.26%	22.80%	23.64%	27.58%

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

(2) See Description of Exchange Notes for a definition of Consolidated Non-Funding Debt and Consolidated Non-Funding Debt to Equity Ratio.

Unencumbered assets:	**As of June 30, 2015**
Unrestricted cash	$ 25,308
Other real estate owned (OREO) Property	3,039
Equity Interests in Borrowers	14,600
Receivables	1,736
Leveraged Finance Loans and Leases	209,961
Investments in Debt Securities	25,584
Investments in CLO Trusts(1)	243,808
Investments in Other Financing Subsidiaries(2)	493,203
Total unencumbered assets	$ 1,017,239

(1) Investments in CLO Trusts are defined as gross loans and investments in debt securities (assets) held by CLO Trusts minus debt issued by CLO Trusts to third parties as follows:

Gross loans and investments in debt securities in CLO	$ 1,787,763

Term debt securitizations	(1,543,955)
Investments in CLO Trusts	$ 243,808

Table of Contents

(2) Investments in Other Financing Subsidiaries are defined as gross loans and leases and investments in debt securities (assets) held by financing subsidiaries minus advances under credit facilities provided to the same subsidiaries by third parties, excluding net investment in Commercial Real Estate Loans subject to repurchase agreement with Macquarie Bank Limited as follows:

Gross loans and investments in debt securities held in credit facilities, warehouses	$ 1,227,336
Debt outstanding in credit facilities, warehouses	(734,133)
Investments in Other Financing Subsidiaries	$ 493,203

Table of Contents

Risk factors

In deciding whether to participate in the exchange offer, you should carefully consider the risks described below, which could cause our operating results and financial condition to be materially adversely affected, as well as other information and data included in this prospectus.

Risks related to the exchange offer

Holders who fail to exchange their outstanding notes may have reduced liquidity after the exchange offer.

We have not conditioned the exchange offer on receipt of any minimum or maximum principal amount of outstanding notes. As outstanding notes are tendered and accepted in the exchange offer, the principal amount of remaining outstanding notes will decrease. This decrease could reduce the liquidity of the trading market for the outstanding notes. We cannot assure you of the liquidity, or even the continuation, of any trading market for the outstanding notes following the exchange offer.

You must comply with the exchange offer procedures to receive exchange notes.

Delivery of exchange notes in exchange for outstanding notes tendered and accepted for exchange pursuant to the exchange offer will be made only after timely receipt by the exchange agent of the following:

- certificates for outstanding notes or a book-entry confirmation of a book-entry transfer of outstanding notes into the exchange agent s account at DTC, New York, New York as a depository, including an agent s message, as defined in this prospectus, if the tendering holder does not deliver a letter of transmittal;

- a complete and signed letter of transmittal, or facsimile copy, with any required signature guarantees, or, in the case of a book-entry transfer, an agent s message in place of the letter of transmittal; and

- any other documents required by the letter of transmittal.

Therefore, holders of outstanding notes who would like to tender outstanding notes in exchange for exchange notes should allow enough time for the necessary documents to be timely received by the exchange agent. We are not required to notify you of defects or irregularities in tenders of outstanding notes for exchange. See The Exchange Offer Procedures for Tendering and The Exchange Offer Consequences of Failures to Properly Tender Outstanding Notes in the Exchange.

If you exchange your outstanding notes in the exchange offer for the purpose of participating in a distribution of the exchange notes, you may be deemed to have received restricted securities. If you are deemed to have received restricted securities, you will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

An active trading market may not develop for the exchange notes.

The exchange notes have no established trading market and will not be listed on any securities exchange. The initial purchasers have informed us that they currently intend to make a market in the exchange notes. However, the initial purchasers are not obligated to do so and may discontinue any such market making at any time without notice. The liquidity of any market for the exchange notes will depend upon various factors, including:

- the number of holders of the exchange notes;
- the interest of securities dealers in making a market for the exchange notes;
- the overall market for high yield securities;

20

Table of Contents

- our financial performance or prospects; and
- the prospects for companies in our industry generally.

Accordingly, we cannot assure you that a market or liquidity will develop for the exchange notes. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the exchange notes. We cannot assure you that the market for the exchange notes, if any, will not be subject to similar disruptions. Any such disruptions may adversely affect you as a holder of the exchange notes.

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 or on our notes, we may not be able to continue to fund our business.

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, senior unsecured notes, 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 our 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. During 2015, we have thus far completed a $496.1 million term debt securitization, added a new $175 million credit facility to fund leveraged finance loans which was subsequently increased to $250 million, and increased the commitment amount of one of our credit facilities to fund leveraged finance loans from $275 million to $475 million. Additionally, on April 22, 2015, we issued $300 million of our 7.25% Senior Notes due April 22, 2020 in a private placement.

Substantially all of our non-securitized loans and other debt products are held in these facilities. Our credit facilities and the indenture governing the notes 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 or default under the notes. 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 or under the notes and that default or termination results in a payment default or in the acceleration of that facility s debt or in the notes, 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.

Table of Contents

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 on 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 our role 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 eight 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 $3.0 billion of rated notes, including retained notes. Five of these balance sheet term debt securitizations were outstanding as of June 30, 2015. 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 June 30, 2015, the ratings range from AAA to CCC+ by Standard & Poor s, Inc., AAA to BB by Fitch Ratings, Inc. and Aaa to B2 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 in a manner 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 condition and results 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 $306.4 million in principal amount, issued in each of our five outstanding balance sheet term debt securitizations as of June 30, 2015. Also, as of June 30, 2015, we have repurchased $6.2 million of outstanding notes of our balance sheet term debt securitizations that were outstanding as of June 30, 2015. 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 (a) becomes 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.

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 experienced 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 transactions 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 renew these agreements or 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.

Table of Contents

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 who have relationships with referral sources and an understanding of 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 retaining them. As competition for qualified employees grows, our cost of labor could increase, which could adversely impact our results of operations.

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.

Table of Contents

We monitor our 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 forgoing 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. In addition, we may be required to prepay certain of our indebtedness if we were required to register as an investment company under the Investment Company Act.

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. For the six months ended June 30, 2015 and 2014, we recorded net income of $7.5 million and $4.3 million, respectively. We experienced net losses from our inception in 2004 through 2007, as well as for the year ended December 31, 2009. 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.

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

Table of Contents

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 customers 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.

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 an additional $3.9 million of loans through the six months ended June 30, 2015, 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 June 30, 2015, we had delinquent loans of $46.3 million and had loans with an aggregate outstanding balance of $195.6 million classified as impaired. Of these impaired loans, loans with an aggregate outstanding balance of $101.9 million at June 30, 2015 were also on non-accrual status.

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

Table of Contents

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 June 30, 2015, we had an allowance for credit losses of $49.9 million, including specific reserves of $22.2 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 June 30, 2015, we had eleven 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 June 30, 2015, we had one restructured impaired loan which had an outstanding balance greater than $20 million and one restructured impaired loan which had an outstanding balance 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 increased and may in the future cause additional 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 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 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 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 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 June 30, 2015, balloon and bullet transactions represented 94% 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 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 June 30, 2015, cash flow transactions comprised $2.6 billion, or 79.4%, 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 or 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;
- 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 immediately available. Our customers ability to borrow these funds may be

Table of Contents

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 may 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. Our determinations regarding the fair value of these investments may be 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.

Although our loans are usually senior in right of payment, we also provide second lien, subordinated / mezzanine loans, other debt products and equity-linked products, which are often 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 June 30, 2015, our second lien and subordinated/mezzanine loans totaled $94.0 million.

Risks related to the exchange notes

We have a substantial amount of indebtedness which may limit our financial and operating activities and may adversely affect our ability to incur additional debt to fund future needs.

As of June 30, 2015, we had $2.8 billion of total indebtedness. In addition, as of June 30, 2015, we had up to $486.0 million of additional capacity under our borrowing and other debt financing arrangements. Our substantial indebtedness and any future indebtedness we incur could:

- require us to dedicate a substantial portion of cash flow from operations to the payment of principal and interest on indebtedness, thereby reducing the funds available for other purposes;
- make it more difficult for us to satisfy and comply with our obligations to pay principal and interest with respect to the notes;
- subject us to increased sensitivity to interest rate increases;
- make us more vulnerable to economic downturns, adverse industry conditions or catastrophic external events;
- limit our ability to withstand competitive pressures;
- reduce our flexibility in planning for or responding to changing business, industry and economic conditions; and/or
- place us at a competitive disadvantage to competitors that have relatively less debt than we have.

In addition, our substantial level of indebtedness could limit our ability to obtain additional financing on acceptable terms, or at all, for working capital and general corporate purposes. Our liquidity needs could vary significantly and may be affected by general economic conditions, industry trends, performance and many other factors outside of our control.

We may not be able to generate sufficient cash flow to meet our debt service obligations.

Our ability to generate sufficient cash flow from operations to make scheduled payments on the notes and our other debt obligations will depend on our future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control. If we do not generate sufficient cash flow from operations to satisfy our obligations, including interest payments and the payment of principal when due, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets or seeking to raise additional capital. We cannot assure you that any refinancing would be possible, that any assets could be sold, that additional financing could be obtained on acceptable terms, if at

33

all, or that additional financing would be permitted under the terms of our various debt instruments then in effect. Furthermore, our ability to refinance would depend upon the condition of the finance and credit markets. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms or on a timely basis, would have an adverse effect on our business, results of operations and financial condition.

Despite our substantial indebtedness, we may incur more debt, which could exacerbate the risks described above.

We and our existing or newly formed subsidiaries may be able to incur substantial additional indebtedness in the future, which may be secured, subject to the limitations contained in the agreements governing our debt, including the indenture governing the notes. Although these agreements restrict us from incurring additional indebtedness, these restrictions are subject to important exceptions and qualifications. One such qualification in the indenture governing the notes allows our restricted subsidiaries to incur any indebtedness to finance the origination, funding or commitment in respect of, or warehousing of, loans, leases or other debt portfolio assets, the making of advances, extensions of credit or commitments to advance or extend credit, or investments in, or warehousing of, debt portfolio assets. Moreover, as of June 30, 2015, we had $486.0 million of additional capacity under our borrowing and other debt financing arrangements. If we or our subsidiaries incur additional debt, the risks that we and they now face as a result of our leverage could intensify. In addition, the indenture governing the notes does not prevent us from incurring obligations that do not constitute indebtedness. We cannot assure you that there will be sufficient assets to pay amounts due on the notes. As a result, holders of the notes may receive less, ratably, than lenders under our other outstanding indebtedness.

Our debt agreements contain restrictions that will limit our flexibility in operating our business.

The indenture governing the notes contains covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability to, among other things:

- incur or guarantee certain kinds of additional indebtedness and issue disqualified stock or preference shares of subsidiaries;
- pay dividends or distributions, repurchase equity, prepay subordinated debt and make certain investments;
- enter into transactions with affiliates;
- incur liens on assets;
- engage in a new or different business; or
- consolidate or merge with another person or sell or otherwise dispose of all or substantially all of our assets to another person.

Our other existing indebtedness contains similar restrictive covenants, including restrictions on dividends and distributions, incurring additional indebtedness, providing guarantees, creating liens, selling our assets and engaging in certain mergers and certain affiliated transactions. See Description of material indebtedness. We may be unable to take advantage of business opportunities that arise because of the limitations imposed on us by the restrictive covenants under our indebtedness.

We are an operating company with limited financial assets.

We are an operating company with limited financial assets. Our subsidiaries own the majority of our consolidated assets. Consequently, our cash flow and our ability to meet our debt service obligations depend upon the cash flow of our subsidiaries and the payment of funds by our subsidiaries to us in the form of dividends or otherwise, all of which fluctuate based on timing of originations. Our subsidiaries are not obligated

34

Table of Contents

to make funds available to us for payment of our debt securities or otherwise. The terms of our subsidiaries indebtedness may restrict their ability to pay dividends to us. Their ability to make any payments to us will also depend on their earnings, business and tax considerations and legal restrictions.

The notes are structurally subordinated to the liabilities of our subsidiaries.

None of our subsidiaries guarantee the notes and the notes are structurally subordinated to all existing and future obligations, including indebtedness, of such subsidiaries. The claims of creditors of such subsidiaries, including trade creditors, will have priority to the assets of those subsidiaries. For the six months ended June 30, 2015, our subsidiaries accounted for 95.3% of our interest and fee income. In addition, as of June 30, 2015, our subsidiaries held approximately 78.2% of our consolidated assets and we had approximately $2.4 billion of liabilities (including trade payables), to which the notes are structurally subordinated.

We may be unable to repurchase the notes upon a change of control.

Upon the occurrence of specified kinds of change of control events, we will be required to offer to purchase all outstanding notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest to the date of repurchase.

We might not have sufficient funds at the time of the change of control to purchase the notes tendered in a change of control offer. If we are required to purchase the notes, we might require third-party financing and we may not be able to obtain such financing on acceptable terms, or at all.

One of the circumstances under which a change of control may occur is upon the sale or disposition of all or substantially all of our assets. The phrase all or substantially all will likely be interpreted under applicable state law and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or disposition of all or substantially all of our assets has occurred, in which case, the ability of a holder of the notes to obtain the benefit of an offer to purchase all or a portion of the notes held by such holder may be impaired. See Description of notes Change of control.

If the notes are rated investment grade by at least two rating agencies, one of which must be Moody s or S&P, certain covenants contained in the indenture will be suspended, and you will lose the protection of these covenants unless or until the notes subsequently fall back below investment grade.

The indenture contains certain covenants that will be suspended for so long as the notes are rated investment grade by at least two rating agencies, so long as one is Moody s or S&P, and no default or event of default has occurred and is continuing under the notes at the time such covenants are suspended. These covenants restrict, among other things, our and our restricted subsidiaries ability to:

- incur additional indebtedness and issue disqualified stock or preferred stock;
- pay dividends or distributions, repurchase equity, prepay subordinated debt and make certain investments;
- limit our restricted subsidiaries from paying dividends and making other payments to us;
- sell assets and subsidiary stock;
- engage in transactions with affiliates;
- grant certain guarantees to other persons; and
- enter into mergers if certain conditions would not be met.

Because these restrictions will not apply while the notes are rated investment grade, we will be able to incur additional debt and consummate transactions that may impair our ability to satisfy our obligations with respect to the notes. In addition, we will not have to make certain offers to purchase the notes. These covenants will only be restored if the credit ratings assigned to the notes later fall below investment grade. Subject to certain exceptions, any actions taken while these covenants are suspended will not result in an event of default in the event these covenants are subsequently reinstated.

Table of Contents

Ratings of the notes may affect the market price and marketability of the notes.

The notes have been rated by S&P and Fitch. These ratings are limited in scope and do not address all material risks relating to an investment in the notes, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of such rating may be obtained from such rating agency. There is no assurance that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency s judgment, circumstances so warrant. It is also possible that such ratings may be lowered in connection with the application of the proceeds of this offering or in connection with future events, such as future acquisitions. Holders of notes will have no recourse against us or any other parties in the event of a change in or suspension or withdrawal of such ratings. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price or marketability of the notes.

We may choose to purchase or redeem a portion of the notes when prevailing interest rates are relatively low, including in open market purchases.

We may seek to purchase or redeem a portion of the notes from time to time, especially when prevailing interest rates are lower than the rate borne by the notes. If prevailing rates are lower at the time of redemption, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the notes being redeemed. Our redemption right also may adversely impact your ability to sell your notes as the optional redemption date or period approaches.

We may also from time to time purchase notes in the open market, privately negotiated transactions, tender offers or otherwise. Any such purchases or redemptions and the timing and amount thereof would depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors.

Such transactions could impact the market for the notes and negatively affect our liquidity.

Table of Contents

Use of proceeds

The exchange offer is intended to satisfy our obligations under the registration rights agreement. See Registration Rights Agreement. We will not receive any cash proceeds from the issuance of the exchange notes pursuant to the exchange offer. In consideration for issuing the exchange notes as contemplated in this prospectus, we will receive in exchange a like principal amount of outstanding notes. The form and terms of the exchange notes are identical in all respects to the form and terms of the outstanding notes, except the offer and exchange of the exchange notes have been registered under the Securities Act and the exchange notes will not have restrictions on transfer, registration rights or provisions for additional cash interest. The outstanding notes surrendered in exchange for the exchange notes will be retired and canceled and cannot be reissued. Accordingly, issuance of the exchange notes will not result in any change in our capitalization.

On April 22, 2015, we received approximately $294.0 million of net proceeds from our sale of the outstanding notes, after deducting the initial purchasers discount and other offering expenses. We used the net proceeds of the offering (i) to repay in full our outstanding indebtedness with Fortress Credit Corp. and (ii) for general corporate purposes.

Table of Contents

Capitalization

The following table sets forth our consolidated cash, cash equivalents and our capitalization as of June 30, 2015, which reflects the repayment in full of our approximately $238.9 million of outstanding indebtedness with Fortress Credit Corp. with a portion of the proceeds from the sale of the outstanding notes on April 22, 2015.

You should read this table together with Prospectus Summary Summary Consolidated Historical Financial Data, Use of Proceeds, Selected Historical Consolidated Financial and Other Data, and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus and our consolidated financial statements and the related notes thereto incorporated by reference into this prospectus.

The outstanding notes that are surrendered in exchange for the exchange notes will be retired and cancelled and cannot be reissued. As a result, the issuance of the exchange notes will not result in any change in our capitalization.

	As of June 30, 2015
Cash and cash equivalents	$ 25,308
Long-term obligations:	
Credit Facility	634,923
Term debt securitizations	1,543,955
Repurchase agreements	99,210
Funding Indebtedness	2,278,088
Corporate debt	
7.25% Senior Notes due 2020	300,000
Subordinated notes(1)	138,215
Non-Funding Indebtedness	438,215
Total long-term obligations	$ 2,716,303
Stockholders deficit:	
Common stock, $0.01 par value; 145,000,000 shares authorized; 45,774,024, shares issued and outstanding, actual	458
Additional paid-in capital	743,563
Retained Earnings	22,002
Common stock held in treasury at cost $0.01 par value: 9,075,332	(108,096)
Accumulated other comprehensive income	(550)
Total stockholders equity	657,377
Total capitalization	$ 3,373,680

(1) The principal amount of notes issued was $200 million, which was recorded at par less the initial fair value of the warrants in connection with the investment of $61.8 million.

Table of Contents

Selected historical consolidated financial and other data

The following table contains our selected historical consolidated information and other operating data for the five years ended December 31, 2010, 2011, 2012, 2013 and 2014 and for the six months ended June 30, 2014 and 2015. We have prepared this information from audited financial statements for the years ended December 31, 2010 through December 31, 2014 and from unaudited financial statements for the six months ended June 30, 2014 and 2015.

In our opinion, the information for the six months ended June 30, 2014 and 2015 reflects all adjustments, consisting only of normal recurring adjustments, necessary to fairly present our results of operations and financial condition. Results from interim periods should not be considered indicative of results for any other periods or for the year. This information is only a summary. You should read it in conjunction with our historical financial statements and related notes included in this prospectus, as well as Selected Historical Consolidated Financial and Other Data and Management s Discussion and Analysis of Financial Condition and Results of Operations.

Dollars in thousands, except for share and per share data)	Six months ended June 30,		Year ended December 31,				
	2015	2014 (unaudited)	2014	2013	2012	2011	2010
Statement of operations data:							
Interest income	$ 86,620	$ 66,663	$ 136,171	$ 127,684	$ 123,945	$ 115,680	$ 112,826
Interest expense	53,419	26,369	57,775	42,971	35,591	34,953	40,558
Net interest income	33,201	40,294	78,396	84,713	88,354	80,727	72,268
Provision for credit losses	10,186	18,459	27,108	9,738	12,651	17,312	32,997
Net interest income (loss) after provision for credit losses	23,015	21,835	51,288	74,975	75,703	63,415	39,271
Fee income	5,935	1,232	2,467	3,670	4,619	3,070	2,409
Asset management income	1,935	55	1,054	2,482	2,984	2,635	2,872
Gain (loss) on derivatives	(19)	(17)	(39)	(143)	(315)	242	28
Gain (loss) on sale of loans and debt securities	(46)	(166)	(230)	72	335	128	(116)
Gain on acquisition							5,649
Other income (loss)	3,750	7,110	7,964	7,431	3,948	(2,008)	7,854
Total non-interest income	11,555	8,214	11,216	13,512	11,571	4,067	18,696
Compensation and benefits	14,443	15,562	30,383	32,672	31,139	30,144	26,418
General and administrative expenses	7,233	8,221	15,133	16,726	15,158	13,787	14,195
Total operating expenses	21,676	23,783	45,516	49,398	46,297	43,931	40,613
Operating income (loss) before income taxes	12,894	6,266	16,988	39,089	40,977	23,551	17,354
Results of Consolidated VIE:							
Interest income		5,268	5,268	5,321			
Interest expense credit facilities		2,865	2,865	1,879			
Interest expense Fund membership interest		1,292	1,292	1,353			
Other income		229	229	51			
Operating expenses		249	249	78			
Net results from consolidated VIE		1,091	1,091	2,062			
Income (loss) before income taxes	12,894	7,357	18,079	41,151	40,977	23,551	17,354
Income tax expense (benefit)	5,355	3,009	7,485	16,556	17,000	9,403	6,935
Net income (loss) before noncontrolling interest	7,539	4,348	10,594	24,595	23,977	14,148	10,419
Net loss (income) attributable to noncontrolling interest							(187)
	$ 7,539	$ 4,348	$ 10,594	$ 24,595	$ 23,977	$ 14,148	$ 10,232

Net income (loss) attributable to NewStar Financial, Inc. common stockholders

Table of Contents

	As of June 30,					As of December 31,	
Dollars in thousands	2015	2014 (unaudited)	2014	2013	2012	2011	2010
Other Financial Data (unaudited):							
Ratio of earnings to fixed charges(1)	1.2x	1.3x	1.3x	1.9x	2.2x	1.9x	1.3x
Balance Sheet Data:							
Cash and cash equivalents	$ 25,308	$ 53,321	$ 33,033	$ 43,401	$ 27,212	$ 18,468	$ 54,365
Restricted cash	189,529	166,149	95,411	167,920	208,667	83,815	178,364
Cash collateral on deposit with custodian	42,552		38,975				
Investments in debt securities, available-for-sale	108,454	16,545	46,881	22,198	21,127	17,817	4,014
Loans, held-for-sale	338,304	44,314	200,569	14,831	51,602	38,278	41,386
Loans, net	2,688,971	2,034,940	2,305,896	2,095,250	1,720,789	1,699,187	1,590,331
Other assets	113,439	95,646	90,244	86,862	127,673	88,818	106,506
Subtotal	3,506,557	2,410,915	2,811,009	2,430,462	2,157,070	1,946,383	1,974,966
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	$ 3,506,557	$	$ 2,811,009	$ 2,606,861	$ 2,157,070	$ 1,946,383	$ 1,974,966
Credit facilities	$ 634,923	$ 149,025	$ 487,768	$ 332,158	$ 229,941	$ 214,711	$ 108,502
Term debt	1,543,955	1,332,461	1,431,687	1,412,374	1,221,764	1,073,105	1,278,868
Subordinated notes	138,215		156,831				
Repurchase agreements	99,210	57,515	57,227	67,954	30,583	64,868	
Senior notes	300,000						
Other liabilities	132,877	262,813	36,499	26,544	79,965	29,937	33,417
Subtotal	2,849,180	1,801,814	2,170,012	1,839,030	1,562,253	1,382,621	1,420,787
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	$ 2,849,180	$ 1,801,814	$ 2,170,012	$ 1,990,651	$ 1,562,253	$ 1,382,621	$ 1,420,787
NewStar Financial, Inc. stockholders equity	657,377	609,101	640,997	615,552	594,817	563,762	554,179
Retained earnings of Consolidated VIE				658			
Total stockholders equity	$ 657,377	$ 609,101	$ 640,997	$ 616,210	$ 594,817	$ 563,762	$ 554,179

Dollars in thousands	As of June 30, 2015	2014 (unaudited)	As of December 31, 2014	2013	2012	2011	2010
Supplemental Data:							
Investments in debt securities, gross	$ 117,318	$ 19,298	$ 53,098	$ 25,298	$ 25,298	$ 25,298	$ 6,468
Loans held-for-sale, gross	342,035	44,456	202,369	14,897	52,120	38,837	42,228
Loans held-for-investment, gross	2,765,706	2,090,862	2,370,025	2,325,144	1,796,845	1,820,193	1,698,238
Loans and investments in debt securities, gross	3,225,059	2,154,616	2,625,722	2,365,339	1,874,263	1,884,328	1,746,934
Unused lines of credit	439,161	297,622	317,503	326,231	245,483	252,422	270,793
Standby letters of credit	8,416	7,694	7,911	6,880	4,497	6,462	8,737
Total funding commitments	$ 3,672,636	$ 2,459,932	$ 2,951,216	$ 2,698,450	$ 2,124,243	$ 2,143,212	$ 2,026,464
Loan portfolio	$ 3,225,059	$ 2,154,616	$ 2,625,722	$ 2,192,694	$ 1,874,263	$ 1,884,328	$ 1,746,934
Loans owned by credit funds	933,290	287,695	741,833	265,908	559,328	517,596	451,929
Managed loan portfolio	$ 4,158,349	$ 2,442,311	$ 3,367,555	$ 2,458,602	$ 2,433,591	$ 2,401,924	$ 2,198,863
Loans held-for-sale, gross	$ 342,035	$ 44,456	$ 202,369	$ 14,897	$ 52,120	$ 38,837	$ 42,228
Loans held-for-investment, gross	2,765,706	2,090,862	2,370,255	2,325,144	1,796,845	1,820,193	1,698,238
Total loans, gross	3,107,741	2,135,318	2,572,624	2,340,041	1,848,965	1,859,030	1,740,466
Deferred fees, net	(31,758)	(17,469)	(23,176)	(17,130)	(26,938)	(57,865)	(24,247)
Allowance for loan losses general	(26,519)	(18,552)	(22,258)	(18,099)	(19,423)	(23,022)	(24,432)
Allowance for loan losses specific	(22,189)	(20,043)	(20,725)	(23,304)	(30,213)	(40,678)	(60,350)
Total loans, net	$ 3,027,275	$ 2,079,254	$ 2,506,465	$ 2,281,508	$ 1,772,391	$ 1,737,465	$ 1,631,437
Average Balances(2):							
Loans and other debt products, gross	$ 2,975,756	$ 2,360,864	$ 2,320,186	$ 1,988,416	$ 1,893,571	$ 1,776,195	$ 1,870,178
Interest earning assets(3)	3,179,911	2,583,346	2,508,729	2,223,908	2,036,526	1,886,165	2,007,908
Total assets	3,297,290	2,542,411	2,543,967	2,275,309	2,051,565	1,885,407	2,016,264
Interest bearing liabilities	2,595,877	2,040,371	1,983,516	1,627,816	1,414,967	1,286,256	1,430,526
Equity	657,133	621,113	617,044	604,742	579,083	560,617	546,974

	Six months ended June 30, 2015	2014 (unaudited)	Year ended December 31, 2014	2013	2012	2011	2010
Performance Ratios(4):							
Return on average assets	0.49%	0.34%	0.42%	1.08%	1.17%	0.75%	0.51%
Return on average equity	2.31%	1.41%	1.72%	4.07%	4.14%	2.52%	1.87%
Net interest margin, before provision	2.24%	3.26%	3.17%	3.90%	4.34%	4.28%	3.60%
Loan portfolio yield	1.42%	1.90%	6.09%	6.68%	6.54%	6.50%	6.02%
Efficiency ratio	48.43%	48.21%	50.32%	49.30%	46.46%	51.81%	44.74%
Credit Quality and Leverage Ratios (5):							
Delinquent loan rate (at period end)	1.67%	1.06%	1.84%	0.22%	3.59%	5.34%	6.74%
Delinquent loan rate for accruing loans 60 days or more past due (at period end)					1.17%	0.46%	0.50%

41

Table of Contents

	Six months ended June 30,				Year ended December 31,		
	2015	2014	2014	2013	2012	2011	2010
		(unaudited)					
Non-accrual loan rate (at period end)	3.69%	3.70%	3.70%	3.04%	4.05%	5.61%	7.98%
Non-performing asset rate (at period end)	3.79%	4.29%	3.84%	3.60%	4.77%	5.61%	8.17%
Annualized net charge off rate (end of period loans)	0.58%	2.52%	1.07%	0.77%	1.49%	2.09%	3.69%
Annualized net charge off rate (average period loans)	0.56%	2.25%	1.10%	0.91%	1.43%	2.15%	3.36%
Allowance for credit losses ratio (at period end)	1.81%	1.87%	1.84%	1.80%	2.78%	3.52%	4.99%
Debt to equity (at period end)	4.13x	2.92x	3.32x	3.18x	2.49x	2.40x	2.50x
Equity to assets (at period end)	18.75%	25.26%	22.80%	23.64%	27.58%	28.96%	28.06%

(1) The ratio of earnings to fixed charges is defined as earnings divided by fixed charges. For purposes of this ratio, earnings is defined as operating income before income taxes and fixed charges. Fixed charges is defined as the sum of interest expense and the component of rental expense that we believe to be representative of the interest factor for those amounts.

(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

Management s discussion and analysis of financial condition and results of operations

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, which enables us to leverage common standards, systems, and industry and professional expertise across multiple businesses.

We direct our marketing and origination efforts to 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 focus on companies operating 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 each lending platform 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.

Table of Contents

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 lending activities and asset management services across 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.

Market conditions

Market conditions in most segments of the loan market that we target were mixed in the second quarter compared to the prior quarter. According to Thomson Reuters, overall middle market loan volume in the second quarter increased as compared to the first quarter but declined compared to the same period in 2014, with volume of approximately $34 billion in the second quarter versus $31 billion in the first quarter and versus $55 billion in the second quarter of 2014. The volume represented by new middle market transactions, as opposed to refinancings, increased in the second quarter of 2015 to $14.1 billion from $13.1 billion in the first quarter; refinancing volume increased to $20.0 billion in the second quarter of 2015 from $18.4 billion in the first. As a percentage of total volume, new transactions remained flat around 41% versus both the prior quarter as well as the same period last year.

After hitting a trough in early 2014, the pricing environment in the broader loan market has generally strengthened, but has dipped again in the first and second quarter of 2015. We believe that conditions in the middle market have remained somewhat insulated from the impact of excessive liquidity evident in the broader loan markets as yields remained relatively stable through the first quarter before declining in the second quarter. Loan yields in both the large corporate market and middle market decreased in the second quarter. Large corporate loan yields were down to 4.8% in the second quarter from 5.6% in the first quarter and down from 5.0% in the same quarter last year. Middle market loan yields were down to 6.0% in the second quarter from 6.7% in the first quarter but up from 5.8% 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.

Table of Contents

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 comparatively weak in the second 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 generally remained steady in the second quarter as fixed income investors continued to target structured investment alternatives such as CLOs to meet their return objectives. Despite remaining regulatory headwinds and softening equity demand, the new issue CLO market continues to remain resilient and on pace with issuance volume last year. 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.

New U.S. CLO issuance in the second quarter was approximately $28 billion, a 25% decrease versus the same quarter in 2014, but $58 billion through the first half of 2015 which is slightly behind the $60 billion total through the same period last year. Total U.S. CLO issuance in 2014, 2013 and 2012 was approximately $124 billion, $81 billion and $55 billion, respectively. Due to interest rate uncertainty, regulatory pressure and a steepening yield curve, CLO credit spreads have seen slight upward movement since the end of 2014 and into the second quarter of 2015. 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 investment activity. These factors were generally favorable in the second quarter as we originated over $1 billion of new loans at attractive yields. After declining through the first half of 2014 in a muted M&A volume environment, yields rebounded in the first quarter, but fell again in the second quarter. Although pricing was thinner, leverage also decreased and conditions in our primary target markets continued to remain more favorable relative 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 through 2015 and continue to provide opportunities for us to increase our origination volume.

Recent developments

Liquidity

On August 10, 2015, we entered into an amendment to our credit facility with syndicated lenders agented by Wells Fargo Bank, National Association to fund leveraged finance loans which, among other things, increased

Table of Contents

the commitment amount to $475.0 million from $425.0 million, extended the revolving period to August 10, 2018 and the final maturity date to August 10, 2020, modified the advance rates from a flat structure to a grid structure based on loan type, and modified the concentration limits.

On August 5, 2015, we entered into an amendment to our credit facility with Citibank, N.A to fund leveraged finance loans that increased the commitment amount to $250.0 million from $175.0 million.

On June 19, 2015, we entered into an amendment to our credit facility with syndicated lenders agented by DZ Bank AG Deutsche Zentral-Genossenschaftbank Frankfurt to fund asset-based loans which, among other things, increased the commitment amount to $175.0 million from $125.0 million, and extended the maturity date to June 30, 2018 from June 30, 2015.

On June 19, 2015, we entered into an amendment to our credit facility with syndicated lenders agented by Wells Fargo Bank, National Association to fund asset-based loans which, among other things, increased the commitment amount to $165.0 million from $110.0 million.

On May 5, 2015, we entered into a $175.0 million credit facility with Citibank, N.A. to fund leverage finance loans. The facility provides for a reinvestment period which ends on May 5, 2018 with a two-year amortization period.

On April 22, 2015, we completed the sale of $300.0 million in aggregate principal amount of 7.25% Senior Notes due 2020. We subsequently repaid in full our corporate credit facility with Fortress Credit Corp. with a portion of the net proceeds from this offering.

On April 10, 2015, we entered into an amendment to our credit facility with Wells Fargo Bank, National Association to fund equipment finance leases and loans. The amendment, among other things, extended the advance termination date from April 10, 2015 to April 10, 2017 and the final legal maturity date to April 10, 2019, and increased the maximum single lessee hold size to $4.0 million, subject to concentration limits.

Stock repurchase

As of June 30, 2015, the Company had repurchased 822,465 shares of its common stock under the stock repurchase program approved on August 13, 2014 at a weighted average price per share of $11.20. The Company completed the stock repurchase program during July 2015.

Results of operations for the six months ended June 30, 2015 and 2014

NewStar s basic and diluted income per share of $0.16 and $0.15, respectively for the six months ended June 30, 2015 on net income of $7.5 million, compared to basic and diluted income per share of $0.09 and $0.08, respectively, for the six months ended June 30, 2014, on net income of $4.3 million. Our managed portfolio was $4.2 billion at June 30, 2015 compared to $3.4 billion at December 31, 2014. Our managed assets totaled $4.5 billion at June 30, 2015 compared to $3.8 billion as of December 31, 2014.

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 6.18% for the six months ended June 30, 2015 and 6.15% for the six months ended June 30, 2014. The increase in loan portfolio yield was primarily driven by an increase in our average yield on interest earning assets from new loan and lease origination and re-pricings subsequent to June 30, 2014.

Table of Contents

Net interest margin

Net interest margin, which is net interest income divided by average interest earning assets, was 2.24% for six months ended June 30, 2015 and 3.26% for the six months ended June 30, 2014. The primary factors impacting net interest margin for the six months ended June 30, 2015 were the acceleration of amortization of $3.6 million of deferred financing fees related to the payoff of the Fortress corporate credit facility with a portion of the proceeds from the issuance of senior notes, the composition of interest earning assets, non-accrual loans, changes in three-month LIBOR, credit spreads and cost of borrowings. Excluding the $3.6 million of accelerated amortization of deferred financing fees, the net interest margin for the six months ended June 30, 2015 would have been 2.48%. The primary factors impacting net interest margin for the six months ended June 30, 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 composition of interest earning assets, non-accrual loans, changes in three-month LIBOR, credit spreads and cost of borrowings. Excluding the $1.1 million of accelerated amortization of deferred financing fees, the net interest margin for the six months ended June 30, 2014 would have been 3.35%.

Operating expenses as a percentage of average total assets

Operating expenses as a percentage of average total assets was 1.42% for the six months ended June 30, 2015 and 1.90% for the six months ended June 30, 2014. The decrease for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014 was primarily due to originations that increased average total assets subsequent to June 30, 2014.

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 48.43% for the six months ended June 30, 2015 and 48.21% for the six months ended June 30, 2014.

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 1.81% at June 30, 2015 and 1.84% as of December 31, 2014. The decrease in the allowance for credit losses ratio from December 31, 2014 is primarily due to the increase in outstanding loans and leases due to new loan origination during the six months ended June 30, 2015, partially offset by the increase in general provision primarily driven by an increase in outstanding loans and leases, and an increase in the specific allowance of $1.5 million. During the six months ended June 30, 2015, we recorded $5.5 million of net specific provision for credit losses on impaired loans and had charge offs net of recoveries totaling $3.9 million. At June 30, 2015, the specific allowance for credit losses was $22.2 million, and the general allowance for credit losses was $27.8 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. 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 changes in the 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.

Delinquent loan rate

Delinquent loan rate, which is total delinquent loans net of charge offs with outstanding cash receivables that are 60 days or more past due, divided by outstanding gross loans and leases, was 1.67% as of June 30, 2015 as compared to 1.84% as of December 31, 2014. We had delinquent loans with an outstanding balance of $46.3

million and $43.6 million as of June 30, 2015 and December 31, 2014, 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 with outstanding cash receivables 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 June 30, 2015 or December 31, 2014. 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 3.69% as of June 30, 2015 and 3.70% as of December 31, 2014. As of June 30, 2015 and December 31, 2014, the aggregate outstanding balance of non-accrual loans was $101.9 million and $87.8 million, respectively and total outstanding loans and leases held for investment was $2.8 billion and $2.4 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 3.79% as of June 30, 2015 and 3.84% as of December 31, 2014. As of June 30, 2015 and December 31, 2014, the sum of the aggregate outstanding balance of non-performing assets was $105.9 million and $91.0 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. The net charge-off rate was 0.29% for the six months ended June 30, 2015, and 2.05% for the six months ended June 30, 2014. 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.

Table of Contents

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. The net charge-off rate was 0.29% for the six months ended June 30, 2015, and 1.83% for the six months ended June 30, 2014. 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 0.49% for the six months ended June 30, 2015 and 0.34% for the six months ended June 30, 2014.

Return on average equity

Return on average equity, which is net income divided by average equity, was 2.31% for the six months ended June 30, 2015 and 1.41% for the six months ended June 30, 2014.

Table of Contents

Review of consolidated results

A summary of NewStar Financial s consolidated financial results for the six months ended June 30, 2015 and 2014 and the years ended December 31, 2014, 2013 and 2012 follows:

	Six months ended June 30,		Year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
					($ in thousands)
Net interest income:					
Interest income	$ 86,620	$ 66,663	$ 136,171	$ 127,694	$ 123,945
Interest expense	53,419	26,369	57,775	42,971	35,591
Net interest income	33,201	40,294	78,386	84,713	88,354
Provision for credit losses	10,186	18,459	27,108	9,738	12,651
Net interest income after provision for credit losses	23,015	21,835	51,288	74,975	75,703
Non-interest income:					
Fee income	5,935	1,232	2,467	3,670	4,619
Asset management income	1,935	55	1,054	2,482	2,984
Loss on derivatives	(19)	(17)	(39)	(143)	(315)
Loss on sale of loans	(46)	(166)	(230)	72	335
Other income	3,750	7,110	7,964	7,431	3,948
Total non-interest income	11,555	8,214	11,216	13,512	11,571
Operating expenses:					
Compensation and benefits	14,443	15,562	30,383	32,672	31,139
General and administrative expenses	7,233	8,221	15,133	16,726	15,158
Total operating expenses	21,676	23,783	45,516	49,398	46,297
Operating income (loss) before income taxes	12,894	6,266	16,988	39,089	40,977
Results of Consolidated Variable Interest Entity					
Interest income		5,268	5,268	5,321	
Interest expense credit facilities		2,865	2,865	1,879	
Interest expense Fund membership interest		1,292	1,292	1,353	
Other income		229	229	51	
Operating expenses		249	249	78	
Net results from Consolidated Variable Interest Entity		1,091	1,091	2,062	
Income (loss) before income taxes	12,894	7,357	18,079	41,151	40,977
Income tax expense (benefit)	5,355	3,009	7,485	16,556	17,000
Net income (loss)	$ 7,539	$ 4,348	$ 10,594	$ 24,595	$ 23,977

Comparison of the six months ended June 30, 2015 and 2014

Interest income. Interest income increased $14.7 million, to $86.6 million for the six months ended June 30, 2015 from $71.9 million on a consolidated basis for the six months ended June 30, 2014. The increase was primarily due to an increase in average balance of our interest earning assets to $3.0 billion from $2.6 billion primarily due to new loan origination subsequent to June 30, 2014.

Interest expense. Interest expense increased $22.9 million, to $53.4 million for the six months ended June 30, 2015 from $30.5 million on a consolidated basis for the six months ended June 30, 2014. The increase is

Table of Contents

primarily due to an increase in the average balance of our interest bearing liabilities to $2.4 billion from $2.1 billion, and an increase in the average cost of funds to 4.47% from 2.97%, primarily due to increased borrowings under certain credit facilities with higher interest rates, the subordinated notes, and the accelerated amortization of $3.6 million of deferred fees recognized in connection with the payoff of our corporate credit facility during the six months ended June 30, 2015.

Net interest margin. Net interest margin decreased to 2.24% for the six months ended June 30, 2015 from 3.26% for the six months ended June 30, 2014. The decrease in net interest margin was primarily due to an increase in our average cost of interest bearing liabilities and the accelerated amortization of deferred fees. 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 1.38% from 2.69%.

The following table summarizes the yield and cost of interest earning assets and interest bearing liabilities for the six months ended June 30, 2015 and 2014:

	Six months ended June 30, 2015			Six months ended June 30, 2014 ($ in thousands)		
	Average balance	Interest income/ expense	Average yield/ cost	Average balance	Interest income/ expense	Average yield/ cost
Total interest earning assets	$ 2,984,837	$ 86,620	5.85%	$ 2,561,513	$ 71,931	5.66%
Total interest bearing liabilities	2,409,303	53,419	4.47%	2,070,424	30,526	2.97
Net interest spread		$ 33,201	1.38%		$ 41,405	2.69%
Net interest margin			2.24%			3.26%

Provision for credit losses. The provision for credit losses decreased $8.3 million to $10.2 million for the six months ended June 30, 2015 from $18.5 million for the six months ended June 30, 2014. The decrease in the provision was primarily due to a decrease of $12.5 million in specific provisions recorded during the six months ended June 30, 2015 as compared to six months ended June 30, 2014, partially offset by an increase of $4.2 million of general provisions, which was primarily a result of loan growth. During the six months ended June 30, 2015, we recorded net specific provisions for impaired loans of $5.5 million compared to $18.0 million recorded during the six months ended June 30, 2014. The net specific component of the provision for credit losses was primarily focused around negative credit migration related to one previously identified impaired loan.

Non-interest income. Non-interest income increased $3.2 million, to $11.6 million for the six months ended June 30, 2015 from $8.4 million on a consolidated basis for the six months ended June 30, 2014. For the six months ended June 30, 2015, non-interest income was primarily comprised of $5.9 million of fee income comprised primarily of capital markets fees, such as arrangement, syndication and advisory fees, a $2.1 million unrealized gain on a total return swap, $1.9 million of asset management fees, $1.1 million of unused fees, and $0.3 million of income from other real estate owned properties. For the six months ended June 30, 2014, non-interest income was primarily comprised of $6.5 million of gains recognized from the sale of equity interests in certain impaired borrowers, $1.2 million of fee income, $1.2 million of income from other real estate owned properties, and $1.4 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 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 $2.3 million, to $21.7 million for the six months ended June 30, 2015 from $24.0 million on a consolidated basis for the six months ended June 30, 2014. Compensation and benefits expense decreased $1.1 million and general and administrative expenses decreased $1.2 million.

Income taxes. For the six months ended June 30, 2015 and 2014, we provided for income taxes based on an effective tax rate of approximately 42% and 41%, respectively.

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 the 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, 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			Year ended December 31, 2013 ($ in thousands)		
	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	$ 133,00	5.98%
Total interest bearing liabilities	1,983,516	61,932	3.12	1,627,816	46,203	2.84
Net interest spread		$ 79,50	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 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.

Table of Contents

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 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 the 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 were 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.

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 were 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			Year ended December 31, 2012 ($ in thousands)		
	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%

Table of Contents

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.

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.

Table of Contents

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 second quarter of 2015, the U.S. economy showed generally positive signals as growth seems to have rebounded somewhat after a slow first quarter. The second quarter saw steady-to-favorable trends in employment, consumer spending, wages and housing, while steady-to-unfavorable trends were seen in areas such as manufacturing and consumer confidence. The Fed has continued to maintain it will act carefully to keep interest rates low until the economy is strong and recently stated it anticipates that it will be appropriate to raise rates later in the year. We expect broader favorable trends and moderate growth in the U.S. to continue and monetary policy to remain conducive to moderate growth in the near term. 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.

Cash and cash equivalents

As of June 30, 2015 and December 31, 2014, we had $25.3 million and $33.0 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.

Restricted cash

Separately, we had $189.5 million and $95.4 million of restricted cash as of June 30, 2015 and December 31, 2014, respectively. 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 June 30, 2015, we could use $62.3 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 June 30, 2015.

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 June 30, 2015, we had impaired loans and leases with an aggregate outstanding balance of $195.6 million. Impaired loans with an aggregate outstanding balance of $154.6 million have been restructured and classified as troubled debt restructurings. Impaired loans with an aggregate outstanding balance of $101.9 million were on non-accrual status. During the six months ended June 30, 2015, we had recoveries of impaired loans totaling $0.1 million and charge-offs totaling $4.0 million of impaired loans. Impaired loans of $46.3 million were greater than 60 days past due and classified as delinquent. During the six months ended June 30, 2015, we recorded $5.5 million of net specific provisions for impaired loans. Included in our specific allowance for impaired loans was $9.8 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 June 30, 2015 and December 31, 2014 was $48.7 million and $43.0 million, respectively, or 1.76% and 1.81% of loans and leases, gross, respectively. As of June 30, 2015, we also had a $1.2 million allowance for unfunded commitments, resulting in an allowance for credit losses of 1.81%.

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.

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 losses for the six months ended June 30, 2015 and for the year ended December 31, 2014 was as follows:

	Six months ended June 30, 2015	Year ended December 31, 2014
	($ in thousands)	
Balance as of beginning of period	$ 42,983	$ 41,403
General provision for loan and lease losses	4,193	4,779
Specific provision for loan losses	5,464	22,070
Net charge offs	(3,932)	(25,269)
Balance as of end of period	48,708	42,983
Allowance for losses on unfunded loan commitments	1,239	710
Allowance for credit losses	$ 49,947	$ 43,693

During the six months ended June 30, 2015 we recorded a total provision for credit losses of $10.2 million. The Company decreased its allowance for credit losses to 1.81% of gross loans at June 30, 2015 compared to 1.84% at December 31, 2014.

Borrowings and liquidity

As of June 30, 2015 and December 31, 2014, we had outstanding borrowings totaling $2.8 billion and $2.2 billion, respectively. Borrowings under our various credit facilities and term debt securitizations are used to partially fund our positions in our loan portfolio.

Table of Contents

As of June 30, 2015, 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	$ 1,015,000	$ 634,923	$ 380,077	2015-2018
Term debt securitizations(1)	1,549,954	1,543,955	5,999	2022-2027
Repurchase agreements	99,210	99,210		2017