

NewStar Financial, Inc.  
Form DEF 14A  
April 06, 2012  
Table of Contents

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

**SCHEDULE 14A**

**(Rule 14a-101)**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary proxy statement

**Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))**

Definitive proxy statement

Definitive additional materials

Soliciting material pursuant to § 240.14a-12

**NEWSTAR FINANCIAL, INC.**

(Name of Registrant as Specified in Its Charter)

**(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)**

Payment of filing fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transactions applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:



**Table of Contents**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**to be held May 9, 2012**

The 2012 annual meeting of the stockholders of NewStar Financial, Inc., a Delaware corporation, will be held at the offices of Edwards Wildman Palmer LLP at 111 Huntington Avenue, 20th floor, Boston Massachusetts, on May 9, 2012 at 10:00 a.m. local time for the following purposes:

1. To elect eight (8) directors to serve until the 2013 annual meeting of stockholders;
2. To ratify the Audit Committee's appointment of KPMG LLP as the Company's independent registered public accounting firm for the 2012 fiscal year; and
3. To transact such other business as may properly come before the meeting or any adjournment thereof.

Only stockholders of record at the close of business on April 2, 2012 will be entitled to vote at the annual meeting or at any adjournment.

**It is important that your shares be represented at the meeting. Therefore, whether or not you plan to attend the meeting, please complete your proxy card and return it in the enclosed envelope, which requires no postage if mailed in the United States, or vote using the Internet by following the Internet voting instructions. If you attend the meeting and wish to vote in person, your proxy will not be used.**

By order of the Board of Directors,

Robert K. Brown

*Secretary*

Dated: April 9, 2012

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING  
TO BE HELD ON MAY 9, 2012.**

This proxy statement and our annual report to security holders are available at

[www.rrdezproxy.com/2012/NewStarFinancial](http://www.rrdezproxy.com/2012/NewStarFinancial).

**Table of Contents**

**PROXY STATEMENT**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>GENERAL INFORMATION ABOUT VOTING</u>	1
<u>CORPORATE GOVERNANCE</u>	4
<u>Corporate Governance Guidelines</u>	4
<u>Board Leadership Structure</u>	4
<u>Board and Director Independence</u>	4
<u>Board Risk Oversight</u>	5
<u>Board Committees</u>	5
<u>Code of Ethics</u>	9
<u>Certain Relationships and Transactions</u>	9
<u>Stockholder Communications to the Directors</u>	10
<u>SHARES HELD BY PRINCIPAL STOCKHOLDERS AND MANAGEMENT</u>	11
<u>PROPOSAL 1: ELECTION OF DIRECTORS</u>	13
<u>PROPOSAL 2: RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	19
<u>Interests of Directors and Executive Officers</u>	19
<u>Recommendation of the Board of Directors</u>	19
<u>EXECUTIVE COMPENSATION</u>	20
<u>Compensation Discussion and Analysis</u>	20
<u>Compensation Committee Report</u>	33
<u>Executive Compensation</u>	34
<u>BOARD OF DIRECTORS DIRECTOR COMPENSATION</u>	41
<u>EQUITY PLAN INFORMATION</u>	43
<u>OTHER MATTERS</u>	43
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	43
<u>Deadlines for Stockholder Proposals</u>	43

---

**Table of Contents**

**GENERAL INFORMATION ABOUT VOTING**

The Board of Directors of NewStar Financial, Inc. ( NewStar or the Company ) is soliciting your proxy for use at the 2012 annual meeting of stockholders to be held on Wednesday May 9, 2012 and at any adjournment of the meeting. This proxy statement and the accompanying proxy card are first being sent or given to stockholders of NewStar on or about April 9, 2012.

**Who can vote.** You may vote your shares of NewStar common stock at the annual meeting if you were a stockholder of record at the close of business on April 2, 2012. On that date, there were 49,316,210 shares of common stock outstanding. You are entitled to one vote for each share of common stock that you held on the record date.

**How to vote your shares**

***Stockholder of Record: Shares Registered in Your Name***

If on April 2, 2012 your shares were registered directly in your name with our transfer agent, then you are a stockholder of record. If you are a stockholder of record, you may vote in person at the annual meeting, by mail or over the Internet. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person if you have already voted by proxy. Voting in person will revoke your proxy. There are three ways to vote:

To vote in person, come to the annual meeting and we will give you a ballot when you arrive. If you plan to attend the annual meeting in person, please plan to arrive no later than ten minutes in advance of the start time of the meeting to allow access to the building facilities.

To vote using the proxy card, complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the annual meeting, we will vote your shares as you direct.

To vote over the Internet, access our secure website registration page through the Internet at [www.voteproxy.com](http://www.voteproxy.com) and follow the instructions. You will need to have the control number that appears on your proxy card available when voting. Please note that the Internet voting facilities for registered stockholders will close at 11:59 p.m., EDT, on May 8, 2012.

***Beneficial Owner: Shares Registered in the Name of a Broker or Bank***

If on April 2, 2012 your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by that organization. If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from us. Complete and mail the proxy card to ensure that your vote is counted. Alternatively, you may vote over the Internet, as instructed by your broker or bank. To vote in person at the annual meeting, you must obtain a valid proxy from your broker, bank or other agent. Follow the instructions from your broker or bank included with these proxy materials or contact your broker or bank to request a proxy form.

**Proposals to be considered at the annual meeting.** The principal business expected to be transacted at the meeting will be:

1. To elect eight (8) directors to serve until the 2013 annual meeting of stockholders;
2. To ratify the Audit Committee's appointment of KPMG LLP as the Company's independent registered public accounting firm for the 2012 fiscal year; and

Edgar Filing: NewStar Financial, Inc. - Form DEF 14A

3. To transact such other business as may properly come before the meeting or any adjournment thereof.



**Table of Contents**

**Quorum.** A quorum of stockholders is required to transact business at the meeting. A majority of the outstanding shares of common stock entitled to vote, represented at the meeting in person or by proxy, constitutes a quorum for the transaction of business.

**Number of votes required.** The required vote for each of the proposals for consideration at the annual meeting is as follows:

<b>Proposal</b>	<b>Number of votes required</b>
Proposal 1	Each director nominee must receive a plurality of the votes cast to be reelected.
Proposal 2	The proposal to ratify our independent auditors must receive the affirmative vote of a majority of the total votes cast, present or represented by proxy, to be approved.

**Abstentions and broker non-votes.** Abstentions and broker non-votes will be counted in determining a quorum for the transaction of business at the annual meeting. A broker non-vote on a proposal results from a proxy submitted by a broker that does not indicate a vote for one or more proposals because the broker does not have discretionary voting authority and the broker's customer did not send the broker instructions on how to vote on the proposal. If the broker does not have instructions on certain matters, and the broker is barred by law or the broker regulations of the New York Stock Exchange from exercising its discretionary voting authority in the particular matter, then the shares will not be voted on the matter. The impact of abstentions and broker non-votes on the proposals scheduled to be presented at the meeting is as follows:

<b>Proposal</b>	<b>Impact of Abstentions and Broker Non-Votes</b>
Proposal 1	Abstentions and broker non-votes will not be treated as votes cast and, therefore, will not affect the outcome of the election of each director.
Proposal 2	Broker non-votes will not be treated as votes cast and, therefore, will not affect the outcome of the proposal to ratify the appointment of KPMG as our independent auditors. Abstentions will be counted as present and entitled to vote and, accordingly, will have the effect of a negative vote.

**Discretionary voting by proxies on other matters.** We do not know of any other proposals, other than the proposals described above, that may be presented at the 2012 annual meeting. If another matter is properly presented for consideration at the meeting, the persons named in the accompanying proxy card will exercise their discretion in voting on the matter.

**How you may revoke your proxy.** You may revoke the authority granted by your executed proxy card at any time before we exercise it by either (i) filing by 5:00 p.m. Eastern Daylight Time the business day prior to the annual meeting with our Corporate Secretary, Robert K. Brown, a written revocation or a duly executed proxy card bearing a later date, or (ii) by voting in person at the meeting. If your shares are held in a brokerage account, you must make arrangements with your broker or bank to revoke your proxy.

**Expenses of solicitation.** We will bear all costs of soliciting proxies. We will, upon request, reimburse brokers, custodians and fiduciaries for out-of-pocket expenses incurred in forwarding proxy solicitation materials to the beneficial owners of stock held in their names. In addition to solicitations by mail, our directors, officers and employees may solicit proxies from stockholders in person or by other means of communication, including telephone, facsimile and e-mail, without additional remuneration. We may retain a proxy solicitation firm to assist in the solicitation of proxies. We will bear all reasonable fees and expenses if such a firm is retained.

**Householding of Annual Meeting Materials.** Some banks, brokers and other nominee record holders may be householding our proxy statements and annual reports. This means that only one copy of our proxy statement and annual report to stockholders may have been sent to multiple stockholders in your household. If you want to receive separate copies of the proxy statement or annual report to stockholders in the future, or if you

**Table of Contents**

are receiving multiple copies and would like to receive only one copy per household, you should contact your bank, broker, or other nominee record holder, or you may contact us at the address and telephone number set forth below. Our annual report is also available on our website at [www.newstarfin.com](http://www.newstarfin.com).

**Annual Report on Form 10-K.** We will promptly deliver to you a copy of our annual report on Form 10-K for the year ended December 31, 2011 and additional copies of our proxy statement and annual report to stockholders, without charge, if you call or write us at the following address or telephone number: NewStar Financial, Inc., 500 Boylston St., Suite 1250, Boston, MA 02116, Attn: Corporate Secretary, telephone: (617) 848-2500.

**No Appraisal Rights.** There are no appraisal rights associated with any of the proposals being considered at the annual meeting.

**Table of Contents**

**CORPORATE GOVERNANCE**

NewStar Financial, Inc. is committed to sound corporate governance practices that support the high standard the Company has established for the way in which its employees, officers and directors pursue the Company's business objectives. It is the duty of the Board of Directors to serve as a prudent fiduciary for shareholders and to oversee the management of the Company's business. To fulfill its responsibilities, the Board of Directors follows the procedures and standards that are set forth in the guidelines below.

**Corporate Governance Guidelines**

Our corporate governance practices are documented in Corporate Governance Guidelines and Principles that are adopted by the Board of Directors and that are updated from time to time as recommended by the Company's Nominating and Governance Committee. Other corporate governance practices may be found in the charters of the various committees of the NewStar Board of Directors which are posted on our website at [www.newstarfin.com](http://www.newstarfin.com).

**Board Leadership Structure**

*Chairman of the Board*

The primary duty of the Chairman is to preside over meetings of the Board of Directors. The Chairman also establishes the agenda for Board meetings, designates members of management to be present at Board meetings, and is consulted regarding members of management who are present at Board committee meetings. The Chairman has the authority to call regular and special meetings of the Board and is consulted regarding nominees for the Board and the composition and chairmanship of Board committees.

Timothy J. Conway serves as both our Chairman and CEO. The Company does not have a stated policy with respect to the separation of the positions of Chairman and CEO. As the original founder of the Company, and the individual ultimately responsible for the implementation of the Company's strategy and day-to-day operations, the Board believes that Mr. Conway's detailed knowledge of the business and industry in which we operate makes him the director best qualified to act as Chairman of the Board.

*Lead Director*

The primary role of the lead director is to provide independent leadership to the Board in circumstances where the joint roles of Chairman and CEO could potentially be in conflict and to ensure that the Board operates independently of management. Among other things, the lead director acts as a liaison between the Chairman and the directors and has the authority to call special meetings of the independent directors and to convene executive sessions of the independent directors during regularly scheduled Board meeting. Richard E. Thornburgh currently serves as our independent lead director. The lead director does not serve for a specified term and may be replaced if and when the Board determines that such a change is warranted.

**Board and Director Independence**

The Board of Directors has determined that all our directors, other than Messrs. Conway and Schmidt-Fellner, are independent under the criteria established by NASDAQ, and that all the members of the Audit Committee also meet the additional independence requirements of the Securities and Exchange Commission. None of these directors have a relationship which, in the opinion of our board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

The Board of Directors held six meetings during 2011. Independent directors regularly meet in executive session in which only independent directors are present. During 2011, each of our incumbent directors attended at least 75% of the aggregate of all meetings of the Board of Directors and all meetings of the committees of the

## **Table of Contents**

Board of Directors on which such director served. All Board members who are up for reelection at the annual meeting of stockholders are expected to attend the annual meeting of stockholders, subject to special circumstances. Each member of our Board of Directors attended our 2011 annual meeting.

### **Board Risk Oversight**

As part of their oversight functions, the Board of Directors generally oversees the Company's risk management policies and programs, and allocates certain specific responsibilities to various committees, consistent with the substantive scope of each Committee's charter. As described below, the Risk Policy Committee is primarily responsible for monitoring our credit risk.

### **Board Committees**

The Board has standing Audit, Compensation, Nominating and Corporate Governance and Risk Policy Committees. The Company has adopted a formal charter for each of the Board committees listed above, which sets forth that committee's duties and responsibilities. These committee charters are available in the Corporate Governance section of the Company's website at [www.newstarfin.com](http://www.newstarfin.com). The role of each Committee in assisting the Board in fulfilling its fiduciary responsibilities to shareholders is described below.

The following table depicts the current composition of our Board Committees:

#### ***Risk Policy Committee***

The Risk Policy Committee reports to and assists the Board of Directors in overseeing and reviewing information regarding our credit risk management framework, including the significant policies, procedures and practices employed to manage credit risk. Its members are Messrs. Thornburgh (Chair), Conway and Bralver. The Committee met four times in 2011 and is charged with assisting the Board with its oversight of the Company's credit practices and procedures; monitoring the performance of the Company's portfolio from a credit perspective; reviewing recommendations of management; and considering, evaluating and approving on behalf of the Board, specified lending transactions above the hold limits established by the Committee as a ceiling on the approval authority of management's credit committee. In addition, the Committee retains the ability to authorize management to develop and implement any additional policies relating to risk assessment and risk management.

---

**Table of Contents**

***Nominating and Corporate Governance Committee***

The Nominating and Corporate Governance Committee assists the Board of Directors in identifying and reviewing individuals qualified to serve as directors and recommending candidates for election to the Board and in developing and overseeing implementation of our corporate governance. Its members are Ms. O Hara (Chair) and Messrs. Brooker and Cooper. In 2011 the Nominating and Corporate Governance Committee met two times.

The Nominating and Corporate Governance Committee will seek new nominees for election to the Board, when necessary, through a variety of channels, including the engagement of director search firms and less formal recommendations through business and personal contacts. Director search firms engaged by the Committee will generally be paid a retainer to identify and screen candidates meeting specifications established by the Committee for a particular Board nominee search. Such specifications will change from one search to another based on the Committee's determination of the Board composition needs at the time a particular search is initiated.

The Nominating and Corporate Governance Committee will evaluate any candidate recommended for nomination as a director, whether proposed by a stockholder or identified through the Committee's own search processes, about whom it is provided appropriate information. The Committee will determine whether the particular nomination would be consistent with our governance policies and criteria, including without limitation the following: the candidate's current level of, and on-going commitment to, education regarding the responsibilities of a member of a Board of Directors; whether the candidate has the time available to commit to responsibilities as a member of the Board; and the existence of any financial relationship with the Company other than that arising as an employee, as a Board member and/or as a stockholder.

If a candidate is presented to the Nominating and Corporate Governance Committee at a time when it has established specifications for a particular Board search, the Committee will consider whether the candidate satisfies the established specifications. While the Committee does not have a formal policy for considering diversity in identifying nominees, it seeks individuals who represent a range of relevant experiences and considers the impact each nominee would have in increasing the diversity of perspectives, expertise, background and skills of the Board. In evaluating a candidate, the Committee must, at a minimum, determine that the candidate is capable of discharging his or her fiduciary duties to the stockholders of the Company. More generally, the Committee will consider a candidate's skills, character, leadership experience, business experience and judgment, and familiarity with relevant industry, national and international issues in light of the backgrounds, skills and characteristics of the current Board and the needs of the Company's business. Finally, the Committee must consider whether a nominee (in conjunction with the existing Board members) will assist the Company in meeting the requirements of applicable law, the rules of the Securities and Exchange Commission, the NASDAQ Global Market listing standards, and the Internal Revenue Code regarding the independence, sophistication and skills of the members of the Board of Directors and the Audit, Compensation and Nominating and Corporate Governance Committees.

In order to recommend a candidate for consideration by the Nominating and Corporate Governance Committee, a stockholder must provide the Committee with the candidate's name, background and relationship with the proposing stockholder, a brief statement outlining the reasons the candidate would be an effective director and information relevant to the considerations described above. Such information should be sent to the Nominating and Corporate Governance Committee of NewStar Financial, Inc., 500 Boylston Street, Boston, MA 02116, Attn: Corporate Secretary. In addition to the above, the Committee may request further information, in its discretion.

On February 14, 2012 the Company received from Capital Z Partners III, L.P. their nomination of Bradley E. Cooper as a director pursuant to the nomination rights that the Company had previously granted to Capital Z Partners III, L.P. The Committee has nominated Mr. Cooper for reelection as a director.

**Table of Contents*****Audit Committee***

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities for accounting and financial reporting compliance, including reviewing the financial information provided to the stockholders and others, our accounting policies, disclosure controls and procedures and internal accounting and financial controls, and the audit process. In undertaking these responsibilities, the Committee meets with management and with the independent auditor (including meeting privately, without management present) to discuss the financial statements, our financial reporting policies and procedures, and our internal control over financial reporting. The Committee reports on such matters to our Board. The Committee reviews the performance of the independent registered public accounting firm in the annual financial statement audit and assesses the independence of the registered public accounting firm. The Committee is directly responsible for the appointment (and where appropriate, replacement), evaluation and compensation of the independent registered public accounting firm.

The Audit Committee operates under a written charter, which is available on our website at [www.newstarfin.com](http://www.newstarfin.com). It has adopted procedures for the handling of complaints regarding accounting, internal controls and auditing matters. The Audit Committee consists of Messrs. Noonan (Chair), and Fallon and Ms. O Hara. Mr. Noonan and Ms. O Hara each qualify as an audit committee financial expert, as defined in Securities and Exchange Commission rules. The Audit Committee met five times during 2011.

***Independent Registered Public Accountants Fees and Other Matters***

Upon the recommendation of the Audit Committee, the Board of Directors appointed the independent registered public accounting firm of KPMG LLP as independent auditor to conduct the annual audit of our financial statements for 2011. KPMG LLP is an internationally recognized independent registered public accounting firm that has audited the Company's financial statements since the Company's inception in 2004. Representatives of KPMG LLP are expected to attend the annual meeting and be available to respond to appropriate questions. They will also have the opportunity to make a statement if they desire.

The aggregate fees billed for each of the last two fiscal years for professional services rendered by KPMG LLP were as follows:

	<b>2011</b>	<b>2010</b>
Audit Fees	\$ 938,000	\$ 1,060,000
Audit Related Fees	\$ 64,500	\$ 55,000
Tax Fees	\$ 526,873	\$ 163,700
Total Fees	\$ 1,529,373	\$ 1,278,700

Our Audit Committee must pre-approve all audit-related and non-audit (including tax) services performed by the independent auditor in order to assure that these services do not impair the auditor's independence. Certain types of services may not be performed by the independent auditor at all, as they are inconsistent with independence. Any such approval must be given by the Audit Committee or by any member or members to whom the Committee has delegated that authority. The Audit Committee does not delegate its responsibility to approve services performed by the independent auditor to any member of management.

The standard applied by the Audit Committee in determining whether to grant approval of any type of non-audit service, or of any specific engagement to perform a non-audit service, is whether the services to be performed, the compensation to be paid therefore and other related factors are consistent with the independent auditor's independence under guidelines of the Securities and Exchange Commission, the Public Company Accounting Oversight Board and applicable professional standards. Relevant considerations include whether the work product is likely to be subject to, or implicated in, audit procedures during the audit of our financial statements, whether the independent auditor would be functioning in the role of management or in an advocacy role, whether the independent auditor's performance of the service would enhance our ability to manage or

## **Table of Contents**

control risk or improve audit quality, whether such performance would increase efficiency because of the independent auditor's familiarity with our business, personnel, culture, systems, risk profile and other factors, and whether the amount of fees involved, or the proportion of the total fees payable to the independent auditor in the period that is for non-audit services, would tend to reduce the independent auditor's ability to exercise independent judgment in performing the audit.

Taking into consideration these fees and services, KPMG LLP has informed the Company that they are not aware of any relationship with the Company that, in their professional judgment, may reasonably be thought to bear on the independence of KPMG LLP.

### *2011 Audit Committee Report*

The Committee reviewed and discussed the audited consolidated financial statements for 2011 with management and with KPMG LLP. In this process, the Committee met with KPMG LLP, with and without management present, to discuss the results of their examinations, our critical accounting policies and the overall quality of our financial reporting, as well as our internal control over financial reporting.

The Committee discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended. In addition, the Committee discussed with the independent auditors their independence from us and our management, including the matters in the letter and written disclosures received from KPMG LLP as required by applicable requirements of the Public Company Oversight Board. The Audit Committee also considered whether the independent auditors' provision of non-audit services is compatible with maintaining the independent auditors' independence.

Based on the Committee's discussions with management and the independent auditors and the Committee's review of KPMG LLP's report to the Committee, the Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ending December 31, 2011 for filing with the Securities and Exchange Commission.

By the Audit Committee,

Frank R. Noonan, Chair

Brian L.P. Fallon

Maureen P. O'Hara

### ***Compensation Committee***

The Compensation Committee establishes our compensation philosophy and assists the Board in overseeing our compensation policies and practices. The Compensation Committee consists solely of independent directors. The Committee determines and approves the compensation of our executive officers, reviews and approves management incentive compensation policies and programs and equity compensation programs for employees, and administers those policies and programs. Its responsibilities include setting corporate goals and objectives relevant to compensation of executive officers, evaluating the executive officers' performance against those goals and objectives at least annually, approving all grants of awards, including the award of shares or share options, under our equity incentive plan, and reviewing the form and amount of director compensation at least annually.

The Compensation Committee operates under a written charter, which is available on our website at [www.newstarfin.com](http://www.newstarfin.com). For further information about the Compensation Committee's activities, see "Compensation Discussion and Analysis" below.

The Compensation Committee currently consists of Brian L.P. Fallon (Chair), Charles N. Bralver, Kimball T. Brooker Jr., and Frank R. Noonan. The Compensation Committee met four times during 2011.

## **Table of Contents**

### *Compensation Committee Interlocks and Insider Participation*

None of the members of our Compensation Committee during 2011 served or has ever served as an officer or employee of NewStar.

None of our executive officers serves on the compensation committee or board of directors of any other company of which any of our directors is an executive officer.

### **Code of Ethics**

We have adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, and other senior financial officers. This code sets forth written standards that are reasonably designed to deter wrongdoing and to promote: honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in our other public communications; compliance with applicable governmental laws, rules and regulations; the prompt internal reporting of violations of the code to an appropriate person or persons; and accountability for adherence to the code. The text of this code of ethics is posted on our website at [www.newstarfin.com](http://www.newstarfin.com) in the Investor Relations section under the Corporate Governance sub-section under the heading Committees and Charters, where we may also disclose any amendments to and waivers of the code. At the same location, we have also posted our Code of Business Conduct and ethics, which applies to all our employees and directors.

### **Certain Relationships and Transactions**

The governance rules of the NASDAQ Global Market require us to conduct an appropriate review of any transactions and relationships with the Company in which any of the following have a direct or indirect material interest: any of our directors or executive officers, any nominee for director, and any of the members of their immediate families. In addition, Item 404(a) of Regulation S-K requires us to disclose any transaction or proposed transaction in excess of \$120,000 in which any person who is an executive officer, director, or nominee for director of the Company or the beneficial owner of more than five percent of our voting securities (including their immediate family members) has or will have a direct or indirect material interest. The Audit Committee of our Board of Directors has the responsibility of reviewing and approving any such related person transactions and relationships.

Our Chief Financial Officer is primarily responsible for the development and implementation of processes and controls to obtain information from the directors, executive officers and greater than five percent holders of our voting securities with respect to related person transactions and for then determining, based on the facts and circumstances, whether the Company or a related person has a direct or indirect material interest in the transaction. The Audit Committee will review all such transactions and relationships of which it has knowledge and will approve or ratify those it considers appropriate. Transactions that are determined to be directly or indirectly material to the Company or a related person will be disclosed in our proxy statement. In the course of its review of a disclosable related person transaction, the Audit Committee will consider the nature of the related person's interest in the transaction, the material terms of the transaction, including, without limitation, the amount and type of transaction, the importance of the transaction to the related person, the importance of the transaction to the Company, whether the transaction would impair the judgment of a director or executive officer to act in the best interest of the Company, and any other matters the Committee deems appropriate. Any member of the Audit Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote respecting approval or ratification of the transaction, although such director may be counted in determining the presence of a quorum at a meeting of the Committee that considers the transaction.

During 2006, the Company made a loan in the aggregate amount of \$16.0 million based on market terms to Advantage Business Media LLC, a company whose Board of Directors includes Blair Schmidt-Fellner, the brother of Peter Schmidt-Fellner, our Chief Investment Officer and member of our Board of Directors. At



**Table of Contents**

December 31, 2011, the loan balance outstanding and amount of committed funds were \$7.1 million and \$9.2 million respectively. The largest aggregate amount of principal outstanding under this loan during 2011 was \$7.4 million. The interest rate on the loan is 7.75%, and Advantage Business Media LLC paid \$1.5 million in aggregate principal payments and \$509,366 in aggregate interest payments during 2011.

Pursuant to an Investment Management Agreement dated August 3, 2005, the Company serves as investment manager of the NewStar Credit Opportunities Fund, Ltd. (the Fund), a Cayman Islands exempted company limited by shares incorporated under the provisions of The Companies Law of the Cayman Islands. The Fund pays the Company a management fee, payable monthly in arrears, based on the carrying value of the total gross assets attributable to the applicable series of each class of shares at the end of each month. For the years ended December 31, 2011, 2010 and 2009 the Fund paid the Company asset management fees of \$2.6 million, \$2.9 million and \$2.9 million, respectively.

In March of 2011, the Company made a loan in the aggregate amount of \$13.5 million based on market terms to SPARTA Insurance Holdings, Inc. ( SPARTA ), a company that is 39.6% owned by Corsair Capital, a major stockholder of the Company. In addition, two of the seven members of SPARTA's Board of Directors are employees of Corsair Capital, and T. Kimball Brooker Jr. and Richard Thornburgh, members of our Board of Directors, previously served as directors of SPARTA Insurance Holdings, Inc. At December 31, 2011, the loan balance outstanding and amount of committed funds were \$11.2 million and \$13.5 million, respectively. The largest aggregate principal amount outstanding under this loan during 2011 was \$11.2 million. The interest rate on the loan is 9.5%, and SPARTA made no principal payments and \$553,172 in aggregate interest payments during 2011.

All of the foregoing relationships and transactions were approved by the Audit Committee of our Board of Directors.

**Stockholder Communications to the Directors**

Security holders may communicate with the NewStar Board of Directors by mailing a communication to the entire Board or to one or more individual directors in care of the Corporate Secretary, NewStar Financial, Inc., 500 Boylston St., Suite 1250, Boston, MA 02116. All communications from security holders to Board members (other than communications soliciting the purchase of products and services) will be promptly relayed to the Board members to whom the communication is addressed.

**Table of Contents****SHARES HELD BY PRINCIPAL STOCKHOLDERS AND MANAGEMENT**

The following table shows the amount of our Common Stock beneficially owned as of April 2, 2012 by (i) each person or group who is known by us to own beneficially more than 5% of our Common Stock, (ii) each current member of our Board and each of the executive officers named in the Summary Compensation Table in the Executive Compensation Section of this Proxy Statement below, and (iii) all current members of our Board and our current executive officers as a group. Percentage calculations are based off of the 49,316,210 shares of Common Stock that were outstanding on April 2, 2012.

	Shares Owned	Percent of Class
<b>Principal Stockholders</b>		
Capital Z Partners, Ltd. (1)(2)	9,753,250	19.69%
Capital Z Partners, L.P.		
Capital Z Financial Services Fund II, L.P.		
Capital Z Financial Services Private Fund II, L.P.		
Capital Z Partners III GP, Ltd. (3)(2)		
Capital Z Partners III GP, L.P.		
Capital Z Partners III, L.P. 230 Park Avenue South  New York, NY 10003		
J.P. Morgan Corsair II Capital Partners, L.P. (4)	9,704,972	19.60%
Corsair III Financial Services Capital Partners, L.P.		
Corsair III Financial Services Offshore 892 Partners, L.P.		
717 Fifth Avenue New York, NY 10022		
Timothy E. Moriarty (5)	3,637,234	7.38%
c/o McGrath, Doyle & Phair  150 Broadway Suite 1915  New York, NY 10038		
Swiss Reinsurance Company (6)	3,000,000	6.08%
Mythenquai 50/60  CH-8022  Zurich, Switzerland		
The Northwestern Mutual Life Insurance Company (7)	2,614,778	5.29%
720 East Wisconsin Avenue  Milwaukee, Wisconsin 53202		
Second Curve Capital, LLC (8)	2,507,312	5.08%
237 Park Avenue, 9th Floor		

## Edgar Filing: NewStar Financial, Inc. - Form DEF 14A

New York, New York 10017

### Directors and Executive Officers

Charles N. Bralver (9)	132,962	*
T. Kimball Brooker, Jr. (10)	48,278	*
Timothy J. Conway (11)	2,537,164	5.03%
Bradley E. Cooper (12)	83,576	*
Brian L.P. Fallon (13)	64,945	*
Frank R. Noonan (14)	92,945	*
Maureen P. O Hara (15)	89,445	*
Peter A. Schmidt-Fellner (16)	1,914,036	3.81%
Richard E. Thornburgh (17)	99,945	*
John K. Bray (18)	1,105,778	2.22%
Robert T. Clemmens (19)	832,749	1.68%
David R. Dobies (20)	824,494	1.66%
All current executive officers and directors as a Group (12 persons) (21)	7,826,317	14.77%

\* Less than 1%.

- (1) Includes 200,174 shares issuable upon the exercise of a warrant, 23,333 shares issuable upon the exercise of options and 5,529,743 shares of Common Stock held directly. As reported in a Schedule 13D/A filed with the SEC on January 22, 2008, Capital Z Partners, Ltd. is the general partner of Capital Z Partners, L.P., which is the general partner of Capital Z Financial Services Fund II, L.P. and Capital Z Financial Services Private Fund II, L.P., investment funds located at the same address that hold the shares shown. All four entities report shared voting and investment power over all such shares.
- (2) As reported in a Schedule 13D/A filed with the SEC on January 22, 2008, Capital Z Partners III GP, Ltd., Capital Z Partners III, L.P., Capital Z Partners III GP, L.P., Capital Z Partners, Ltd., Capital Z Partners, L.P., Capital Z Financial Services Fund II, L.P., and Capital

**Table of Contents**

Z Financial Services Private Fund II, L.P. may be deemed to constitute a group (within the meaning of Rule 13d-5(b) under the Securities Exchange Act of 1934). As a result, and on that basis, the entities in the preceding sentence may be deemed to beneficially own shares of Common Stock that may be beneficially owned by such persons. Bradley E. Cooper is a Senior Vice President and Director of Capital Z Partners, Ltd. and Capital Z Partners III GP, Ltd. and also a director of the Company (See Footnote 11 below). Robert Spass and Bradley E. Cooper are the natural persons who exercise sole or shared voting and/or dispositive powers over the Company's securities held by Capital Z Partners, Ltd. and Capital Z Partners III GP, Ltd. The address of each of these individuals is c/o Capital Z Partners L.P. 230 Park Avenue South, New York, NY 10003.

- (3) Consists of 4,000,000 shares directly owned by Capital Z Partners III, L.P. ( Capital Z III ) and indirectly owned by Capital Z Partners III GP, L.P. ( Capital Z III LP ) and Capital Z Partners III GP, Ltd. ( Capital Z III GP ). Capital Z III LP is the general partner of Capital Z III. Capital Z III GP is the general partner of Capital Z III LP and the ultimate general partner of Capital Z III. Capital Z III LP and Capital Z III GP may be deemed to be the beneficial owners of the securities held by Capital Z III, although Capital Z III LP and Capital Z III GP disclaim beneficial ownership of such securities except to the extent of any indirect pecuniary interest therein (within the meaning of Rule 16a-1 of the Exchange Act). As reported in a Schedule 13D/A filed with the SEC on January 22, 2008, Capital Z III GP and Capital Z III LP share voting and investment power over all such shares.
- (4) Includes 200,174 shares issuable upon the exercise of a warrant. J.P. Morgan Corsair II Capital Partners, L.P., Corsair III Financial Services Capital Partners, L.P. and Corsair III Financial Services Offshore 892 Partners, L.P. are controlled by Corsair Capital LLC. Corsair Capital LLC is the manager of Corsair PTJB, LLC, which is the managing member of Corsair II, L.L.C. Corsair II, L.L.C. is the general partner of Corsair II, L.P., which is the general partner of J.P. Morgan Corsair II Capital Partners, L.P. Corsair Capital LLC is also the general partner of Corsair III Management, L.P., which is the general partner of Corsair III Financial Services Capital Partners, L.P. and Corsair III Financial Services Offshore 892 Partners, L.P. Richard E. Thornburgh is an officer of both Corsair Capital LLC and Corsair II, L.L.C. and is also a director of the Company (See Footnote 16 below). Nicholas B. Paumgarten, the Chairman of Corsair Capital LLC, is the natural person who exercises sole or shared voting and/or dispositive powers over the Company's securities held by J.P. Morgan Corsair II Capital Partners, L.P. Mr. Paumgarten's address is c/o Corsair Capital LLC, 717 Fifth Avenue, New York, NY 10022.
- (5) As reported in a Schedule 13D/A filed with the SEC on October 6, 2010.
- (6) As reported in a Schedule 13G filed with the SEC on January 28, 2008.
- (7) Includes 91,746 shares issuable upon the exercise of a warrant. As reported in a Schedule 13G filed with the SEC on February 6, 2007, Northwestern Investment Management Company, LLC ( NIMC ), a wholly owned company of The Northwestern Mutual Life Insurance Company ( Northwestern Mutual ), is the investment adviser to Northwestern Mutual with respect to the shares. NIMC therefore may be deemed to be an indirect beneficial owner with shared voting power/investment power with respect to such shares. Richard A. Strait is a portfolio manager for NIMC and manages the portfolio which holds the shares and therefore may be deemed to be an indirect beneficial owner with shared voting power/investment power with respect to such shares. However, pursuant to Rule 13d-4 under the Securities Exchange Act of 1934 (the Act ), the immediately preceding sentence shall not be construed as an admission that Mr. Strait is, for the purposes of section 13(d) or 13(g) of the Act, the beneficial owner of any securities covered by the statement. In the ordinary course of business, broker-dealer affiliates of Northwestern Mutual may, from time to time, have acquired or disposed of, or may in the future acquire or dispose of, our securities, for such broker-dealers' own accounts or for the accounts of others. Other affiliates of Northwestern Mutual, including investment adviser affiliates, may in the ordinary course of business, effect transactions in our securities.
- (8) As reported in a Schedule 13G filed with the SEC on February 13, 2012. Voting and dispositive power of the 2,507,312 shares shown as beneficially owned by Second Curve Capital, LLC ( Second Curve ) is shared with Thomas K. Brown, the Managing Member of Second Curve, who also claims beneficial ownership of such shares.
- (9) Includes 14,583 shares issuable upon the exercise of options.
- (10) Includes 23,333 shares issuable upon the exercise of options.
- (11) Includes 21,789 shares issuable upon the exercise of warrants and 1,150,000 shares issuable upon the exercise of options.
- (12) Consists of shares issuable upon the exercise of a warrant. Mr. Cooper's beneficial ownership shown in the table excludes (i) the 5,753,250 shares shown as beneficially owned by Capital Z Partners, Ltd. and Capital Z Partners, L.P. and (ii) the 4,000,000 shares shown as beneficially owned by Capital Z Partners III, L.P. Mr. Cooper is a shareholder and officer and co-owner of the ultimate entity delegated investment authority for the Capital Z Partners entities that collectively maintain beneficial ownership of such shares, but he disclaims beneficial ownership of all such shares. Mr. Cooper is also a shareholder and an officer of Capital Z Partners III, Ltd., and an officer and co-owner of the ultimate entity delegated investment authority for Capital Z Partners III, L.P., but he disclaims beneficial ownership of all such shares.
- (13) Includes 37,500 shares issuable upon the exercise of options.
- (14) Includes 65,000 shares issuable upon the exercise of options.
- (15) Includes 55,000 shares issuable upon the exercise of options.
- (16) Includes 12,997 shares issuable upon the exercise of warrants and 875,000 shares issuable upon the exercise of options.
- (17) Includes 55,000 shares issuable upon the exercise of options. Mr. Thornburgh's beneficial ownership shown in the table excludes the 9,704,972 shares shown as beneficially owned by J.P. Morgan Corsair II Capital Partners, L.P., Corsair III Financial Services Capital Partners, L.P. and Corsair III Financial Services Offshore 892 Partners, L.P. Mr. Thornburgh is an indirect participant in, and an officer of Corsair II, L.L.C. and Corsair Capital LLC, which has investment authority over such shares, but he disclaims beneficial ownership of such shares.
- (18) Includes 600,000 shares issuable upon the exercise of options.
- (19) Includes 3,746 shares issuable upon the exercise of warrants and 325,000 shares issuable upon the exercise of options.
- (20) Includes 4,128 shares issuable upon the exercise of warrants and 350,000 shares issuable upon the exercise of options.
- (21) Includes a total of 126,236 shares issuable upon the exercise of warrants and 3,550,416 shares issuable upon the exercise of options.

**Table of Contents**

**PROPOSAL 1: ELECTION OF DIRECTORS**

Our Board of Directors has fixed the number of directors at eight. These eight members are listed below and are nominees for reelection at the annual meeting. You may only vote for eight persons for election as directors.

Among the investors in a private placement transaction that closed in two separate tranches on November 29, 2007 and January 18, 2008 was Union Square Partners, L.P. (now known as Capital Z Partners III, L.P.) As part of the private placement transaction, we entered into a side letter agreement dated November 12, 2007 with Union Square Partners, L.P. in which we granted Union Square Partners, L.P. the right to nominate one member to our Board of Directors, so long as they meet certain requirements. On February 14, 2012 Capital Z Partners III, L.P. informed us that they have nominated Bradley E. Cooper, one of our incumbent directors, as their Board nominee for the term expiring in 2013.

The number of directors is subject to increase or decrease by action of the Board. All directors are elected to serve one-year terms and until their successors are elected and qualified. Each of the incumbent directors has been nominated for reelection by the Board of Directors, and each has consented to serve if elected. However, if any nominee is unable to serve, proxies will be voted for any other candidate nominated by the Board.

**Our Board recommends a vote for each of the nominees.**

The following table contains biographical information about the nominees for director. All of our directors possess the minimum qualifications detailed in the Director Nomination Process detailed above and have demonstrated a commitment of service to the company, sound business judgment and a willingness to ask difficult questions to critically evaluate the strategies proposed by management. In addition to having a reputation for adherence to the highest ethical standards, each of our directors possesses specific expertise, qualifications, and skills or attributes, as noted below, that make him or her qualified to serve on the Board.

**Table of Contents**

Name	Age (as of April 1, 2012)	Business Experience, Other Directorships and Qualifications	Director Since	Annual Meeting at Which the Present Term Expires
Charles N. Bralver (1)(2)	57	<p>Charles N. Bralver joined our Board of Directors on February 5, 2009. Mr. Bralver is currently a partner with Massif Partners, LLP, an asset management firm in Greenwich, Ct. From May 2007 to September 2010, Mr. Bralver was the Senior Associate Dean for International Business and Finance at the Fletcher School at Tufts University. Mr. Bralver was a founding partner of Oliver Wyman &amp; Company where from 1984 through 2007 he held several positions, including Vice Chairman, Head of Europe, Head of North America, and Head of the Global Capital Markets Practice. From 2007 to 2009 he served as a strategic advisor to the Financial Services Practice at Warburg Pincus LLC. He also serves on the Senior Advisory Board of Oliver Wyman, as a member of the Board of Visitors of The Fletcher School, and of the John Sloan Dickey Center for International Affairs at Dartmouth College. In 2010 Mr. Bralver joined the Board of Directors of Canaccord Financial, Inc., a Canadian investment bank.</p>	2009	2012
Timothy J. Conway (1)	57	<p>Mr. Bralver is an experienced executive and has been nominated to serve on the Board because of his extensive financial services, international business and corporate strategy experience.</p> <p>Mr. Conway has been our Chief Executive Officer and President, and has served on our Board of Directors since our inception in June 2004. He was elected Chairman of the Board in September 2006. From July 2002 to June 2004, Mr. Conway worked full-time on our founding. From 1996 to July 2002, Mr. Conway was a Managing Director at FleetBoston Financial Corporation or its predecessors responsible for Corporate Finance and Capital Markets. He previously held various senior management positions at Citicorp Securities, Inc., where he was a Managing Director and Senior Securities Officer, responsible for the bank's private placement, loan syndication and acquisition finance businesses.</p>	2004	2012

**Table of Contents**

Name	Age (as of April 1, 2012)	Business Experience, Other Directorships and Qualifications	Director Since	Annual Meeting at Which the Present Term Expires
Bradley E. Cooper (3)	45	An experienced financial services professional, Mr. Conway has been nominated to serve on the Board because of his broad business and management skills and deep industry expertise, including his seven years of experience as our founder and CEO.	2006	2012
Brian L. P. Fallon (2)(4)	61	<p>Mr. Cooper is a private equity investor and has been nominated to serve on the Board of because of his financial services experience, detailed understanding of the Company's core business and strategic objectives based on his involvement with the firm since its inception, and his external board experience.</p> <p>Brian L.P. Fallon joined our Board on November 21, 2008. Mr. Fallon is a Partner of O'Connor Capital Partners. Prior to joining O'Connor Capital Partners in September of 2007, Mr. Fallon was a Managing Director and Principal of Extell Development Company from 2002 to 2007. From 1982 to 2002, Mr. Fallon held numerous positions, including Partner, at Meredith &amp; Grew, Inc. and served on the Board of Directors. Mr. Fallon is involved in various non-profit boards and activities and currently serves as a Director on the Advisory Council of the Robert F. Kennedy Children's Action Corps as well as The Community Builders, Inc.</p>	2008	2012

**Table of Contents**

Name	Age (as of April 1, 2012)	Business Experience, Other Directorships and Qualifications	Director Since	Annual Meeting at Which the Present Term Expires
Frank R. Noonan (2)(4)	69	Mr. Fallon is an experienced real estate executive and has been nominated to serve on the board because of his detailed understanding of commercial real estate, operational and financial expertise and experience serving on other external boards.	2006	2012
Maureen P. O Hara (3)(4)	58	Mr. Noonan is a seasoned financial services executive and has been nominated to serve on the board because of his extensive experience in the areas of financial reporting, compliance, corporate governance and risk management.	2006	2012
		Ms. O Hara is the Robert W. Purcell Professor of Finance at the Johnson Graduate School of Management, Cornell University, where she joined the faculty in 1979. Ms. O Hara currently serves on the Board of Directors of Investment Technology Group, Inc., where she has been Chairman of the Board since May 2007 and where she has served on the Compensation Committee, Audit Committee and Nominating Committee. Ms. O Hara also serves on the Board of Trustees of TIAA-CREF, where she is on the Investment Committee, the Diversified Business Committee and the Nominating Committee.		



**Table of Contents**

Name	Age (as of April 1, 2012)	Business Experience, Other Directorships and Qualifications	Director Since	Annual Meeting at Which the Present Term Expires
Peter A. Schmidt-Fellner	55	<p>Ms. O Hara is an accomplished academic and has been nominated to serve on the board because of her extensive understanding of the financial services industry and in-depth corporate governance, compensation and financial reporting experience through her other board responsibilities.</p> <p>Mr. Schmidt-Fellner has served as our Chief Investment Officer since our inception in 2004. From 1993 to 2003, he was employed at JPMorgan Securities, Inc. and several of its subsidiaries and predecessor institutions where, during his tenure, he was responsible for High Yield Bond Sales, Trading and Research and Loan Trading and Co-Head of High Yield Bond Capital Markets.</p>	2006	2012
Richard E. Thornburgh (1)	58	<p>A seasoned financial services professional, Mr. Schmidt-Fellner has been nominated to serve on the board because of his deep credit and risk management skills and extensive industry background, including his seven years of experience as a founding member and CIO of the Company.</p> <p>Mr. Thornburgh has been a Partner of Corsair Capital LLC*, an investment firm, since February 2006. From 1976 until December 2005, Mr. Thornburgh held management positions at the Credit Suisse Group and its various subsidiaries and predecessor institutions, most recently as Executive Vice Chairman of Credit Suisse First Boston and member of the Executive Board of Credit Suisse Group. He currently serves on the Board of Directors of the Credit Suisse Group and chairs its Risk Committee. He also is a Director of Reynolds American Inc. and The McGraw Hill Companies, Inc. Mr. Thornburgh previously served on the Board of Directors of Dollar General Corporation and National City Corporation</p> <p>Mr. Thornburgh is an experienced financial services executive and has been nominated to the board because of his extensive skills and experience in the areas of credit and risk</p>	2006	2012

Edgar Filing: NewStar Financial, Inc. - Form DEF 14A

management, regulatory compliance, corporate strategy, international business and service on other public company boards.

**Table of Contents**

- (1) Member of the Risk Policy Committee
- (2) Member of the Compensation Committee
- (3) Member of the Nominating and Corporate Governance Committee
- (4) Member of the Audit Committee
- \* Denotes that the entity may be deemed to be an affiliate of the Company.

**Table of Contents**

**PROPOSAL 2: RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The firm of KPMG LLP, an independent registered public accounting firm, has audited our financial statements for each of the last five fiscal years, through and including the year ended December 31, 2011. Our Audit Committee has appointed them to serve as our auditors for the fiscal year ending December 31, 2012. Detailed disclosure of the audit and tax fees we paid to KPMG LLP in 2011 and 2010 may be found above in the section titled "Independent Registered Public Accountants Fees and Other Matters". Based on these disclosures and information in the Audit Committee Report provided elsewhere in this proxy statement, our Audit Committee is satisfied that KPMG LLP is sufficiently independent of management to perform its duties properly. Although not legally required to do so, our Board considers it desirable to seek, and recommends, stockholder ratification of our selection of KPMG LLP as our independent registered public accounting firm for fiscal year 2012. If the stockholders fail to ratify our selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the best interests of our Company and our stockholders.

**Interests of Directors and Executive Officers**

Our directors and executive officers have no substantial interests, directly or indirectly, in the matters set forth in this proposal.

**Recommendation of the Board of Directors**

**Our Board recommends a vote for the proposal to ratify the appointment of KPMG LLP as our independent public accounting firm. Proxies solicited by the Board will be voted in favor thereof unless a stockholder has indicated otherwise in the proxy.**

**Table of Contents**

**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

The following discussion addresses the Company's executive compensation program generally, with particular focus on the executive officers whose compensation for 2011 is shown in the Summary Compensation Table on page 34 (the named executive officers).

*Executive Summary*

The Company's 2011 Executive Compensation Program largely reflects the continuation of the compensation strategy designed by the Compensation Committee in late 2009. This strategy consisted of three core components implemented over a three-year time horizon.

At the time the strategy was designed, the Company faced significant uncertainty due to the continuing impact of the U.S. recession and the difficulties in the global financial markets. While signs of improvement had begun to emerge, economic forecasts generally called for a slow and uneven recovery and the Company expected that persistent weakness in the economy could continue to adversely impact the financial performance of its borrowers and their ability to meet their obligations, which would in turn weigh negatively on the Company's operating results.

The Compensation Committee's three-year compensation strategy was adopted in response to these uncertain economic conditions and was intended to provide long-term awards to retain top management talent, while providing appropriate incentives to align management's interests with those of our shareholders and provide incentives to drive future returns. The strategy contained three core components: the renewal of executive employment agreements; the issuance of certain performance-based stock awards to both drive future performance against the Company's targeted operating objectives through 2012 and retain and motivate our executives; and the establishment of annual incentive targets aligned to the targeted growth goals in each of the three years. Each of these components is briefly described below.

First, the Company completed the renewal of executive employment agreements for the management team, which otherwise would have expired by their terms in December 2009. The amended agreements, which are described in detail under the heading "Employment Agreements" below, extended the employment period by three years to December 2012, reduced cash benefits under certain termination conditions and revised the vesting terms for certain equity-based awards. The amended agreements marked a shift in focus from cash-based payments to equity-based incentives intended to reward the creation of long-term shareholder value. These agreements in conjunction with the performance-based stock awards subsequently issued in May 2010, and the introduction of enhanced executive share ownership requirements implemented later that same year, further strengthened the link between executive and shareholder interests.

Second, the Committee approved a long-term, performance-based equity award program. The program was designed to drive future performance by setting long-term performance goals for the executive team that were aligned with the interests of our shareholders but did not promote excessive risk-taking. The awards, which were granted to each of the Company's named executive officers in May 2010, were granted in lieu of the annual option awards that would otherwise have been issued to management through 2012. As a result, no additional equity awards were issued to the Company's named executive officers in 2011. By tying a greater portion of total compensation directly to the Company's stock price performance over an extended period of time, the performance-based awards reinforced the importance of long-term retention and further underscored the named executive officer's accountability for the Company's long-term and strategic goals.

Third, the Committee determined that target annual cash incentive pools should be established for the named executive officers, which should provide an appropriate level of reward to retain top management talent and motivate performance against the Company's annual targeted operating objectives that the Committee considered to be ambitious in light of the uncertain economic environment.

---

**Table of Contents**

The Company's operating plan detailed a strategy of improving the Company's bottom-line financial performance through a continued focus on 1) increasing origination volume at attractive risk-adjusted spreads 2) enhancing liquidity to provide the funding for growth and new initiatives and 3) continuing to expand and diversify the operating platform in businesses and markets consistent with the Company's core strengths in direct origination and credit management.

The Committee's executive compensation decisions for 2011 were greatly influenced by the management team's execution against the company's targeted annual operating objectives and, specifically, their performance in these three focus areas, each of which is discussed below in greater detail.

*Financial Performance*

Despite continued economic uncertainty and the uneven pace of recovery in the capital markets, the Company continued to deliver strong results in 2011. The Company reported net income of \$14.1 million for 2011. Adjusted net income<sup>1</sup>, which excludes non-cash compensation charges related to restricted stock grants made since our inception as a private company, was \$15.1 million for the year, up 19% versus 2010, and the Company's book value increased by \$0.46 per share to \$11.42 in 2011.

In addition, credit trends within the Company's portfolio continued to improve. The Company's average annual default and credit loss rates from inception through December 31, 2011 were approximately 1% and 0.55% respectively, which the Company believes compares favorably with market performance for comparable companies during the credit cycle.

*Growth and Strategic Initiatives*

The Company completed a series of significant debt financing transactions in 2011 to fund growth and new initiatives, including a \$75 million credit facility to fund equipment leasing originations, a \$68 million financing of the Company's legacy commercial real estate portfolio which released trapped capital to be re-deployed more productively and an amended and expanded \$125 million, multi-year credit facility to fund new loan originations. In addition, the Company closed an additional \$150 million credit facility in early 2012 bringing the Company's lending capacity to nearly \$1 billion to support continued loan growth.

Despite market headwinds, the Company experienced substantial growth in new loan origination in 2011, as volume for the year exceeded \$850 million, up more than 50% as compared to 2010. The Company completed the integration of its Business Credit (asset-based lending) and Equipment Finance divisions in early 2011 and made substantial progress against its plan to diversify its product offering by identifying a series of strategic initiatives that leverage the Company's core strengths in loan origination and credit and asset management.

In its assessment, the Committee considered how the actions taken by the Company's Chief Executive Officer and the other named executive officers throughout 2011 resulted in the Company's results and strategically positioned the Company to take advantage of improving economic conditions.

<sup>1</sup> References to "adjusted net income" for 2011 mean our net income as determined under GAAP of \$14.1 million, excluding compensation expense related to restricted stock grants made since our inception as a private company of \$0.9 million which includes equity awards made in connection with the initial public offering and the related impact on our effective tax rate. GAAP requires that these items be included in net income. NewStar management uses "adjusted net income" and to make operational and investment decisions, and NewStar believes that they provide useful information to investors in their evaluation of our financial performance and condition. Excluding the financial results and expenses incurred in connection with the compensation expense related to restricted stock grants made since our inception as a private company eliminates unique amounts that make it difficult to assess our core performance and compare our period-over-period results.

**Table of Contents**

The executive compensation decisions in 2011 recognize the achievements noted above as well as an increased emphasis on pay for longer-term performance of the Company. Specifically:

Base salaries for named executive officers remained unchanged at 2008 levels, reinforcing a balance of fixed compensation with variable compensation tied to performance;

Annual cash incentive payments made to named executive officers for 2011 were up 19% versus 2010 levels, which was in line with the increase in adjusted net income and other performance factors noted above; and

No additional equity awards were issued to the named executive officers in 2011. The Committee concluded that the long-term, performance-based awards issued in May 2010, which were intended to replace annual equity grants through 2012, were sufficient to encourage long-term retention of top-tier management talent and further enhance the link between pay and the creation of shareholder value over time.

Each of these factors, as well as the other elements of the Company's executive compensation program, are discussed in greater detail below.

***Executive Compensation Philosophy***

The Company believes that an effective leadership team plays a critical role in the creation of sustained shareholder value and that its success in the highly-competitive financial services marketplace is directly correlated to its ability to continue to attract and retain top-tier talent. The Company believes that executive compensation should enable the Company to attract, motivate, reward and retain superior management talent and should reflect the following core principles:

Executive compensation should support the achievement of specific strategic business objectives and closely align the interests of executive officers with those of shareholders over the long-term.

Executive compensation should be externally competitive within the industries in which the Company competes for talent.

Executive compensation should emphasize pay for performance and be based on results at the Company, line of business and individual levels. As such, significant portions of total compensation are designed to be variable based on performance and results.

**Table of Contents**

***Executive Compensation Program***

The following chart details the elements of our current executive compensation program:

	<b>Compensation Component</b>	<b>Description</b>	<b>Strategic Rationale</b>
<b>Base Salary</b>	<b>Base salary</b>	Fixed component of compensation based on competitive environment and experience in executive role.	Discourages inappropriate risk-taking.  Consistent with market practice.
<b>Short-Term Incentives</b>	<b>Annual Incentive</b>	Variable annual cash compensation tied to pre-established Company, line of business and individual goals and strategic objectives.	Provides incentive for achievement of objectives.  Provides variable component of pay closely linked to Company performance.  Consistent with market practice.
<b>Long-Term Incentives</b>	<b>Stock Awards</b>	<p><i>Stock Options</i></p> <p>Grants of options to purchase shares at a specified price, which rewards share price appreciation.</p> <p><i>Restricted Stock</i></p> <p>Grants of restricted shares of stock subject to multi-year vesting provisions.</p> <p><i>Performance-Based Restricted Stock</i></p> <p>Grants of restricted shares of stock subject to multi-year time and performance-based vesting provisions.</p>	<p>Focuses executive officers on value creation and increasing shareholder value over long-term.</p> <p>Promotes long-term retention.</p> <p>Aligns interests of executive officers with those of shareholders.</p> <p>Discourages inappropriate risk-taking.</p> <p>Consistent with market practice.</p>



## Edgar Filing: NewStar Financial, Inc. - Form DEF 14A

<b>Stock Ownership Requirements</b>	To complement the long-term incentive program, certain executives, including all of our named executive officers, are required to hold at least 25% of their net vested equity holdings during the term of their employment with the Company. In addition, options granted to our named executive officers in March 2009 as part of the Company's 2009 Option Exchange Program are subject to an additional restriction whereby 50% of the net proceeds from the exercise of these options and sale of the underlying shares will be held by the Company for the duration of the executives' employment with the Company and for a twelve month period thereafter.	Fosters long-term stock ownership, and focuses executive officers on long-term performance.
		Consistent with emerging market practice.

**Table of Contents**

	<b>Compensation Component</b>	<b>Description</b>	<b>Strategic Rationale</b>
		In addition to the above mentioned requirements, certain executives, including all of our named executive officers, are subject to share ownership guidelines. Each named executive is required to hold a multiple of his base salary in Company stock for the duration of his employment with the Company, with our CEO being required to hold five times his base salary, while each of our other named executive officers is required to hold two times his base salary.	
<b>Benefits</b>	<b>Retirement Benefits</b>	Executive officers participate in employee benefit plans that are generally available to all employees of the Company, including 401(k) savings and tax-qualified retirement plans.	Consistent with the programs provided to all employees.  Consistent with market practice.
	<b>Welfare Benefits</b>	Executive officers participate in employee benefit plans that are generally available to all employees of the Company, including medical, health, life insurance and disability plans. Upon retirement, executive officers are eligible to participate in Company-sponsored healthcare plans at their sole expense.	Consistent with the programs provided to all employees.  Consistent with market practice.
<b>Perquisites</b>	<b>Additional Benefits and Perquisites</b>	Limited to reimbursement of office parking provided to executive officers in selected geographies.	Provided in select locations in order to be market-competitive when recruiting talent.  Subsidized in these locations at some level for all employees.
<b>Employment Agreements</b>	<b>Employment Agreements</b>	The Company entered into amended and restated employment agreements with each named executive officer in December 2009. The agreements specify the terms of employment and provide severance pay in the event of certain terminations of employment, including a change-in-control. Payments due subsequent to a change-in-control require a double trigger ; a change-in-control alone is not sufficient but must be followed by an involuntary termination event to qualify for compensation. All severance arrangements are subject to non-compete and non-solicitation provisions. For additional detail, please refer to the sections entitled, Employment Agreements and Potential Payments Upon Termination or Change-in-Control below.	Prevent against direct competition and solicitation of talent.  Align executive officers and shareholders in the event of a potential change-in-control  Provide continuity of management during a transition.  Provide for market-competitive severance in the event of involuntary termination without cause.



## **Table of Contents**

### ***Risk-Taking***

As a financial services company, our core business inherently involves a degree of risk and it is our responsibility to ensure that we have the appropriate risk management culture and controls to manage this risk for the benefit of our shareholders. The Company has reviewed its compensation practices and determined that its programs and policies are not reasonably likely to have an adverse material impact. Further, the Company's compensation program is designed to discourage inappropriate risk-taking in a number of ways. First, the structure of our compensation program provides a balance of fixed and variable compensation, cash and equity-based compensation, and annual and long-term compensation. This mix encourages a balanced focus on near-term objectives and the creation of shareholder value over the long-term. Next, the Company's annual incentive compensation program is based on the Company's performance against specific operating goals and objectives and not on a targeted level of annual stock price appreciation. In addition, determination of individual awards under the annual incentive plan is based on an evaluation of each executive's performance, both on an absolute and a relative basis, which takes into account performance against longer-term measures, such as credit quality over time.

In addition, the Company's stock ownership requirements, coupled with an emphasis on equity awards subject to multi-year vesting requirements, closely align executives' interests with those of shareholders over the long-term and further discourage those employees with greatest authority to act in a manner that would adversely impact the Company. The Company has also adopted a policy on hedging under which executive officers are prohibited from hedging their economic exposures to the Company stock that they own.

The Company has recognized the vital importance of conducting its business in accordance with the highest ethical standards and in full compliance with all applicable laws. To that end, in addition to our general Code of Conduct applicable to all employees, each named executive officer is subject to, and must annually certify compliance with, a Supplemental Code of Ethics that holds senior management to a standard that includes, among other things, the duty to provide fair, accurate and timely disclosure in reports that the Company files with the SEC or other public communications of the responsible use, and proper controls, of Company assets. A copy of both codes of conduct can be found on our website at [www.newstarfin.com](http://www.newstarfin.com).

### ***Comparable Market Analysis***

The Committee reviews third-party analysis of the compensation practices of financial institutions in general, ranging from other publicly-traded competitors to private investment funds/hedge funds to business development companies and real estate investment trusts, which provide similar services to our target customers, to ensure the Company's compensation practices remain market competitive. Given the lack of publicly available data for many of the Company's direct competitors for talent, the Committee does not rely on third-party benchmarking to determine compensation levels for each element of the Company's executive compensation program. Instead, the Committee considers a number of factors in making compensation determinations for the named executive officers including Corporate, line of business and individual performance, retention needs, relative contributions of each executive and broader economic and market conditions. Furthermore, the Committee placed heavier emphasis on both absolute and relative business performance, individual achievement of strategic objectives and longer-term retention and performance objectives in making 2011 executive compensation determinations.

### ***Determining Executive Compensation (Roles and Process)***

Utilizing the philosophy outlined above, our Compensation Committee determines the parameters of the executive compensation program, including appropriate target levels and performance measures, and administers our executive compensation program. This section discusses, in greater detail, the roles and processes underlying the application of our executive compensation philosophy.

## **Table of Contents**

### *Role of CEO in Compensation Decisions*

The CEO's role in the compensation process begins with the establishment of a proposed annual operating plan against which annual incentive awards will be measured. Our CEO, together with our management team, discusses and formulates for consideration an annual operating plan, which includes various quantitative and qualitative goals and objectives. This operating plan is then presented to our Board of Directors for review and approval. Once approved, the CEO establishes performance goals for each executive that support the achievement of the Company's operating plan and are tied to each executive's annual incentive award.

The CEO's role in the compensation process continues with his review of our named executive officers' annual performance. Our CEO first elicits self evaluations from each named executive officer and then, utilizing feedback from colleagues as well as his own experience and judgment, assimilates the content from these evaluations into a formal written evaluation of each named executive officers performance for the year, including key accomplishments, areas of strength and areas for development. Individual performance ratings for each executive are then formulated through the annual review process, and in conjunction with an assessment of the Company's performance against its annual operating goals, the CEO forms a recommendation on each named executive's annual compensation package.

The CEO presents to the Compensation Committee comprehensive recommendations related to proposed compensation for our named executive officers with respect to any base salary changes, annual cash and equity awards, in conjunction with a summary of the individual performance measures that influenced his recommendations. At the request of the Compensation Committee, our CEO and/or the Head of Human Resources may attend all or portions of the meetings of the Compensation Committee, but neither are present for executive sessions or any meeting in which the Compensation Committee discusses his or her own compensation or performance. In addition, our Compensation Committee, with input from our Compensation Consultant, reviews the recommendations from our CEO and compares them to executive compensation trends among financial services companies, including the overall blend of salary, bonus and equity compensation within such group and his recommendations pertaining to our executive compensation program. These recommendations are reviewed and are subject to the final approval of our Compensation Committee.

### *Role of the Compensation Committee*

The Compensation Committee, in accordance with its written charter, oversees all aspects of our compensation policies and practices. The Committee determines and approves the compensation of our CEO and other executive officers, reviews and approves management incentive compensation policies and programs and equity compensation programs for employees, and administers those policies and programs. Its responsibilities include setting corporate goals and objectives relevant to compensation of executive officers, evaluating the executive officers performance against those goals and objectives at least annually, approving all grants of awards, including the award of shares or share options, under our equity incentive plan, and reviewing the form and amount of director compensation at least annually.

Based on the process described in *Role of CEO in Compensation Decisions*, the CEO makes a recommendation to the Compensation Committee with respect to each named executive officer's compensation. After careful deliberation, the Compensation Committee, with input from our Board of Directors, determines and approves the compensation of each named executive officer. The Compensation Committee, utilizing formal performance evaluations completed by each member of our Board of Directors in addition to his self evaluation, also evaluates our CEO's performance and determines his compensation package.

### *Role of Compensation Consultant*

To assist the Compensation Committee in carrying out its responsibilities, the Committee has engaged TowersWatson as the Committee's independent compensation consultant. TowersWatson advises the Committee on the Company's executive compensation program, including with respect to market trends and best practices

## **Table of Contents**

that might be considered to improve the effectiveness of the program. At the request of the Committee, TowersWatson will make specific proposals to the Committee regarding compensation for executive officers. Management works with the consultant at the direction of the Committee to provide the consultant with all information it deems necessary to advise the Committee.

As part of this process, members of the Compensation Committee reviewed materials provided by, and had the opportunity to meet independently with, TowersWatson throughout the year to discuss our executive compensation program and to receive input and advice. The Committee has the sole authority to hire and fire all outside compensation consultants providing information and advice to the Committee.

### ***Determining Executive Compensation (Key Elements)***

#### ***Base Salary***

Base salaries represent the fixed component of each executive officer's compensation and are determined primarily by:

Level of responsibility associated with the position/title;

Experience and tenure in the position;

Competitive market rates for similar responsibilities;

Broader market dynamics affecting the financial services industry and the economy as a whole; and

Balance of fixed versus variable compensation.

The Compensation Committee reviews the base salaries for the named executive officers on a regular basis, and generally in conjunction with the Company's annual performance review cycle. In determining annual base salary adjustments for the named executive officers, the Committee uses its discretion based on the factors noted above as well as an assessment of each individual's contributions and any significant changes in responsibilities during the course of the year.

The Compensation Committee has not increased base salaries for the named executive officers since 2008. The Committee will periodically review base salaries to ensure that they remain market competitive and in line with the overall objectives of the Company's compensation philosophy.

### ***Annual Cash Incentive Compensation Program***

#### ***Principles and Philosophy***

In accordance with the Company's belief that executive compensation should emphasize pay for performance, significant portions of total compensation are designed to be variable based on performance. The bonus plan is based on achievement of specific business goals and rewards performance at the Company, line of business and individual level.

Each year, the Board of Directors and its various Committees, based on input from management, approve an operating plan for the next fiscal year that contains both quantitative and qualitative goals and objectives. Performance goals are then established for each executive officer that support the achievement of the Company's operating plan and are tied to the executive officer's annual incentive award.

#### ***Establishing Incentive Compensation Targets***

## Edgar Filing: NewStar Financial, Inc. - Form DEF 14A

For fiscal year 2011, the incentive compensation targets were based primarily upon the Company's performance against planned pre-tax, pre-incentive earnings as well as subjective criteria tied to the Company's strategic operating objectives and line of business and individual performance goals.

---

## **Table of Contents**

At the start of 2011 the Company's Board of Directors approved an operating plan with targeted adjusted net income for the year of \$25 million, or \$57.5 million in pre-tax, pre-incentive earnings<sup>2</sup>, which the Committee considered an ambitious growth goal for the Company given difficult economic conditions.

The Committee then established targeted incentive levels by executive, consistent with the strategic plan it put in place in late 2009. For 2011, the targeted incentive pool for our named executive officers was \$3.075 million or approximately 5.35% of targeted pre-tax, pre-incentive earnings, which the Committee considered to be an appropriate payout ratio of pre-tax, pre-incentive earnings that would enable the Company to motivate, reward and retain management talent while delivering an appropriate level of shareholder return.

### *Measurement of Performance against Target and Allocation of Incentive Compensation Pool*

In determining bonuses paid to the named executive officers for 2011, the Committee measured overall Company performance by focusing primarily on financial performance and progress made in executing the strategic priorities of the Company. Although no set weight was assigned to each of these performance metrics, the Committee believed that adjusted net income was the most important measure of overall Company performance and had the greatest impact on the overall funding level of incentive compensation in 2011.

The Committee considered management's performance against the pre-established operating objectives outlined above, specifically noting the following achievements related to the Company's annual objectives:

### *Financial Performance*

The Company reported adjusted net income of \$15.1 million, or \$42.3 million in pre-tax, pre-incentive earnings, for the year. While pre-tax, pre-incentive earnings fell short of planned levels due to overall weaker economic conditions and a slower pace of recovery in the capital markets than planned, the Company's adjusted net income was up by 19% over 2010 levels and up by more than 40% based on core earnings for the same period when excluding a one-time, pre-tax gain of \$5.6 million on the Core Business Credit acquisition in 2010.

Book value per share increased by \$0.46 during the performance period and the Company's credit track record through the cycle remained strong, with average annual default and loss rates comparing favorably to market indices and to those of comparable companies.

### *Growth and Strategic Initiatives*

The Company completed a series of significant debt financing transactions in 2011 to fund growth and new initiatives, including a \$75 million credit facility to fund equipment leasing originations, an amended and expanded \$125 million credit facility, which was subsequently increased to \$150 million, to support new loan originations and a \$68 million financing of the Company's legacy commercial real estate portfolio. In addition, the Company closed an additional \$150 million credit facility in early 2012 bringing the Company's lending capacity to nearly \$1 billion to support continued loan growth.

New loan origination exceeded \$850 million for the year, up more than 50% as compared to 2010, and the Company completed the integration of its Business Credit (asset-based lending) and Equipment Finance divisions in early 2011, furthering its plan to diversify its product offering through strategic initiatives that leverage the Company's core strengths in loan origination and credit and asset management.

The Committee weighed the achievement of these objectives and the components of each executive's incentive compensation package, including the balance between cash and long-term equity awards, against the overall compensation expense to support the Company's incentive award program. After considering these

<sup>2</sup> Pre-tax, pre-incentive earnings is defined as our 2011 adjusted net income before taxes plus (i) aggregate cash incentives earned, paid or accrued during 2011 and (ii) aggregate equity compensation expense recorded for outstanding equity awards during 2011.



**Table of Contents**

factors, the Committee approved an aggregate incentive compensation pool for the named executive officers of \$3.1 million, a level that equates to a 19.2% increase over 2010 levels, to be paid to the named executive officers in accordance with the terms and conditions of the Company's 2006 Incentive Plan (as detailed in the Summary Compensation Table on page 34). In making its determinations, the Committee considered the fact that the Company out-performed adjusted net income for fiscal 2011 over fiscal 2010 by 19%; established multiple new financing facilities; significantly increased origination volumes and demonstrated what the Company believes to be outstanding relative credit performance in the industry.

Once the level of incentive pool funding was established, the Committee then discussed the performance and compensation of each of the named executive officers. This past year, as is the case generally, the CEO and/or the Head of Human Resources, as applicable, attended Committee meetings but were not present for the executive sessions or for any discussion of their own compensation.

With respect to Mr. Conway, the Committee focused consideration on overall Company performance including the actions taken to improve core earnings by increasing origination volumes; progress made to further the company's strategic objectives of expanding and diversifying its product offering; the performance of the Company's loan portfolio and the retention and motivation of a top-tier management team despite challenging market conditions. With respect to Messrs. Schmidt-Fellner and Bray, the Committee considered the overall performance of the loan portfolio, the actions taken to enhance liquidity of the balance sheet to fund growth and on-going expense management as primary factors. With respect to Messrs. Dobies and Clemmens, the overall performance of the Middle Market portfolio, which included substantial increase in new loan origination year-over-year, and the credit quality of the loans originated in both the current and prior years, were the primary factors the Committee considered. The Committee made its determination after considering such measures collectively rather than assigning weight to any one objective.

For 2011, the bonus amounts paid to the named executive officers were discretionary amounts determined by the Committee based on its evaluation of the Company's financial performance, other performance factors and the individual performance of each executive, subject to the maximum incentive levels set forth below. The Committee considered broader market trends and the goal and objective of retention and motivation of a top-tier management team in conjunction with the aforementioned factors before making compensation decisions and used its discretion to exercise its judgment to pay appropriately for performance instead of solely relying on a formulaic structure. The 2011 incentive compensation amounts for the named executive officers are detailed below.

	Actual 2011 Bonus (\$) Payments					Total Named Executives
	Mr. Conway	Mr. Bray	Mr. Schmidt-Fellner	Mr. Dobies	Mr. Clemmens	
<b>Executive Bonus</b>	800,000	600,000	700,000	425,000	575,000	3,100,000
<i>Deductibility Cap on Executive Compensation</i>						

U.S. federal income tax law (Section 162(m) of the Code) prohibits publicly-traded companies from taking a tax deduction for certain compensation paid in excess of \$1,000,000 to the company's CEO and three other most highly compensated executive officers (other than the Chief Financial Officer). However, the statute exempts qualifying performance-based compensation from the deduction limit provided certain requirements are met. Our shareholder approved 2006 Incentive Plan meets the conditions necessary for deductibility of certain performance-based awards issued under the plan. The Company's policy is to design its incentive compensation programs to qualify for full corporate deductibility to the extent feasible and consistent with the Company's overall compensation goals and objectives. However, the Committee may exercise its discretion to pay nondeductible compensation if following the requirements of Section 162(m) of the Code would not be in the interests of shareholders.

## **Table of Contents**

The Company's 2011 incentive compensation program was designed to qualify for full corporate deductibility under Section 162(m). For fiscal year 2011, funding for the annual incentive program was based primarily upon the Company's performance against planned pre-tax, pre-incentive earnings, defined as the Company's 2011 adjusted net income before taxes plus (i) aggregate cash incentives earned, paid or accrued during 2011 and (ii) aggregate equity compensation expense recorded for outstanding equity awards during 2011.

The Compensation Committee also established maximum incentive levels for each executive officer determined by and expressed as a percentage of the Company's 2011 pre-tax, pre-incentive earnings as follows: Mr. Conway (3%); Mr. Schmidt-Fellner (2.5%); Mr. Bray (2%); Mr. Clemmens (1.75%) and Mr. Dobies (1.75%). The Committee exercised downward discretion within these limits and set aggregate cash incentive compensation at \$3.1 million as noted above.

### ***Long-term Equity Incentives***

The Company believes that equity ownership is a critical component of executive compensation as it aligns management and shareholder interests, focuses executive officers on increasing franchise value over the long-term and promotes long-term retention.

All named executive officers are eligible for annual equity awards as part of total compensation. The Company has historically utilized both seven-year non-qualified stock options and restricted stock which typically vest in equal installments over a period of three years from the date of grant to support its annual award program; however the Committee may, in its discretion, also utilize other equity-based awards under the terms and conditions of the Company's 2006 Incentive Plan and has historically done so to create a balanced, risk-adjusted compensation structure for its executive officers.

In May 2010, the Company introduced restricted stock subject to performance-based and time-based vesting conditions as part of its long-term incentive program and approved grants to each of its named executive officers. As discussed above, the purpose of these awards was to emphasize long-term retention of a top-tier management team and further reinforce the named executive officer's accountability for the Company's long-term and strategic goals by tying a greater portion of total compensation directly to the Company's stock price performance over an extended period of time.

The grants were made pursuant to the Company's 2006 Incentive Plan and were structured to be issued in lieu of the annual long-term incentive awards that would otherwise have been granted in the form of time-vested non-qualified stock options for performance years 2010 through 2012. As a result, no additional equity awards were granted to any of the named executive officers in 2011. By utilizing restricted shares with performance-based vesting conditions that will only deliver value if a certain threshold of performance is attained, the structure of the awards maintained the alignment between shareholder and management interests central to the Company's long-term incentive program while enabling the Committee to utilize a smaller number of total units to deliver value than if the award had been completed exclusively with stock options.

### ***Benefits and Perquisites***

The Company attempts to minimize the use of additional executive officer benefits or perquisites. Executive officers participate in employee benefit plans that are generally available to all employees of the Company, including medical, health, life insurance and disability plans. The only on-going perquisite provided to executive officers is reimbursement of office parking at the Company's headquarters in Boston. This parking subsidy is available at some level to all employees within the Boston office to allow the company to be market competitive when recruiting talent.

## **Table of Contents**

### ***Committee Consideration of the Company's 2011 Stockholder Advisory Vote on Executive Compensation***

At the Company's 2011 annual meeting of stockholders, over 99% of shares present at the meeting for purposes of the proposal were voted to approve, on an advisory basis, the compensation of our named executive officers, thus ratifying our compensation philosophy and approach. No specific component of our 2011 executive compensation program was altered based upon this high passage rate. However, the Committee will continue to monitor stockholder feedback as it reviews and establishes future executive compensation plans and determines awards for our named executive officers.

Our Board of Directors has determined that an advisory vote will be conducted on a biannual basis taking in to account a number of factors, including stockholder input.

### ***Stock Holding Requirements***

Each executive officer entered into a stock ownership agreement whereby the executive officer agreed that for a period of one year following any termination of employment, he would hold 25% of his transferable incentive equity (all vested options and shares of restricted stock that are no longer subject to forfeiture). If, during the one year following termination, he were to violate the covenant not to compete with the Company, the amount of transferable stock that he is then obligated to hold would be forfeited. The lock-up applies only to those shares received by the executive officer as equity compensation during his employment with the Company and does not apply to any personal investment in the Company's stock. In addition, options issued as part of the Company's 2009 option exchange program are subject to a more restrictive lock-up arrangement, whereby 50% of the net proceeds from the sale of shares resulting from the exercise of those options will be held by the Company for the duration of the executive's employment with the Company and for a twelve month period thereafter. In addition, if, during the one year following termination, an executive were to violate the covenant not to compete with, or solicit employees from, the Company, the amount of any proceeds so held by the Company would be forfeited.

### ***Hedging Policy***

The Company's Insider Trading Policy prohibits all executive officers, directors and employees from hedging their economic exposures to the Company stock they own including buying or selling derivative securities such as put and call options.

### ***Share Ownership Guidelines***

In 2010, the Compensation Committee introduced share ownership guidelines for the Company's directors, named executive officers and certain other executives to further strengthen the link between executive and shareholder interests and link share ownership and level of compensation. The guidelines, which went into effect January 1, 2011 for the Company's named executive officers and May 11, 2011 for the Company's directors upon their election at our annual meeting, supplement the Company's existing executive share holding requirements and require that the following multiples of annual base salary or, in the case of our directors, annual cash retainer, be held at the close of each fiscal year:

	<b>Share Ownership Guidelines (as Multiple of Cash Base Salary or Annual Retainer)</b>
<b>Participants</b>	
Director	2x
CEO/President	5x
Named Executives	2x

Stock to be counted toward ownership targets includes actual Common Stock including stock owned in street accounts, unvested and vested restricted stock units, and all shares held in estate planning vehicles. The guidelines state that required ownership must be attained within five years of hire (or plan inception, if later). To

## **Table of Contents**

monitor progress toward meeting the guidelines, the Compensation Committee will review current executive ownership levels at each December committee meeting, ahead of year-end executive compensation decisions. The Nominating and Governance Committee will review director ownership levels. The dollar value of common stock holdings will be calculated using the average stock price for the ten trading days prior to the December meeting. If an executive or director is not on schedule to meet guidelines, the executive or director will be required to hold the net shares resulting from any subsequent restricted stock vesting event until such time as the share ownership requirement is satisfied. All of the Company's executives and directors met or exceeded the share ownership guidelines as of December 31, 2011.

### ***Employment Agreements***

In December 2009, the Company entered into amended and restated employment agreements with each of the named executive officers, as well as four other members of its executive management team. The restated agreements reflect a balance between the interests of shareholders and management, and are intended to support the retention and sustained high morale of the executive team. In determining the elements of the named executive officer employment agreements, the Committee considered the costs associated with each term and condition, and balanced the financial cost against the intrinsic benefit of retaining a highly-cohesive management team. Each of the employment agreements has substantially similar terms, which reflect the following elements:

The term of each agreement was established for three years with one, one-year automatic renewal provision.

Each executive officer agreed that during the term of the agreement and for a period of one to two years thereafter, he will not directly or indirectly (i) solicit or engage any of the Company's employees, consultants or contractors, (ii) cause or encourage any of the Company's suppliers, licensors or any entity with which the Company has a material relationship to terminate or modify that relationship, or (iii) compete with the Company's business.

The agreement sets a minimum base salary for the executive officer that may be subject to increase on an annual basis, as determined by the board of directors.

Each executive officer is entitled to participate in incentive bonus programs the board of directors may adopt from time to time and is eligible for equity grants periodically.

Each executive officer is entitled to a severance payment and acceleration of equity vesting in the event of a termination without cause or for good reason; and acceleration of vesting but no further severance payment upon the Company's failure to renew the agreement (provisions differ based on job title/level of responsibility as discussed in the Potential Payments Upon Termination of Employment section of this proxy statement beginning on page 36).

The agreements provide for graduated benefits, including acceleration of vesting, in the event that the executive officer chooses to retire from the Company; however the restated agreements require the executive to complete the full three-year contract term to receive full retirement benefits.

The named executive officer employment agreements also contain change-in-control provisions for the named executive officers. In addition to preserving productivity and retention in a change-of-control of the Company, the provisions are intended to align executive officer and shareholder interests by enabling executive officers to consider corporate transactions that are in the best interest of the shareholders without undue concern over whether such transactions may jeopardize the executive officer's own employment.

The benefits provided under the change-in-control provisions mimic those described above, which represents a one-year reduction in severance benefits from the earlier agreements. In addition, change-in control payments require a double-trigger in order to qualify for compensation; a change of control alone is not sufficient but rather, must be followed by an involuntary loss of employment within two years thereafter. This is consistent with the overall purpose of the plan to provide financial protection upon an involuntary loss of employment.



**Table of Contents**

The employment agreements of Messrs. Conway, Schmidt-Fellner and Bray provide that, for so long as the Company's stock is traded on an established securities market, if any of the payments, awards or benefits payable to the executive officer are subject to a golden parachute excise tax under Sections 280G and 4999 of the Internal Revenue Code (IRC), then the Company will provide the executive officer with a gross-up payment so that the executive officer will receive the same economic terms he would have received if there were no excise tax. The effects of Sections 280G and 4999 generally are unpredictable and can have widely divergent and unexpected effects based on an executive officer's personal compensation history. Therefore, to provide a predictable and equal level of benefit across individuals without regard to the effect of the excise tax, the Committee determined that it was appropriate to pay the cost of this excise tax plus an amount needed to pay income taxes due on such additional payment. This practice is consistent with competitive pay packages and ensures the executive officer will receive the two years base salary and estimated cash incentive less only ordinary income taxes on that amount. The amounts payable under these agreements, calculated as if termination had occurred on December 31, 2011, are shown under the Potential Payments upon Termination of Employment or Change-in-Control, section of this proxy statement beginning on page 36.

**Compensation Committee Report**

The Compensation Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis with management and, based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

By the Compensation Committee,

Brian L.P. Fallon, Chair

Charles N. Bralver

T. Kimball Brooker, Jr.

Frank R. Noonan

**Table of Contents****Executive Compensation**

The following table sets forth information concerning compensation awarded to, earned by or paid during the year ended December 31, 2011 to the Company's (i) Chief Executive Officer and President, (ii) Chief Financial Officer, and (iii) the three other most highly compensated executive officers of the Company at December 31, 2011. These five officers are referred to as the named executive officers in this proxy statement.

**Summary Compensation Table**

Name and Principal Position	Year	Salary \$(1)	Bonus \$(2)	Stock Awards \$(3)	Option Awards \$(4)	Non-Equity Incentive Plan	All Other Compensation	Total (\$)
						\$(5)	\$(6)	
Timothy J. Conway Chief Executive Officer and President	2011	475,000				800,000	24,460	1,299,460
	2010	475,000	675,000	2,144,210			24,164	3,318,374
	2009	475,000	475,000	470,000	1,280,924		24,164	2,725,088
John K. Bray Chief Financial Officer	2011	350,000				600,000	21,325	971,325
	2010	350,000	475,000	1,684,739			16,337	2,526,076
	2009	350,000	350,000	298,000	711,257		14,700	1,723,957
Peter Schmidt-Fellner Chief Investment Officer	2011	400,000				700,000	14,700	1,114,700
	2010	400,000	575,000	1,914,472			14,700	2,904,172
	2009	400,000	400,000	379,000	969,552		14,700	2,163,252
David R. Dobies Group Head and MD	2011	300,000				425,000	21,325	746,325
	2010	300,000	400,000	1,072,108			21,246	1,793,354
	2009	300,000	300,000	298,000	342,411		21,246	1,261,657
Robert T. Clemmens Chief Credit Officer	2011	350,000				575,000	14,700	939,700
	2010	350,000	475,000	1,455,000			14,700	2,294,700
	2009	350,000	350,000	293,000	345,359		14,700	1,353,059

- (1) Each officer's minimum base salary is set pursuant to his Employment Agreement.
- (2) Amounts shown reflect cash bonus payments. In February 2009 the Compensation Committee elected to pay a portion of the bonus for each named executive officer's 2008 performance in restricted stock. These awards were granted in February 2009 and had a grant date fair market value of \$1.64 per share. The value of this restricted stock award is included in the Stock Awards column for 2009.
- (3) Amounts shown reflect the amounts required to be recognized by the Company for accounting purposes of the aggregate grant date fair value of the awards computed in accordance with ASC Topic 718 using the assumptions described in Note 11 to the Company's Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 7, 2012 (the FY 2011 10-K). The amounts detailed in the executive compensation table above reflect the accounting fair market value on the date of grant of \$5.82 per share, which incorporates a 26% discount to the Company's closing stock price on the date of grant (\$7.88) to reflect the statistical probability that the performance threshold may not be attained.
- (4) Amounts shown reflect the amounts required to be recognized by the Company for accounting purposes of the aggregate grant date fair value of the awards computed in accordance with ASC Topic 718 using the assumptions described in Note 11 to the Company's Financial Statements included in the FY 2011 10-K. In March 2009 the Company conducted an option exchange program. For option awards that were exchanged, the value included in the Option Awards column for 2009 represents the incremental fair value of the new options over the exchanged options, computed as of the exchange date.
- (5) Amounts shown reflect the cash incentive awards determined and awarded by the Compensation Committee in connection with the Company's 2011 incentive compensation program, which was designed to qualify for full corporate tax deductibility under Section 162(m). Payments made pursuant to the 2011 incentive compensation program replaced the cash bonus payments paid to our named executive officers as set forth in the Bonus column for 2009 and 2010.
- (6) Amount reflects matching contributions of \$14,700 to each named executive officer made by the Company under the tax-qualified 401(k) plan, which provides for broad-based employee participation. The named executive officers received no benefit from the Company under defined pension or defined contribution plans other than the 401(k) plan. In addition, the amounts for Messrs. Conway, Dobies and Bray reflect company-provided parking at the company's office in Boston in the amounts of \$9,760, \$6,625 and \$6,625, respectively.





**Table of Contents****Outstanding Equity Awards at Fiscal Year-End for Fiscal 2011**

The following table details the outstanding holdings of each named executive officer at December 31, 2011.

Name	Grant Date	Option Awards				Stock Awards			
		Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(1)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(2)	Equity Incentive Plan Awards: Number of Unearned Shares or Units of Stock That Have Not Vested (#)(2)(3)	Equity Incentive Plan Awards: Value of Unearned Shares or Units of Stock That Have Not Vested (\$)(2)
Timothy J. Conway Chief Executive Officer and President	2/4/2009 3/18/2009 12/11/2009 5/19/2010	100,000 566,667	50,000 283,333	2.86 2.76	2/4/2016 3/18/2016	125,000	1,271,250	368,421	3,746,842
John K. Bray Chief Financial Officer	2/4/2009 3/18/2009 12/11/2009 5/19/2010	66,667 266,667	33,333 133,333	2.86 2.76	2/4/2016 3/18/2016	75,000	762,750	289,474	2,943,950
Peter Schmidt-Fellner Chief Investment Officer	2/4/2009 3/18/2009 12/11/2009 5/19/2010	83,334 416,667	41,666 208,333	2.86 2.76	2/4/2016 3/18/2016	100,000	1,017,000	328,947	3,345,390
David R. Dobies Group Head and Managing Director	2/4/2009 3/18/2009 12/11/2009 5/19/2010	66,667 100,000	33,333 50,000	2.86 2.76	2/4/2016 3/18/2016	75,000	762,750	184,211	1,873,426
Robert T. Clemmens Chief Credit Officer	2/4/2009 3/18/2009 12/11/2009 5/19/2010	66,667 100,000	33,333 50,000	2.86 2.76	2/4/2016 3/18/2016	75,000	762,750	250,000	2,542,500

- (1) Assuming continued employment with the Company, options granted on 2/4/2009 and 3/18/2009 will vest in full on the third anniversary of the date of grant. Assuming continued employment with the Company, 100% of the restricted stock awards granted on 12/11/2009 will cease to become subject to forfeiture upon the third anniversary of the date of grant.
- (2) Value is based on the closing price of NewStar common stock of \$10.17 on December 31, 2011, as reported on the NASDAQ Global Market. The amounts detailed in the executive compensation table above reflect the accounting fair market value on the date of grant of \$5.82 per share, which incorporates a 26% discount to the Company's closing stock price on the date of grant (\$7.88) to reflect the statistical probability that the performance threshold may not be attained.
- (3) Assuming continued employment with the Company, restricted stock awards granted on 5/19/2010 vest according to the following schedule: 100% of the award will vest on the three-year anniversary of the grant date if both a time-based and a market-based condition are met. To satisfy the time-based vesting condition, the recipient must continue to be employed by the Company on the three-year anniversary of the grant date. To satisfy the market-based condition, either (i) the volume-weighted average price (VWAP) of the Company's common stock for the period beginning on the first day following the release of our fourth quarter earnings results for the 2012 fiscal year and ending on the three-year anniversary of the issue date (the Measurement Period) must meet or exceed the closing price of our common stock on the issue date of \$7.88 (the primary market-based condition) or (ii) both (x) the VWAP of the Company's common stock for the Measurement Period is less than \$7.88 per share but greater than or equal to \$7.00 per share and (y) the Company's book value per share at March 31, 2013 is greater than or equal to the Company's book value on March 31, 2010, calculated on a pro-forma basis to include these awards (the secondary market-based condition). Unless both the time-based and market-based (either the primary or secondary) conditions are met, 100% of the restricted stock awards will be forfeited.



**Table of Contents****Option Exercises and Stock Vested for Fiscal 2011**

The following table details the number of restricted shares that vested and the value realized upon vesting in 2011 for each named executive officer. None of the named executive officers exercised any stock options during 2011.

Name and Principal Position	Stock Awards	
	Number of Shares Acquired on Vesting(#)	Value Realized on Vesting\$(1)
Timothy J. Conway Chief Executive Officer and President	124,860	1,222,386
John K. Bray Chief Financial Officer	48,700	483,752
Peter Schmidt-Fellner Chief Investment Officer	91,957	902,055
David R. Dobies Group Head and Managing Director	47,175	468,197
Robert T. Clemmens Chief Credit Officer	48,700	483,752

(1) The vested value represents the Fair Market Value of the shares on the respective date of vesting.

**Potential Payments upon Termination of Employment or Change-in-Control for Fiscal 2011**

The following tables describe the potential payments and benefits under the Company's executive officer employment agreements to which each named executive officer would have been entitled upon termination of employment or change of control, calculated as if each such event had occurred on December 31, 2011.

**Name of Executive: Timothy J. Conway**

Type of Payments(1)	Involuntary Termination Without Cause or Resignation for		Failure to			Change-in-Control
	Good Reason (\$)	Retirement (\$)	Renew (\$)	Death (\$)	Disability (\$)	
Severance Payments	2,023,333					2,023,333
Stock Option Vesting Acceleration	2,464,998	2,464,998	2,464,998	2,464,998	2,464,998	2,464,998
Restricted Stock Vesting Acceleration	1,271,250	1,271,250	1,271,250	5,018,092	5,018,092	5,018,092
Commission of Welfare Benefits	29,440					29,440
Exercise Tax & Gross-Up						2,295,944
<b>Total</b>	<b>5,789,021</b>	<b>3,736,248</b>	<b>3,736,248</b>	<b>7,483,090</b>	<b>7,483,090</b>	<b>11,831,807</b>

**Table of Contents****Name of Executive: John K. Bray**

Type of Payments(1)	Involuntary Termination Without Cause or Resignation for			Failure to Renew	Death	Disability	Change-in-Control
	Good Reason	Retirement					
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Severance Payments	1,476,667						1,476,667
Stock Option Vesting Acceleration	1,231,662	1,231,662	1,231,662	1,231,662	1,231,662	1,231,662	1,231,662
Restricted Stock Vesting Acceleration	762,750	762,750	762,750	762,750	3,706,701	3,706,701	3,706,701
Commission of Welfare Benefits	29,440						29,440
Exercise Tax & Gross-Up							1,989,666
<b>Total</b>	<b>3,500,519</b>	<b>1,994,412</b>	<b>1,994,412</b>	<b>1,994,412</b>	<b>4,938,363</b>	<b>4,938,363</b>	<b>8,434,136</b>

**Name of Executive: Peter Schmidt-Fellner**

Type of Payments(1)	Involuntary Termination Without Cause or Resignation for			Failure to Renew	Death	Disability	Change-in-Control
	Good Reason	Retirement					
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Severance Payments	1,703,333						1,703,333
Stock Option Vesting Acceleration	1,848,326	1,848,326	1,848,326	1,848,326	1,848,326	1,848,326	1,848,326
Restricted Stock Vesting Acceleration	1,017,000	1,017,000	1,017,000	1,017,000	4,362,391	4,362,391	4,362,391
Commission of Welfare Benefits	29,440						29,440
Exercise Tax & Gross-Up							2,106,186
<b>Total</b>	<b>4,598,099</b>	<b>2,865,326</b>	<b>2,865,326</b>	<b>2,865,326</b>	<b>6,210,717</b>	<b>6,210,717</b>	<b>10,049,676</b>

**Name of Executive: David R. Dobies**

Type of Payments(1)	Involuntary Termination Without Cause or Resignation for			Failure to Renew	Death	Disability	Change-in-Control
	Good Reason	Retirement					
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Severance Payments	640,000						640,000
Stock Option Vesting Acceleration	614,164	614,164	614,164	614,164	614,164	614,164	614,164
Restricted Stock Vesting Acceleration	762,750	762,750	762,750	762,750	2,636,176	2,636,176	2,636,176
Commission of Welfare Benefits	14,720						14,720
Exercise Tax & Gross-Up							
<b>Total</b>	<b>2,031,634</b>	<b>1,376,914</b>	<b>1,376,914</b>	<b>1,376,914</b>	<b>3,250,340</b>	<b>3,250,340</b>	<b>3,905,060</b>

**Table of Contents**

Name of Executive: Robert T. Clemmens

Type of Payments(1)	Involuntary Termination Without Cause or Resignation for		Failure to			Change-in-Control
	Good Reason	Retirement	Renew	Death	Disability	
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Severance Payments	738,333					738,333
Stock Option Vesting Acceleration	614,164	614,164	614,164	614,164	614,164	614,164
Restricted Stock Vesting Acceleration	762,750	762,750	762,750	3,305,250	3,305,250	3,305,250
Commission of Welfare Benefits	14,720					14,720
Exercise Tax & Gross-Up						
<b>Total</b>	2,129,967	1,376,914	1,376,914	3,919,414	3,919,414	4,672,467

(1) Table excludes incentive bonus that was earned on 12/31/11. Such bonus is included in the Summary Compensation Table and would have been payable to each named executive regardless of whether he continued his employment with the Company or ceased employment on 12/31/11 under any termination of employment or change in control scenario set forth in the table. The bonus amounts paid to each executive were as follows: Mr. Conway (\$800,000), Mr. Bray (\$600,000), Mr. Schmidt-Fellner (\$700,000); Mr. Dobies (\$425,000) and Mr. Clemmens (\$575,000).

As described in the Compensation Discussion and Analysis under Employment Agreements beginning on page 32, the Company entered into amended and restated employment agreements with each of the named executive officers listed above on December 11, 2009. The table above assumes a termination of employment that would trigger incremental payments or other benefits to the named executive officers under the amended and restated employment agreements, based on the named executive officer's compensation, benefits, age, and years of service as of December 31, 2011. All valuations of restricted stock are based upon the closing price (\$10.17) of NewStar stock on December 31, 2011, the last day of trading in the fiscal year. The value of the continued health benefits detailed in the table above assumes the extension of the named executive officer's current benefits election and program coverage. Circumstances in which these benefits may be paid include an involuntary termination without cause, a voluntary termination by the named executive officer for good reason, retirement, following the Company's failure to renew the employment agreement, death or disability and finally, an involuntary termination of the named executive officer following a change-in-control.

A termination of an executive officer by the Company is for cause if it is for any of the following reasons: (i) willful and continued failure of the executive officer to perform substantially the executive officer's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the executive officer by the Board of Directors, which specifically identifies the manner in which the Board of Directors believes that the executive officer has not substantially performed his duties, or (ii) willful engagement in illegal conduct or gross misconduct by the executive officer that is materially and demonstrably injurious to the Company or its affiliates, or (iii) conviction of the executive officer or a plea of guilty or *nolo contendere* by the executive officer to a felony, or (iv) a material breach of the executive officer's obligation under his confidentiality and/or non-compete obligations. No act or failure to act on the part of an executive officer is considered willful unless it is done, or omitted to be done, by the executive officer in bad faith or without reasonable belief that the executive officer's actions or omission was in the best interests of the Company.

A termination by the executive officer is for good reason if it results from any of (i) a reduction by the Company in the executive officer's annual base salary or (ii) a forced relocation by Company of the executive officer's place of employment to a location greater than twenty five (25) miles from his initial place of

---

**Table of Contents**

employment. For Messrs. Conway, Schmidt-Fellner and Bray, good reason may also be triggered by a material diminution by the Company in the executive officer's principal duties and responsibilities in the context of a change-in-control.

In the event of an involuntary termination without cause or voluntary termination for good reason, Messrs. Conway, Schmidt-Fellner and Bray are entitled to a severance payment equal to two years' base salary paid in accordance with the Company's standard payroll practices plus two years' incentive bonus (calculated as the average bonus paid during the three previous fiscal years) payable as soon as practical following the date of termination. In addition, each would receive accelerated vesting of all outstanding equity awards, and would be entitled to continued health benefits for the two-year severance period. Options would remain exercisable for a period equal to the full remaining term. Messrs. Dobies and Clemmens would receive substantially similar terms over a one-year severance period. Each would be entitled to a severance payment equal to one year's base salary plus incentive bonus. Each would also receive accelerated vesting of all equity awards, and would be entitled to continued health benefits for the one-year severance period. Their options would also remain exercisable for the full remaining term.

If termination is due to the retirement of the executive officer, or at the option of the executive officer following a failure of the Company to renew the employment agreement, each executive officer would be eligible to receive accelerated vesting of restricted stock and the continued vesting of options in the same manner that the options would vest had the executive officer continued his employment with the Company during the vesting period. Further, the executive officer would have a period equal to the full length of the remaining option term to exercise any vested options. Finally, each executive officer would retain the option to participate in employer-sponsored healthcare at the retiree's sole expense. None of the executive officers were eligible to retire as of December 31, 2011 because retirement is conditioned on being age 55 or older and being employed with the Company for the full three-year term of the employment contract. Likewise, because the employment agreements for Messrs. Conway, Schmidt-Fellner, Bray, Dobies and Clemmens do not expire until December 2012, none of the executive officers were eligible for the accelerated vesting of restricted stock, continued vesting of options, extension of option exercisability and eligibility to participate in employer-sponsored healthcare upon the Company's failure to renew the agreement as of December 31, 2011.

A termination of employment due to death or disability would entitle each named executive officer to full acceleration of vesting on all equity awards and a one-to-two year period following the date of termination to exercise any options accordingly.

In each of the events so noted above, the named executive officer would also be entitled to any accrued but unpaid salary and/or vacation time and a pro-rated bonus for the current fiscal year paid as soon as practical following the date of termination. As noted in the footnote to the tables above, the amounts in the Potential Payments Upon Termination of Employment or Change-in-Control for fiscal 2011 table exclude any pro-rated bonus amount for performance year 2011 as such amounts are considered accrued and earned as of December 31, 2011 and as such would have been payable to each executive regardless of whether he continued employment with the company or ceased employment on December 31, 2011 under any termination of employment or change-in-control scenario. Earned incentive bonuses for the 2011 fiscal year have been reflected in the Company's Summary Compensation Table.

Each employment agreement contains change-in-control provisions for the named executive officer. The change of control provisions require a double-trigger, meaning payments are made only if the named executive officer suffers a covered termination of employment within two years following a change-in-control. Change-in-control provisions mimic the awards made under an involuntary termination without cause without exception and are made payable to the executive in a lump sum as soon as practical following the termination event.

Additionally, each employment agreement provides that if the executive is terminated following the approval by the Company's board of directors or stockholders of a plan to liquidate materially all of the

**Table of Contents**

Company's assets, the executive would be entitled to (i) all benefits provided under a termination without cause or for good reason scenario, except instead of receiving a payment equal to the applicable base salary the executive would receive a lump-sum payment equal to two times base salary and no payment equal to the average incentive bonus paid over the past three fiscal years, and (ii) the executive would be released from the non-competition provisions of the agreement upon payment of such amounts.

Upon a change-in-control, executive officers may be subject to certain excise taxes under Section 280G of the Code. The Company has agreed that so long as the Company's stock is traded on an established securities market, if any of the payments, awards or benefits payable to Messrs. Conway, Schmidt-Fellner and Bray are subject to a golden parachute excise tax, the Company will provide the named executive officer with a gross-up payment so that the named executive officer will receive the same economic terms they would have received if there were no excise tax, provided that the total payments due exceed 110% of the applicable 280g threshold. In the event that the payments do not exceed the 110% threshold, then no gross-up payment shall be made and the total payments, in the aggregate, are reduced. The amounts shown in the table are based upon a 280G excise tax rate of 20%, a 35% federal income tax rate, a 5.3% state income tax rate and a 1.45% Medicare tax rate.

**Table of Contents****BOARD OF DIRECTORS DIRECTOR COMPENSATION**

Each of the Company's independent, non-management directors receives director fees of \$50,000 per year, and each committee chairman receives an additional \$25,000 per year. Members of our board of directors are also reimbursed for their usual and customary expenses incurred in connection with attending all board and committee meetings. Non-management directors receive annual grants of restricted stock and/or options to purchase shares of our common stock.

In February 2011, the Compensation Committee, with the assistance of TowersWatson, conducted a comprehensive review of the Company's director compensation program to ensure its pay practices remain market competitive and reflective of industry best practices. The Committee reviewed all aspects of director pay practices including the mix of cash and equity incentives, equity vesting practices and stock ownership guidelines and, based on its assessment, approved a series of changes to the Company's director compensation program which went into effect upon the directors election to a new term of service at the Company's annual meeting in May 2011. The changes included: 1) the establishment of target annual equity awards expressed as grant date fair market value instead of number of stock or option units to provide greater predictability in the value and expense of the annual compensation package; 2) the introduction of one-year equity vesting schedules to run concurrent with the directors elected term and 3) the introduction of share ownership requirements equal to two times the directors annual cash retainer to strengthen the alignment with shareholder interests.

As a result, upon re-election to a new term of service at the Company's 2011 annual meeting, non-management directors received a grant of restricted stock with a fair market value on the date of grant equal to \$50,000 (as determined by the Company's closing stock price on the grant date) and options to purchase shares of common stock equal to \$25,000 in fair market value with an exercise price equal to the fair market value of the Company's common stock on the grant date. Non-management directors who served as the Chairperson of a Committee of the board would have also received an additional \$25,000 in grant date stock option value. The restricted stock and stock options granted in 2011 vest in full on the one year anniversary of the grant.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(1)(2)	Option Awards (\$)(2)(3)	Total (\$)
Timothy J. Conway, Chairman (4)				
Kimball T. Brooker, Jr.	50,000	50,000	25,000	125,000
Peter Schmidt-Fellner (5)				
Charles N. Bralver	50,000	50,000	25,000	125,000
Richard Thornburgh	75,000	50,000	50,000	175,000
Frank R. Noonan	75,000	50,000	50,000	175,000
Maureen O Hara	75,000	50,000	50,000	175,000
Brian L.P. Fallon	75,000	50,000	50,000	175,000
Bradley E. Cooper (6)	50,000	50,000 (7)	25,000 (7)	125,000

- (1) The amounts shown represent the aggregate grant date fair market value of stock awards granted to the Director during 2011, determined in accordance with ASC Topic 718, using the assumptions described in Note 11 to the Company's Financial Statements included in the FY 2011 10-K. The award vests in full on the one year anniversary of grant according to the following schedule. Each director received a grant of 4,945 restricted shares on May 11, 2011 upon election to a new term. The fair market value of the awards issued to each director on that day was \$50,000, based on a closing price of \$10.11 of our common stock on the NASDAQ Global Market on May 11, 2011.



**Table of Contents**

- (2) The following aggregate numbers of restricted stock and options awards were outstanding as of December 31, 2011 for each director in the table:

Name	Stock Awards (#)	Option Awards (#)
Kimball T. Brooker, Jr.	24,945	25,000
Charles N. Bralver	16,195	16,250
Richard Thornburgh	24,945	60,000
Frank Noonan	24,945	70,000
Maureen O Hara	24,945	60,000
Brian L.P. Fallon	17,445	42,500
Bradley E. Cooper	24,945	25,000

- (3) The amounts shown represent the aggregate grant date fair market value of the option awards granted to the Director during 2011, determined in accordance with ASC Topic 718, using the assumptions described in Note 11 to the Company's Financial Statements included in the FY 2011 10-K. The award vests in full on each anniversary of grant. Each director received a grant of stock options on May 11, 2011 upon election to a new term. Messrs. Cooper, Bralver and Brooker each received a grant of 5,000 options on May 11, 2011. The fair market value of each of their respective awards on that date was \$25,000. Messrs. Thornburgh, Noonan and Fallon and Ms. O Hara each received a grant of 10,000 options on May 11, 2011. The fair market value of their respective awards on that date was \$50,000.
- (4) Executive directors do not receive compensation for their board responsibilities.
- (5) Executive directors do not receive compensation for their board responsibilities.
- (6) Mr. Cooper has assigned his rights to any compensation and equity received by him as a Director to Capital Z Management, LLC ( Cap Z ).
- (7) In September 2011 Mr. Cooper transferred his 2011 restricted stock and option awards to Cap Z for no consideration.

**Table of Contents****EQUITY PLAN INFORMATION**

The number of shares of Common Stock issuable upon exercise of outstanding options granted to employees and non-employee directors, as well as the number of shares remaining available for future issuance under the Company's 2006 Incentive Plan at December 31, 2011 is summarized in the following table:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options	(b) Weighted-average exercise price of outstanding options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	5,941,603	\$ 5.17	2,220,708
Equity compensation plans not approved by stockholders			
<b>Total</b>	<b>5,941,603</b>	<b>\$ 5.17</b>	<b>2,220,708</b>

As of December 31, 2011, the total number of additional shares remaining available for future issuance under the Plan was 2,220,708 shares.

**OTHER MATTERS****Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our directors, executive officers and persons owning more than 10% of our registered equity securities to file with the SEC reports of their initial ownership and of changes in their ownership of our common stock and to provide us with copies of all Section 16(a) reports they file. To our knowledge, based solely on our review of copies of reports furnished to us and written representations that no other reports were required during 2011, our directors, officers and 10% stockholders complied with all Section 16(a) filing requirements, except that each of our named executive officers failed to file Form 4's to report forfeitures of shares of our common stock for income tax purposes that resulted from the vesting of shares of restricted stock that occurred on December 13, 2011. Each of Messrs. Conway, Bray, Dobies, Clemmens and Schmidt-Fellner filed a Form 5 on February 13, 2012 reporting the transaction that he failed to file a Form 4 for in 2011.

**Deadlines for Stockholder Proposals**

Assuming the 2013 annual meeting is not more than 30 days before or 30 days after May 9, 2013:

if you wish to bring business before or propose director nominations at the 2013 annual meeting, you must give written notice to us not earlier than December 10, 2012 or later than January 9, 2013, and

if you wish to bring proposed business to the 2013 annual meeting and you would like us to consider the inclusion of your proposal in our proxy statement for the meeting, you must provide written notice of such proposal to us in accordance with Securities and Exchange Commission rules not later than December 10, 2012.

Notices of stockholder proposals and nominations should be given in writing to NewStar Financial, Inc., at its principal executive offices, 500 Boylston St., Suite 1250, Boston, MA 02116, Attn: Corporate Secretary.

**Table of Contents**

**NewStar Financial, Inc.**

**Proxy Solicited on Behalf of the Board of Directors for Annual Meeting on May 9, 2012.**

The undersigned stockholder of NewStar Financial, Inc. ( NewStar ), hereby appoints Timothy J. Conway and John K. Bray, or either of them, with full power of substitution, to be the attorneys and proxies of the undersigned at the Annual Meeting of Stockholders of NewStar to be held at 10:00 a.m. on May 9, 2012 at the offices of Edwards Wildman Palmer LLP, 111 Huntington Avenue, Boston, Massachusetts, or at any adjournment thereof, on the proposals contained in the Notice of the Annual Meeting of Stockholders, with all powers the undersigned would possess if personally present at said meeting, or at the postponement or adjournment thereof.

**You are encouraged to specify your choices by marking the appropriate boxes, SEE REVERSE SIDE, but you need not mark any boxes if you wish to vote in accordance with the Board of Directors' recommendations. The proxies cannot vote your shares unless you sign and return this card.**

**PLEASE VOTE, DATE AND SIGN THIS PROXY ON THE OTHER SIDE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.**

**THIS IS YOUR PROXY. YOUR VOTE IS IMPORTANT.**

*(Continued, and to be signed on reverse side)*

ADDRESS CHANGE / COMMENTS

AMERICAN STOCK TRANSFER &  
TRUST COMPANY  
6201 15<sup>TH</sup> AVENUE  
BROOKLYN, N.Y. 11219

**Table of Contents**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 9, 2012**

This proxy statement and our annual report to security holders are available at [www.rrdezproxy.com/2012/NewStarFinancial/](http://www.rrdezproxy.com/2012/NewStarFinancial/)

..

**DETACH PROXY CARD HERE**

**INTERNET** Access [www.voteproxy.com](http://www.voteproxy.com) and follow the on-screen instructions. Have your proxy card available and use the Control Number and Account Number shown on your card.

**MAIL** Please Vote, Sign, Date

and Return Promptly in the

Enclosed Envelope.

x

**Votes must be indicated**

**(x) in Black or Blue ink.**

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED**

This proxy, when properly executed, will be voted in the manner directed herein. If no direction is made, this proxy will be voted **FOR** each of the proposals listed below.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE FOLLOWING PROPOSALS.**

1. To elect eight directors:

**FOR** all nominees                      **WITHHOLD AUTHORITY** to vote                      **FOR ALL**

listed below                      " for all nominees listed below                      " **EXCEPT\***                      "

**(Instructions: To withhold authority to vote for one or more individual nominees, mark the FOR ALL EXCEPT\* box and write the name(s) of such nominee(s) in the space provided below.)**

Nominees: Charles N. Bralver, Timothy J. Conway, Bradley

E. Cooper, Brian L.P. Fallon, Frank R. Noonan,

**Edgar Filing: NewStar Financial, Inc. - Form DEF 14A**

Maureen P. O Hara, Peter A. Schmidt-Fellner, Richard E. Thornburgh

Exceptions\*

2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2012 fiscal year:

**FOR**   "   **AGAINST**   "   **ABSTAIN**   "

To change your address, please mark this box.     "

To include any comments, please mark this box.     "

**S C A N L I N E**

**Authorized Signatures Sign Here This section must be completed for your instructions to be executed.**

Please sign this proxy exactly as your name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, administrator, trustee or guardian, please give full title as such.

Date here	Share Owner sign	Date	Co-Owner sign here
-----------	------------------	------	--------------------