NewStar Financial, Inc.
Form 10-Q
May 01, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from to

Commission File Number 001-33211

NewStar Financial, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**54-2157878**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
500 Boylston Street, Suite 1250, Boston, MA	**02116**
(Address of principal executive offices)	**(Zip Code)**

(617) 848-2500

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of April 26, 2013, 49,425,389 shares of common stock, par value of $0.01 per share, were outstanding.

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Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q of NewStar Financial, Inc., contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These are statements that relate to future periods and include statements about:

- our anticipated financial condition, including estimated loan losses;
- our expected results of operation;
- our ability to meet draw requests under commitments to borrowers under certain conditions;
- our growth and market opportunities;
- trends and conditions in the financial markets in which we operate;
- our future funding needs and sources and availability of funding;
- our involvement in capital-raising transactions;
- our competitors;
- our provision for credit losses;
- our future development of our products and markets;
- our ability to compete; and
- our stock price.

Generally, the words anticipates, believes, expects, intends, estimates, projects, plans and similar expressions identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance, achievements or industry results to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other important factors include, among others:

- acceleration of deterioration in credit quality that could result in levels of delinquent or non-accrual loans that would force us to realize credit losses exceeding our allowance for credit losses and deplete our cash position;

- risks and uncertainties relating to the financial markets generally, including disruptions in the global financial markets;

- our ability to obtain external financing;

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

- risks and uncertainties relating to our limited operating history;

- our ability to minimize losses, achieve profitability, and realize our deferred tax asset; and

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

For a further description of these and other risks and uncertainties, we encourage you to carefully read section Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2012.

The forward-looking statements contained in this Quarterly Report on Form 10-Q speak only as of the date of this report. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained in this Quarterly Report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based, except as may be required by law.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

NEWSTAR FINANCIAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (unaudited)	December 31, 2012
	($ in thousands, except share and par value amounts)	
Assets:		
Cash and cash equivalents	$ 27,581	$ 27,212
Restricted cash	140,969	208,667
Investments in debt securities, available-for-sale	21,546	21,127
Loans held-for-sale, net	59,517	51,602
Loans, net	1,748,454	1,720,789
Deferred financing costs, net	17,858	19,064
Interest receivable	8,626	9,003
Property and equipment, net	345	433
Deferred income taxes, net	40,895	42,463
Income tax receivable	1,724	4,311
Other assets	28,251	52,399
Total assets	$ 2,095,766	$ 2,157,070
Liabilities:		
Credit facilities	$ 213,859	$ 229,941
Term debt	1,196,124	1,221,764
Repurchase agreements	30,194	30,583
Accrued interest payable	4,543	3,330
Accounts payable	1,186	404
Other liabilities	47,207	76,231
Total liabilities	1,493,113	1,562,253
Stockholders equity:		
Preferred stock, par value $0.01 per share (5,000,000 shares authorized; no shares outstanding)	0	0
Common stock, par value $0.01 per share:		
Shares authorized: 145,000,000 in 2013 and 2012;		
Shares outstanding 49,442,722 in 2013 and 49,311,008 in 2012	494	493
Additional paid-in capital	647,983	646,299
Accumulated deficit	(14,572)	(20,726)
Common stock held in treasury, at cost $0.01 par value; 3,663,685 in 2013 and 3,646,290 in 2012	(31,486)	(31,243)
Accumulated other comprehensive income (loss), net	234	(6)
Total stockholders equity	602,653	594,817
Total liabilities and stockholders equity	$ 2,095,766	$ 2,157,070

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

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NEWSTAR FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

	Three Months Ended March 31, 2013	2012
	($ in thousands, except per share amounts)	
Net interest income:		
Interest income	$ 30,140	$ 29,522
Interest expense	9,187	8,353
Net interest income	20,953	21,169
Provision for credit losses	718	2,881
Net interest income after provision for credit losses	20,235	18,288
Non-interest income:		
Fee income	358	1,255
Asset management income related party	727	743
Loss on derivatives	(41)	(15)
Gain (loss) on sale of loans	27	(450)
Other income	2,032	1,252
Total non-interest income	3,103	2,785
Operating expenses:		
Compensation and benefits	8,880	7,202
General and administrative expenses	4,031	3,493
Total operating expenses	12,911	10,695
Income before income taxes	10,427	10,378
Income tax expense	4,273	4,296
Net income	$ 6,154	$ 6,082
Basic income per share	$ 0.13	$ 0.13
Diluted income per share	0.12	0.12

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

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NEWSTAR FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

	Three Months Ended March 31,	
	2013	2012
	($ in thousands)	
Net Income	$ 6,154	$ 6,082
Other comprehensive income, net of tax:		
Net unrealized securities gains, net of tax expense of $146 and $473, respectively	216	692
Net unrealized derivative gains, net of tax expense of $21 and $38, respectively	24	37
Other comprehensive income	240	729
Comprehensive income	$ 6,394	$ 6,811

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

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NEWSTAR FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Unaudited

	NewStar Financial, Inc. Stockholders Equity					
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss), net	Common Stockholders Equity
	($ in thousands)					
Balance at January 1, 2013	$ 493	$ 646,299	$ (20,726)	$ (31,243)	$ (6)	$ 594,817
Net income	0	0	6,154	0	0	6,154
Other comprehensive income	0	0	0	0	240	240
Issuance of restricted stock	1	(1)	0	0	0	0
Net shares reacquired from employee transactions	0	0	0	(243)	0	(243)
Tax benefit from vesting of restricted common stock awards	0	88	0	0	0	88
Amortization of restricted common stock awards	0	1,530	0	0	0	1,530
Amortization of stock option awards	0	67	0	0	0	67
Balance at March 31, 2013	$ 494	$ 647,983	$ (14,572)	$ (31,486)	$ 234	$ 602,653

	NewStar Financial, Inc. Stockholders Equity					
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss, net	Common Stockholders Equity
Balance at January 1, 2012	$ 494	$ 635,389	$ (44,703)	$ (25,420)	$ (1,998)	$ 563,762
Net income	0	0	6,082	0	0	6,082
Other comprehensive income	0	0	0	0	729	729
Issuance of restricted stock	1	(1)	0	0	0	0
Net shares reacquired from employee transactions	0	0	0	(37)	0	(37)
Tax benefit from vesting of restricted common stock awards	0	(6)	0	0	0	(6)
Repurchase of common stock	(2)	2	0	(1,831)	0	(1,831)
Amortization of restricted common stock awards	0	1,473	0	0	0	1,473
Amortization of stock option awards	0	423	0	0	0	423
Balance at March 31, 2012	$ 493	$ 637,280	$ (38,621)	$ (27,288)	$ (1,269)	$ 570,595

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

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NEWSTAR FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

	Three Months Ended March 31, 2013	2012
	($ in thousands)	
Cash flows from operating activities:		
Net income	$ 6,154	$ 6,082
Adjustments to reconcile net income to net cash used for operations:		
Provision for credit losses	718	2,881
Depreciation and amortization and accretion	(1,819)	(1,784)
Amortization of debt issuance costs	1,405	1,024
Equity compensation expense	1,597	1,896
Loss (gain) on sale of loans	(27)	450
Gain on repurchase of debt	0	(946)
Losses (gains) from equity method investments	(837)	203
Net change in deferred income taxes	1,568	(113)
Loans held-for-sale originated	(26,752)	(32,721)
Proceeds from sale of loans held-for-sale	18,837	33,054
Net change in interest receivable	377	800
Net change in other assets	27,617	(5,568)
Net change in accrued interest payable	1,213	112
Net change in accounts payable and other liabilities	(28,427)	(5,635)
Net cash provided by (used in) operating activities	1,624	(265)
Cash flows from investing activities:		
Net change in restricted cash	67,698	(21,136)
Net change in loans	(26,480)	(75,547)
Acquisition of property and equipment	(8)	(110)
Net cash provided by (used in) investing activities	41,210	(96,793)
Cash flows from financing activities:		
Proceeds from exercise of stock options	0	108
Tax benefit (expense) from vesting of restricted stock	88	(6)
Borrowings on credit facilities	177,573	163,242
Repayment of borrowings on credit facilities	(193,655)	(58,301)
Borrowings on term debt	5,000	74,900
Repayment of borrowings on term debt	(30,640)	(77,007)
Repayment of borrowings on repurchase agreements	(389)	(2,181)
Payment of deferred financing costs	(199)	(2,907)
Purchase of treasury stock	(243)	(1,868)
Net cash provided by (used in) financing activities	(42,465)	95,980
Net increase (decrease) in cash during the period	369	(1,078)
Cash and cash equivalents at beginning of period	27,212	18,468
Cash and cash equivalents at end of period	$ 27,581	$ 17,390

Supplemental cash flows information:		
Interest paid	$ 7,975	$ 8,241
Taxes paid	197	3,262
Increase in fair value of investments in debt securities	362	1,165
Transfer of loans to other real estate owned	0	9,400

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

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NEWSTAR FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1. Organization

NewStar Financial, Inc. (the Company), a Delaware corporation, is a specialized commercial finance company focused on meeting the complex financing needs of companies and private investors in the middle market. The Company focuses primarily on the direct origination of bank loans and equipment leases through teams of credit-trained bankers and marketing officers organized around key industry and market segments. The Company s marketing and direct origination efforts target private equity sponsors, mid-sized companies, corporate executives, regional banks, real estate investors and a variety of other referral sources and financial intermediaries to source new customer relationships and lending opportunities. The Company s emphasis on direct origination is an important aspect of its marketing and credit strategy because it provides direct access to customers management teams and enhances the Company s ability to conduct detailed due diligence and credit analysis of prospective borrowers. It also allows the Company to negotiate transaction terms directly with borrowers and, as a result, it has significant input into customers financial strategies and capital structures. The Company also participates in loans as a member of a lending group. The mix of the Company s originations may vary from period to period. The Company employs highly experienced bankers, marketing officers and credit professionals to identify and structure new lending opportunities and manage customer relationships. The Company believes that the quality of its professionals, the breadth of their relationships and referral networks, and their ability to develop creative solutions for customers position it to be a valued partner and preferred lender for mid-sized companies.

The Company operates as a single segment, and it derives revenues from four specialized lending groups that target market segments in which it believes that it has a competitive advantage:

Leveraged Finance, provides senior, secured cash flow loans and, to a lesser extent, second lien loans, which are primarily used to finance acquisitions of mid-sized companies with annual cash flow (EBITDA) typically between $5 million and $30 million by private equity investment funds managed by established professional alternative asset managers;

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

Real Estate, manages an existing portfolio of first mortgage debt which was sourced primarily to finance acquisitions of commercial real estate properties typically valued between $10 million and $50 million by professional commercial real estate investors; and

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

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

These interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries (collectively, NewStar) and have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). All significant intercompany transactions have been eliminated in consolidation. These interim condensed financial statements include adjustments of a normal and recurring nature considered necessary by management to fairly present NewStar s financial position, results of operations and cash flows. These interim condensed financial statements may not be indicative of financial results for the full year. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. The estimates most susceptible to change in the near-term are the Company s estimates of its (i) allowance for credit losses, (ii) recorded amounts of deferred income taxes, (iii) fair value measurements used to record fair value adjustments to certain financial instruments, (iv) valuation of investments and (v) determination of other than temporary impairments and temporary impairments. The interim condensed consolidated financial statements and notes thereto should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

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

The Company operates as a single segment, and derives revenues from four specialized lending groups that target market segments in which it believes it has a competitive advantage:

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

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

Real Estate, manages an existing portfolio of first mortgage debt which was sourced primarily to finance acquisitions of commercial real estate properties; and

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

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

The Company s borrowers may be particularly susceptible to economic slowdowns or recessions and, as a result, may be unable to make scheduled payments of interest or principal on their borrowings during these periods. Adverse economic conditions also may decrease the estimated value of the collateral, particularly real estate, securing some of the Company s loans.

Loans classified as held-for-sale may consist of loans originated by the Company and intended to be sold or syndicated to third parties (including NewStar Arlington Fund LLC (Arlington Fund), a new credit fund managed by the Company formed in April 2013) or impaired loans for which a sale of the loan is expected as a result of a workout strategy. At March 31, 2013 loans held-for-sale were $59.7 million and consisted of leveraged finance loans to 14 borrowers which are intended to be sold to the Arlington Fund at an agreed upon price or to entities other than the Arlington Fund. Subsequent to March 31, 2013, the Company sold loans with an aggregate outstanding balance of $30.5 million to the Arlington Fund as intended.

These loans are carried at the lower of aggregate cost, net of any deferred origination costs or fees, or market value.

As of March 31, 2013 and December 31, 2012, loans held-for-sale consisted of the following:

	March 31, 2013	December 31, 2012
	($ in thousands)	
Leveraged Finance	$ 60,114	$ 52,120
Gross loans	60,114	52,120
Deferred loan fees, net	(597)	(518)
Total loans, net	$ 59,517	$ 51,602

The Company sold one loan with an outstanding balance of $7.5 million for a gain of $0.03 million to entities other than the NewStar Credit Opportunities Fund, Ltd. (NCOF) or the Arlington Fund during the three months ended March 31, 2013. The Company sold two loans with an aggregate outstanding balance of $9.7 million for a loss of $0.5 million to entities other than the NCOF during the three months ended March 31, 2012.

As of March 31, 2013 and December 31, 2012, loans and leases consisted of the following:

	March 31, 2013	December 31, 2012
	($ in thousands)	
Leveraged Finance	$ 1,466,837	$ 1,422,415
Business Credit	204,649	196,952
Real Estate	148,883	177,478
Gross loans and leases	1,820,369	1,796,845
Deferred loan fees, net	(26,759)	(26,420)
Allowance for loan and lease losses	(45,156)	(49,636)
Total loans and leases, net	$ 1,748,454	$ 1,720,789

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As of March 31, 2013 and December 31, 2012, Equipment Finance leases totaled $24.9 million and $17.3 million, respectively, and are included in the Business Credit balances.

The Company grants commercial loans, commercial real estate loans, and leases to customers throughout the United States. Although the Company has a diversified loan and lease portfolio, certain events have occurred, including, but not limited to, adverse economic conditions and adverse events affecting specific clients, industries or markets, that may adversely affect the ability of borrowers to make timely scheduled principal and interest payments on their loans and leases.

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

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

Loans and leases which are rated at or below a specified threshold are typically classified as Pass , and loans and leases rated above that threshold are typically classified as Criticized , a characterization that may apply to impaired loans, including TDR. As of March 31, 2013, $245.1 million of the Company s loans were classified as Criticized , including $202.9 million of the Company s impaired loans, and $1.6 billion were classified as Pass . As of December 31, 2012, $267.2 million of the Company s loans were classified as Criticized , including $237.6 million of the Company s impaired loans, and $1.5 billion were classified as Pass .

When the Company rates a loan above a certain risk rating threshold, the Company will establish a specific allowance, and the loan will be analyzed and may be placed on non-accrual. If the asset deteriorates further, the specific allowance may increase, and ultimately may result in a loss and charge-off.

A TDR that performs in accordance with the terms of the restructuring may improve its risk profile over time. While the concessions in terms of pricing or amortization may not have been reversed and further amended to market levels, the financial condition of the Borrower may improve over time to the point where the rating improves from the Criticized classification that was appropriate immediately prior to, or at, restructuring.

As of March 31, 2013, the Company had impaired loans with an aggregate outstanding balance of $306.2 million. Impaired loans with an aggregate outstanding balance of $257.2 million have been restructured and classified as TDR. As of March 31, 2013, the aggregate carrying value of equity investments in certain of the Company s borrowers in connection with troubled debt restructurings totaled $8.7 million. Impaired loans with an aggregate outstanding balance of $76.3 million were also on non-accrual status. For impaired loans on non-accrual status, the Company s policy is to reverse the accrued interest previously recognized as interest income subsequent to the last cash receipt in the current year. The recognition of interest income on the loan only resumes when factors indicating doubtful collection no longer exist and the non-accrual loan has been brought current. During the three months ended March 31, 2013, the Company charged off $5.2 million of outstanding non-accrual loans. During the three months ended March 31, 2013, the Company placed one loan with an outstanding balance of $9.0 million as of March 31, 2013 on non-accrual status. During the three months ended March 31, 2013, the Company recorded $0.4 million of net specific provisions for impaired loans. At March 31, 2013, the Company had a $25.2 million specific allowance for impaired loans with an aggregate outstanding balance of $169.7 million. At March 31, 2013, additional funding commitments for impaired loans totaled $28.4 million. The Company s obligation to fulfill the additional funding commitments on impaired loans is generally contingent on the borrower s compliance with the terms of the credit agreement and the borrowing base availability for asset-based loans, or if the borrower is not in compliance additional funding commitments may be made at the Company s discretion. As of March 31, 2013, $37.9 million of loans on non-accrual status were greater than 60 days past due and classified as delinquent by the Company. Included in the $25.2 million specific allowance for impaired loans was $1.6 million related to delinquent loans.

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During 2012, as part of the resolution of two impaired commercial real estate loans, the Company took control of the underlying commercial real estate properties. The Company recorded a partial charge-off of $2.7 million and classified the commercial real estate properties as other real estate owned. The commercial real estate properties had an aggregate fair value of $13.0 million as of March 31, 2013 and as of December 31, 2012.

As of December 31, 2012, the Company had impaired loans with an aggregate outstanding balance of $324.4 million. Impaired loans with an aggregate outstanding balance of $263.7 million have been restructured and classified as TDR. As of December 31, 2012, the aggregate carrying value of equity investments in certain of the Company s borrowers in connection with troubled debt restructurings totaled $7.7 million. Impaired loans with an aggregate outstanding balance of $72.7 million were also on non-accrual status. For impaired loans on non-accrual status, the Company s policy is to reverse the accrued interest previously recognized as interest income subsequent to the last cash receipt in the current year. The recognition of interest income on the loan only resumes when factors indicating doubtful collection no longer exist and the non-accrual loan has been brought current. During 2012, the Company charged off $19.1 million of outstanding non-accrual loans and recovered $1.6 million of previously charged-off impaired loan outstanding balances. During 2012, the Company took previously identified non-accrual loans with an aggregate outstanding balance of $16.2 million as of December 31, 2011 off non-accrual status and placed loans with an aggregate outstanding balance of $22.7 million as of December 31, 2012 on non-accrual status. During 2012, the Company recorded $16.7 million of net specific provisions for impaired loans. At December 31, 2012, the Company had a $30.2 million specific allowance for impaired loans with an aggregate outstanding balance of $192.1 million. At December 31, 2012, additional funding commitments for impaired loans totaled $33.6 million. The Company s obligation to fulfill the additional funding commitments on impaired loans is generally contingent on the borrower s compliance with the terms of the credit agreement and the borrowing base availability for asset-based loans, or if the borrower is not in compliance additional funding commitments may be made at the Company s discretion. As of December 31, 2012, $62.7 million of loans on non-accrual status were greater than 60 days past due and classified as delinquent by the Company. Included in the $30.2 million specific allowance for impaired loans was $6.4 million related to delinquent loans.

A summary of impaired loans is as follows:

	Investment	Unpaid Principal	Recorded Investment with a Related Allowance for Credit Losses ($ in thousands)	Recorded Investment without a Related Allowance for Credit Losses
March 31, 2013				
Leveraged Finance	$ 219,063	$ 288,426	$ 118,184	$ 100,879
Business Credit	1,821	2,720	0	1,821
Real Estate	85,338	91,266	51,554	33,784
Total	$ 306,222	$ 382,412	$ 169,738	$ 136,484
December 31, 2012				
Leveraged Finance	$ 214,359	$ 277,702	$ 131,261	$ 83,098
Business Credit	1,821	2,652	0	1,821
Real Estate	108,188	117,054	60,871	47,317
Total	$ 324,368	$ 397,408	$ 192,132	$ 132,236

During the three months ended March 31, 2013 and 2012 the Company recorded net partial charge-offs of $5.2 million and $2.9 million, respectively. The Company s general policy is to record a specific allowance for an impaired loan when the Company determines that it is doubtful that it will be able to collect all amounts due according to the contractual terms of the loan. Any partial charge-off of such loan would typically occur in a subsequent period. The Company may record the initial specific allowance related to an impaired loan in the same period as it records a partial charge-off in certain circumstances such as if the terms of a restructured loan are finalized during that period. When a loan is determined to be uncollectible, the specific allowance is charged off, and reduces the gross investment in the loan.

While charge-offs typically have no net impact on the carrying value of net loans, charge-offs lower the level of the allowance for loan losses; and, as a result, reduce the percentage of allowance for loans to total loans, and the percentage of allowance for loan losses to non-performing loans.

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Below is a summary of the Company s evaluation of its portfolio and allowance for loan and lease losses by impairment methodology:

	Leveraged Finance		Business Credit ($ in thousands)		Real Estate	
	Investment	Allowance	Investment	Allowance	Investment	Allowance
March 31, 2013						
Collectively evaluated (1)	$ 1,247,774	$ 17,972	$ 202,828	$ 724	$ 63,545	$ 1,220
Individually evaluated (2)	219,063	17,822	1,821	0	85,338	7,418
Total	$ 1,466,837	$ 35,794	$ 204,649	$ 724	$ 148,883	$ 8,638

	Leveraged Finance		Business Credit ($ in thousands)		Real Estate	
	Investment	Allowance	Investment	Allowance	Investment	Allowance
December 31, 2012						
Collectively evaluated (1)	$ 1,208,056	$ 18,063	$ 195,131	$ 707	$ 69,290	$ 653
Individually evaluated (2)	214,359	21,578	1,821	0	108,188	8,635
Total	$ 1,422,415	$ 39,641	$ 196,952	$ 707	$ 177,478	$ 9,288

(1) Represents loans and leases collectively evaluated for impairment in accordance with ASC 450-20, *Loss Contingencies,* and pursuant to amendments by ASU 2010-20 regarding allowance for unimpaired loans and leases. These loans and leases had a weighted average risk rating of 5.2 and 5.1 based on the Company s internally developed 12 point scale at March 31, 2013 and December 31, 2012.

(2) Represents loans individually evaluated for impairment in accordance with ASU 310-10, *Receivables,* and pursuant to amendments by ASU 2010-20 regarding allowance for impaired loans.

Below is a summary of the Company s investment in nonaccrual loans.

Recorded Investment in Nonaccrual Loans	March 31, 2013 ($ in thousands)	December 31, 2012
Leveraged Finance	$ 61,089	$ 66,407
Business Credit	1,821	1,821
Real Estate	13,428	4,458
Total	$ 76,338	$ 72,686

Loans being restructured typically develop adverse performance trends as a result of internal or external factors, the result of which is an inability to comply with the terms of the applicable credit agreement governing their obligations to the Company. In order to mitigate default risk and/or liquidation, assuming that liquidation proceeds are not viewed as a more favorable outcome to the Company and other lenders, the Company will enter into negotiations with the borrower and its shareholders on the terms of a restructuring. When restructuring a loan, the Company undertakes an extensive diligence process which typically includes (i) construction of a financial model that runs through the tenor of the restructuring term, (ii) meetings with management of the borrower, (iii) engagement of third party consultants and (iv) internal analysis. Once a restructuring proposal is developed, it is subject to approval by both the Company s Underwriting Committee and the Company s Investment Committee. Loans will only be removed from TDR classification upon the refinancing of outstanding obligations on terms which are determined to be market in all material respects, or upon full payoff of the loan. The Company may modify loans that are not determined to be a TDR. Where a loan is modified or restructured but loan terms are considered market and no concessions were given on the loan terms, including price, principal amortization or obligation, or other restrictive covenants, a loan will not be classified as a TDR. As of March 31, 2013, the

Company had one troubled debt restructuring presented net of deferred loan fees against its gross outstanding balance.

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

Group I:

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

Group II:

- partial charge-offs
- partial forgiveness
- conversion of debt to equity

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A summary of the types of concessions that the Company made with respect to TDRs at March 31, 2013 and December 31, 2012 is provided below:

	Group I	Group II
	($ in thousands)	
March 31, 2013	$ 257,161	$ 151,819
December 31, 2012	$ 263,670	$ 145,328

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

For the three months ended March 31, 2013 and 2012, the Company had partial charge-offs totaling $2.7 million and $0.5 million, respectively related to loans previously classified as TDR. As of March 31, 2013, the Company had not removed the TDR classification from any loan previously identified as such.

The Company measures TDRs similarly to how it measures all loans for impairment. The Company performs a discounted cash flow analysis on cash flow dependent loans and we assess the underlying collateral value less reasonable costs of sale for collateral dependent loans. Management analyzes the projected performance of the borrower to determine if it has the ability to service principal and interest based on the terms of the restructuring. If a charge-off is taken on a restructured loan, interest will typically move to a cash basis where it is taken into income only upon receipt or be placed on non-accrual. Loans will typically not be returned to accrual status until at least six months of contractual payments have been made in a timely manner. Additionally, at the time of a restructuring and quarterly thereafter, an impairment analysis is undertaken to determine the level of impairment on the loan.

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

For the Three Months Ended March 31, 2013	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Investment in TDR Subsequently Defaulted
		($ in thousands)	
Leveraged Finance	$ 0	$ 0	$ 0
Business Credit	0	0	0
Real Estate	0	0	8,976
Total	$ 0	$ 0	$ 8,976

For the Year Ended December 31, 2012	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Investment in TDR Subsequently Defaulted
		($ in thousands)	
Leveraged Finance	$ 22,190	$ 22,190	$ 21,668
Business Credit	0	0	0
Real Estate	47,544	47,544	0
Total	$ 69,734	$ 69,734	$ 21,668

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The following sets forth a breakdown of troubled debt restructurings at March 31, 2013 and December 31, 2012:

As of March 31, 2013 ($ in thousands) Loan Type	Accrual Status Accruing	Nonaccrual	Impaired Balance	Specific Allowance	For the three months Charged-off
Leveraged Finance	$ 145,578	$ 54,907	$ 200,485	$ 17,192	$ 2,656
Business Credit	0	0	0	0	0
Real Estate	43,264	13,412	56,676	1,379	0
Total	$ 188,842	$ 68,319	$ 257,161	$ 18,571	$ 2,656

As of December 31, 2012 ($ in thousands) Loan Type	Accrual Status Accruing	Nonaccrual	Impaired Balance	Specific Allowance	For the year Charged-off
Leveraged Finance	$ 135,757	$ 57,703	$ 193,460	$ 18,475	$ 12,614
Business Credit	0	0	0	0	0
Real Estate	65,768	4,442	70,210	1,969	5,612
Total	$ 201,525	$ 62,145	$ 263,670	$ 20,444	$ 18,226

The Company classifies a loan as past due when it is over 60 days delinquent.

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

	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current ($ in thousands)	Total Loans and Leases	Investment in > 60 Days & Accruing
March 31, 2013						
Leveraged Finance	$ 0	$ 31,605	$ 31,605	$ 1,435,232	$ 1,466,837	$ 0
Business Credit	0	1,821	1,821	202,828	204,649	0
Real Estate	0	4,452	4,452	144,431	148,883	0
Total	$ 0	$ 37,878	$ 37,878	$ 1,782,491	$ 1,820,369	$ 0

	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current ($ in thousands)	Total Loans and Leases	Investment in > 60 Days & Accruing
December 31, 2012						

Leveraged Finance	$ 2,997	$ 55,277	$ 58,274	$ 1,364,141	$ 1,422,415	$ 21,003
Business Credit	0	1,821	1,821	195,131	196,952	0
Real Estate	0	4,458	4,458	173,020	177,478	0
Total	$ 2,997	$ 61,556	$ 64,553	$ 1,732,292	$ 1,796,845	$ 21,003

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

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

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

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

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

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

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

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

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

	Three Months Ended March 31, 2013			
	Leveraged Finance	Business Credit	Real Estate	Total
	($ in thousands)			
Balance, beginning of period	$ 39,971	$ 707	$ 9,286	$ 49,964
Provision for credit losses general	(75)	17	359	301
Provision for credit losses specific	1,399	0	(982)	417
Loans charged off, net of recoveries	(5,154)	0	(29)	(5,183)
Balance, end of period	$ 36,141	$ 724	$ 8,634	$ 45,499
Balance, end of period specific	$ 17,822	$ 0	$ 7,418	$ 25,240
Balance, end of period general	$ 18,319	$ 724	$ 1,216	$ 20,259
Average balance of impaired loans	$ 248,691	$ 2,698	$ 69,851	$ 321,240
Interest recognized from impaired loans	$ 3,752	$ 0	$ 750	$ 4,502
Loans and leases				
Loans individually evaluated with specific allowance	$ 118,184	$ 0	$ 51,554	$ 169,738
Loans individually evaluated with no specific allowance	100,879	0	33,784	134,663

Loans acquired with deteriorating credit quality	0	1,821	0	1,821
Loans and leases collectively evaluated without specific allowance	1,247,774	202,828	63,545	1,514,147
Total loans and leases	$ 1,466,837	$ 204,649	$ 148,883	$ 1,820,369

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	Three Months Ended March 31, 2012			
	Leveraged Finance	Business Credit	Real Estate	Total
	($ in thousands)			
Balance, beginning of year	$ 44,553	$ 374	$ 19,185	$ 64,112
Provision for credit losses general	2,560	162	(1,409)	1,313
Provision for credit losses specific	758	0	810	1,568
Loans charged off, net of recoveries	540	0	(3,404)	(2,864)
Balance, end of period	$ 48,411	$ 536	$ 15,182	$ 64,129
Balance, end of period specific	$ 29,356	$ 0	$ 10,026	$ 39,382
Balance, end of period general	$ 19,055	$ 536	$ 5,156	$ 24,747
Average balance of impaired loans	$ 248,504	$ 2,852	$ 79,364	$ 330,720
Interest recognized from impaired loans	$ 3,477	$ 0	$ 298	$ 3,775
Loans				
Loans individually evaluated with specific allowance	$ 142,930	$ 0	$ 46,729	$ 189,659
Loans individually evaluated with no specific allowance	81,651	0	16,831	98,482
Loans acquired with deteriorating credit quality	0	2,095	0	2,095
Loans collectively evaluated without specific allowance	1,273,485	148,734	159,124	1,581,343
Total loans and leases	$ 1,498,066	$ 150,829	$ 222,684	$ 1,871,579

Included in the allowance for credit losses at March 31, 2013 and December 31, 2012 is an allowance for unfunded commitments of $0.3 million at each period end, which is recorded as a component of other liabilities on the Company s consolidated balance sheet with changes recorded in the provision for credit losses on the Company s consolidated statement of operations. The methodology for determining the allowance for unfunded commitments is consistent with the methodology for determining the allowance for loan and lease losses.

During the three months ended March 31, 2013, the Company recorded a total provision for credit losses of $0.7 million. The Company decreased its allowance for credit losses to $45.5 million as of March 31, 2013 from $50.0 million at December 31, 2012. The Company had $5.2 million of net charge-offs of impaired loans with a specific allowance and reduced its allowance for credit losses by 28 basis points during the three months ended March 31, 2013, offset by new specific provisions for credit losses. The general allowance for credit losses covers probable losses in the Company s loan and lease portfolio with respect to loans and leases for which no specific impairment has been identified. When a loan is classified as impaired, the loan is evaluated for a specific allowance and a specific provision may be recorded, thereby removing it from consideration under the general component of the allowance analysis. Loans that are deemed to be uncollectible are charged off and deducted from the allowance, and recoveries on loans previously charged off are netted against loans charged off. A specific provision for credit losses is recorded with respect to impaired loans for which it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement for which there is impairment recognized. The outstanding balance of impaired loans, which include all of the outstanding balances of the Company s delinquent loans and its troubled debt restructurings, as a percentage of Loans and leases, net was 18% as of March 31, 2013 and 19% as of December 31, 2012.

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

The Company continually evaluates the appropriateness of its allowance for credit losses methodology. Based on the Company s evaluation process to determine the level of the allowance for loan and lease losses, management believes the allowance to be adequate as of March 31, 2013 in light of the estimated known and inherent risks identified through its analysis.

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Note 4. Restricted Cash

Restricted cash as of March 31, 2013 and December 31, 2012 was as follows:

	March 31, 2013	December 31, 2012
	($ in thousands)	
Collections on loans pledged to credit facilities	$ 47,482	$ 47,944
Principal and interest collections on loans held in trust and prefunding amounts	92,536	159,257
Customer escrow accounts	951	1,466
Total	$ 140,969	$ 208,667

As of March 31, 2013, the Company had the ability to use $30.3 million of restricted cash to fund new or existing loans. At December 31, 2012, $78.6 million of restricted cash was designated to fund loans for the Company s 2012-2 CLO, which were funded during the three months ended March 31, 2013.

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

Amortized cost of investments in debt securities as of March 31, 2013 and December 31, 2012 was as follows:

	March 31, 2013	December 31, 2012
	($ in thousands)	
Investments in debt securities - gross	$ 25,298	$ 25,298
Unamortized discount	(4,265)	(4,322)
Investments in debt securities - amortized cost	$ 21,033	$ 20,976

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of available-for-sale securities at March 31, 2013 and December 31, 2012 were as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
		($ in thousands)		
March 31, 2013:				
Collateralized loan obligations	$ 21,033	$ 1,104	$ (591)	$ 21,546
	$ 21,033	$ 1,104	$ (591)	$ 21,546

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value

	($ in thousands)			
December 31, 2012:				
Collateralized loan obligations	$ 20,976	$ 1,105	$ (954)	$ 21,127
	$ 20,976	$ 1,105	$ (954)	$ 21,127

The Company did not sell any debt securities during the three months ended March 31, 2013 and 2012.

The Company did not record any net Other-Than-Temporary Impairment charges during the three months ended March 31, 2013 and 2012.

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The following is an analysis of the continuous periods during which the Company has held investment positions which were carried at an unrealized loss as of March 31, 2013 and December 31, 2012:

	March 31, 2013		
	Less than 12 Months	Greater than or Equal to 12 Months	Total
	($ in thousands)		
Number of positions	0	3	3
Fair value	$ 0	$ 10,707	$ 10,707
Amortized cost	0	11,298	11,298
Unrealized loss	$ 0	$ 591	$ 591

	December 31, 2012		
	Less than 12 Months	Greater than or Equal to 12 Months	Total
	($ in thousands)		
Number of positions	0	4	4
Fair value	$ 0	$ 13,247	$ 13,247
Amortized cost	0	14,201	14,201
Unrealized loss	$ 0	$ 954	$ 954

As a result of the Company s evaluation of the securities, management concluded that the unrealized losses at March 31, 2013 and December 31, 2012 were caused by changes in market prices driven by interest rates and credit spreads. The Company s evaluation of impairment include quotes from third party pricing services, adjustments to prepayment speeds, delinquency, an analysis of expected cash flows, interest rates, market discount rates, other contract terms, and the timing and level of losses on the loans and leases within the underlying trusts. At March 31, 2013, the Company has determined that it is not more likely than not that it will be required to sell the securities before the Company recovers its amortized cost basis in the security. The Company has also determined that there has not been an adverse change in the cash flows expected to be collected. Based upon the Company s impairment review process, and the Company s ability and intent to hold these securities until maturity or a recovery of fair value, the decline in the value of these investments is not considered to be Other Than Temporary.

Maturities of debt securities classified as available-for-sale were as follows at March 31, 2013 and December 31, 2012 (maturities of asset-backed and mortgage-backed securities have been allocated based upon estimated maturities, assuming no change in the current interest rate environment):

	March 31, 2013		December 31, 2012	
	Amortized cost	Fair value	Amortized cost	Fair value
	($ in thousands)			
Available-for-sale:				
Due one year or less	$ 0	$ 0	$ 0	$ 0
Due after one year through five years	0	0	0	0
Due after five years through ten years	21,033	21,546	20,976	21,127
Total	$ 21,033	$ 21,546	$ 20,976	$ 21,127

Note 6. Borrowings

Credit Facilities

As of March 31, 2013 the Company had five credit facilities: (i) a $175 million credit facility with Wells Fargo Bank, National Association (Wells Fargo) to fund leveraged finance loans, (ii) a $150.0 million revolving credit facility with NATIXIS Financial Products, Inc. (NATIXIS) to fund leveraged finance loans, (iii) a $150 million credit facility with DZ Bank to fund asset-based loans, (iv) a $75 million credit facility with Wells Fargo to fund asset-based loans, and (v) a $75 million credit facility with Wells Fargo to fund new equipment lease origination.

The Company has a $175.0 million credit facility with Wells Fargo to fund leverage finance loans with the ability to further increase the commitment amount to $200.0 million, subject to lender approval and other customary conditions. The credit facility had an outstanding balance of $0 and unamortized deferred financing fees of $3.4 million as of March 31, 2013. The facility provides for a revolving reinvestment period which ends on November 5, 2015 with a two-year amortization period. The Company must comply with various covenants, the breach of which could result in a termination event if not cured. These covenants include, but are not limited to, failure to service debt obligations, failure to maintain minimum levels of liquidity, and failure to meet tangible net worth covenants and overcollateralization tests. At March 31, 2013, the Company was in compliance with all such covenants. Interest on this facility accrued at a variable rate per annum.

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The Company has a $150.0 million credit facility agreement with NATIXIS that had an outstanding balance of $98.6 million and unamortized deferred financing fees of $2.1 million as of March 31, 2013. Interest on this facility accrues at a variable rate per annum, which was 2.36% at March 31, 2013. This credit facility has a reinvestment period ending on August 16, 2013 and matures on February 16, 2019. The Company must comply with various covenants, the breach of which could result in a termination event if not cured. These covenants include, but are not limited to, failure to service debt obligations and failure to meet overcollateralization tests.

The Company has a $150.0 million credit facility with DZ Bank that had an outstanding balance of $80.4 million and unamortized fees of $1.1 million as of March 31, 2013. Interest on this facility accrues at a variable rate per annum. As part of the agreement, there is a minimum interest charge of $1.9 million per annum. If the facility is not utilized to cover this minimum requirement, then a make-whole fee is assessed to satisfy the minimum requirement. The Company is permitted to use the proceeds of borrowings under the credit facility to fund advances under asset based loan commitments. The commitment amount under the credit facility is scheduled to decrease from $150.0 million to $125.0 million on and after April 24, 2013, and matures on June 30, 2015.

The Company has a $75.0 million credit facility with Wells Fargo to fund asset-based loan origination. The credit facility had an outstanding balance of $34.9 million and unamortized deferred financing fees of $0.5 million as of March 31, 2013. Interest on this facility accrues at a variable rate per annum. The credit facility may be increased to an amount up to $150.0 million subject to lender approval and other customary conditions. The credit facility matures on December 7, 2015. The Company must comply with various covenants, the breach of which could result in a termination event if not cured. These covenants include, but are not limited to, failure to service debt obligations, net worth covenants, interest coverage ratios, minimum excess availability and violations of pool default and charged off tests.

The Company has a note purchase agreement with Wells Fargo under the terms of which Wells Fargo agreed to provide a $75.0 million credit facility to fund new equipment lease originations. The credit facility matures on November 16, 2016 subject to early termination or extension. The Company must comply with various covenants, the breach of which could result in a termination event if not cured. These covenants include, but are not limited to, failure to service debt obligations, failure to maintain minimum levels of liquidity, failure to meet tangible net worth covenants and violations of pool default and delinquency tests. As of March 31, 2013, the Company had not drawn any amounts from this credit facility.

Corporate Credit Facility

On January 5, 2010, the Company entered into a note agreement with Fortress Credit Corp., which was subsequently amended on August 31, 2010, January 27, 2012, November 5, 2012, and December 4, 2012. The credit facility, as amended, consists of a $25.0 million revolving note and a $100.0 million term note, which matures on August 31, 2016. The credit facility accrues interest at the London Interbank Offered Rate (LIBOR) plus 7.00%.

The Company is permitted to use the proceeds of borrowings under the credit facility for general corporate purposes including, but not limited to, funding loans, working capital, paying down outstanding debt, making certain types of acquisitions and repurchasing capital stock up to $10 million.

The applicable unused fee rate of the revolving note is 4.0% of the undrawn amount of the revolving note when the total outstanding amount is less than 50% of the commitment amount, 3.0% of the undrawn amount of the revolving note when the total outstanding amount is greater than or equal to 50% but less than 75% of the commitment amount, and 2.0% of the undrawn amount of the revolving note when the total outstanding amount is greater than or equal to 75% of the commitment amount. As of March 31, 2013, the Company had not drawn any amounts from the revolving note. As of March 31, 2013, unamortized deferred financing fees were $2.8 million.

The revolving note may be cancelled at any time subject to a commitment termination fee. The commitment termination fee will be equal to the product of the aggregate revolving loan commitments as of the date of termination and 1% for any termination made during the period from July 1, 2012 to August 31, 2015, and 0% for any termination made at any time after August 31, 2015.

The term note may be prepaid subject to a commitment termination fee. For any prepayment of term loans made before or on August 31, 2015, the commitment termination fee will be equal to the product of (x) the amount of the prepayment and (y) 1%. For any prepayment made at any time after August 31, 2015 there will not be any fee. As of March 31, 2013, the term note had an outstanding principal balance of $100.0 million.

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Term Debt Securitizations

In August 2005 the Company completed a term debt transaction. In conjunction with this transaction we established a separate single-purpose bankruptcy-remote subsidiary, NewStar Trust 2005-1 (the 2005 CLO Trust) and contributed $375 million in loans and investments (including unfunded commitments), or portions thereof, to the 2005 CLO Trust. The Company remains the servicer of the loans and investments. Simultaneously with the initial contributions, the 2005 CLO Trust issued $343.4 million of notes to institutional investors and issued $31.6 million of trust certificates of which the Company retained 100%. At March 31, 2013, the $90.9 million of outstanding notes were collateralized by the specific loans and investments, principal collections account cash and principal payment receivables totaling $122.4 million. At March 31, 2013, deferred financing fees were $0. The 2005 CLO Trust permitted reinvestment of collateral principal repayments for a three-year period which ended in October 2008. During 2012, the Company repurchased $9.8 million of the 2005 CLO Trust s Class D notes and $0.9 million of the Class E notes. During 2011, the Company repurchased $3.9 million of the 2005 CLO Trust s Class E notes. During 2010, the Company repurchased $4.6 million of the 2005 CLO Trust s Class D notes. During 2009, the Company repurchased $1.4 million of the 2005 CLO Trust s Class D notes and $1.2 million of the Class E notes. During 2008, the Company repurchased $5.8 million of the 2005 CLO Trust s Class E notes. During 2007, the Company repurchased $5.0 million of the 2005 CLO Trust s Class E notes. During 2009, Moody s downgraded all of the notes of the 2005 CLO Trust. As a result of the downgrades, amortization of the 2005 CLO Trust changed from pro rata to sequential, resulting in scheduled principal payments made in order of the notes seniority until all available funds are exhausted for each payment. During 2010, Standard and Poor s downgraded all of the notes of the 2005 CLO Trust. During the first quarter of 2012, Moody s upgraded the Class A-1 notes, the Class A-2 notes, the Class B notes, the Class C notes, and the Class D notes, and downgraded the Class E notes of the 2005 CLO Trust. During the third quarter of 2012, Fitch affirmed its ratings of all of the notes of the 2005 CLO Trust. During the fourth quarter of 2012, Standard and Poor s upgraded the Class A-1 notes, the Class A-2 notes and the Class B notes and affirmed the rating of the Class C notes, the Class D notes and the Class E notes of the 2005 CLO Trust.

The Company receives a loan collateral management fee and excess interest spread. The Company may receive a principal distribution when the term debt is retired. The most recent quarterly report of the 2005 CLO Trust dated January 13, 2013 identified $74.6 million in cumulative charged-off loans in the 2005 CLO Trust as delinquent or charged-off under the terms of the trust indenture. As a result, the excess interest spread from the 2005 CLO Trust will be redirected and combined with recoveries and will be used to repay the outstanding notes until note redemptions equal the underlying non-accrual loan balances or until the Company purchases such loans. As of the January 13, 2013 report, the cumulative amount redirected was $19.8 million. The Company may have additional defaults in the 2005 CLO Trust in the future. If the Company does not elect to remove any future defaulted loans, it would not expect to receive excess interest spread payments until the undistributed cash plus any recoveries equal the outstanding balances of defaulted loan collateral.

The following table sets forth selected information with respect to the 2005 CLO Trust:

	Notes originally issued	Outstanding balance March 31, 2013	Interest rate	Original maturity	Ratings (S&P/Moody s/ Fitch)(1)
	($ in thousands)				
2005 CLO Trust:					
Class A-1	$ 156,000	$ 11,320	Libor + 0.28%	July 25, 2018	AAA/Aaa/AAA
Class A-2	80,477	5,778	Libor + 0.30%	July 25, 2018	AAA/Aaa/AAA
Class B	18,750	18,683	Libor + 0.50%	July 25, 2018	AA+/Aa1/AA
Class C	39,375	39,233	Libor + 0.85%	July 25, 2018	B+/A2/BB
Class D	24,375	8,424	Libor + 1.50%	July 25, 2018	CCC-/Ba2/CCC
Class E	24,375	7,471	Libor + 4.75%	July 25, 2018	CCC-/Caa3/CC
	$ 343,352	$ 90,909			

(1) The ratings were initially given in August 2005, are unaudited and are subject to change from time to time. During the first quarter of 2009, Fitch affirmed its ratings and downgraded the Class D notes and Class E notes. The Fitch downgrade did not have a material impact on the 2005 CLO Trust. During the first quarter of 2009, Moody s downgraded the Class C notes, the Class D notes and the Class E notes. During the third quarter of 2009, Moody s downgraded the Class A-1 notes, the Class A-2 notes and the Class B notes. During the second quarter of 2010, Standard and Poor s downgraded all of the notes. During the third quarter of 2010, Fitch downgraded the Class C notes,

the Class D notes and the Class E notes to the ratings shown above. During the first quarter of 2012, Moody s upgraded the Class A-1 notes, the Class A-2 notes, the Class B notes, the Class C notes, and the Class D notes, and downgraded the Class E notes to the ratings shown above. Fitch affirmed its ratings during the third quarter of 2012. During the fourth quarter of 2012, Standard and Poor s upgraded the Class A-1 notes, the Class A-2 notes to the ratings shown above and the Class B notes and affirmed the rating of the Class C notes, the Class D notes and the Class E notes (source: Bloomberg Finance L.P.).

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In June 2006 the Company completed a term debt transaction. In conjunction with this transaction the Company established a separate single-purpose bankruptcy remote subsidiary, NewStar Commercial Loan Trust 2006-1 (the 2006 CLO Trust) and contributed $500 million in loans and investments (including unfunded commitments), or portions thereof, to the 2006 CLO Trust. The Company remains the servicer of the loans. Simultaneously with the initial contributions, the 2006 CLO Trust issued $456.3 million of notes to institutional investors. The Company retained $43.8 million, comprising 100% of the 2006 CLO Trust s trust certificates. At March 31, 2013, the $243.4 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling $287.2 million. At March 31, 2013, deferred financing fees were $0.5 million. The 2006 CLO Trust permitted reinvestment of collateral principal repayments for a five-year period which ended in June 2011. During 2011, the Company repurchased $7.0 million of the 2006 CLO Trust s Class C notes, $6.0 million of the 2006 CLO Trust s Class D notes and $2.0 million of the 2006 CLO Trust s Class E notes. During 2010, the Company repurchased $3.0 million of the 2006 CLO Trust s Class D notes and $3.0 million of the 2006 CLO Trust s Class E notes. During 2009, the Company repurchased $6.5 million of the 2006 CLO Trust s Class D notes and $1.8 million of the 2006 CLO Trust s Class E notes. During 2008, the Company repurchased $3.3 million of the 2006 CLO Trust s Class D and $2.5 million of the 2006 CLO Trust s Class E notes, respectively. During 2009, Moody s downgraded all of the notes of the 2006 CLO Trust. As a result of the downgrade, amortization of the 2006 CLO Trust changed from pro rata to sequential, resulting in future scheduled principal payments made in order of the notes seniority until all available funds are exhausted for each payment. During 2010, Standard and Poor s downgraded the Class A-1 notes, the Class A-2 notes, the Class C notes, the Class D notes and the Class E notes of the 2006 CLO Trust. The downgrade did not have any material consequence as the amortization of the 2006 CLO Trust changed from pro rata to sequential after the Moody s downgrade in 2009. During 2011, Moody s upgraded its ratings of all of the notes of the 2006 CLO Trust. During the third quarter of 2012, Fitch affirmed its ratings of all of the notes of the 2006 CLO Trust. During the fourth quarter of 2012, Standard and Poor s upgraded the Class D notes and the Class E notes and affirmed the rating of the Class A-1 notes, the Class A-2 notes, the Class B notes and the Class C notes of the 2006 CLO Trust.

The Company receives a loan collateral management fee and excess interest spread. The Company expects to receive a principal distribution when the term debt is retired. The most recent quarterly report of the 2006 CLO Trust dated March 13, 2013 identified $21.6 million in cumulative charged-off loans in the 2006 CLO Trust as delinquent or charged-off under the terms of the trust indenture. As a result, the excess interest spread from the 2006 CLO Trust will be redirected and combined with recoveries and will be used to repay the outstanding notes until note redemptions equal the underlying non-accrual loan balances or until the Company purchases such loans. During 2011, the Company elected to purchase $11.1 million of defaulted collateral from the 2006 CLO Trust to reduce the amount of excess interest spread that otherwise would have been required to be redirected. As of the March 13, 2013 quarterly report, the entire $21.6 million had been redirected or repurchased. The Company may have additional defaults in the 2006 CLO Trust in the future. If the Company does not elect to remove any future defaulted loans, it would not expect to receive excess interest spread payments until the undistributed cash plus any recoveries equal the outstanding balances of defaulted loan collateral.

The following table sets forth the selected information with respect to the 2006 CLO Trust:

	Notes originally issued	Outstanding balance March 31, 2013	Interest rate	Original maturity	Ratings (S&P/Moody s/ Fitch)(1)
	($ in thousands)				
2006 CLO Trust					
Class A-1	$ 320,000	$ 160,678	Libor +0.27%	March 30, 2022	AA+/Aaa/AAA
Class A-2	40,000	21,504	Libor +0.28%	March 30, 2022	AA+/Aaa/AAA
Class B	22,500	22,500	Libor +0.38%	March 30, 2022	AA/Aa2/AA
Class C	35,000	28,000	Libor +0.68%	March 30, 2022	BBB+/A3/A
Class D	25,000	6,250	Libor +1.35%	March 30, 2022	B+/Baa3/BBB
Class E	13,750	4,500	Libor +1.75%	March 30, 2022	CCC+/Ba1/BB
	$ 456,250	$ 243,432			

(1) These ratings were initially given in June 2006, are unaudited and are subject to change from time to time. During the first quarter of 2009, Fitch affirmed its ratings. During the first quarter of 2009, Moody s downgraded the Class C notes, the Class D notes and the Class E notes. During the third quarter of 2009, Moody s downgraded the Class A-1 notes, the Class A-2 notes and the Class B note. During the second quarter of 2010, Standard and Poor s downgraded the Class A-1 notes, the Class A-2 notes, the Class C notes, the Class D notes and the

Class E notes. During the fourth quarter of 2011, Moody s upgraded all of the notes to the ratings shown above. During the third quarter of 2012, Fitch affirmed its ratings. During the fourth quarter of 2012, Standard and Poor s upgraded the Class D notes and the Class E notes to the ratings shown above and affirmed the rating of the Class A-1 notes, the Class A-2 notes, the Class B notes and the Class C notes (source: Bloomberg Finance L.P.).

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In June 2007 the Company completed a term debt transaction. In conjunction with this transaction the Company established a separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Trust 2007-1 (the 2007-1 CLO Trust) and contributed $600 million in loans and investments (including unfunded commitments), or portions thereof, to the 2007-1 CLO Trust. The Company remains the servicer of the loans. Simultaneously with the initial contributions, the 2007-1 CLO Trust issued $546.0 million of notes to institutional investors. The Company retained $54.0 million, comprising 100% of the 2007-1 CLO Trust s trust certificates. At March 31, 2013, the $498.5 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling $552.5 million. At March 31, 2013, deferred financing fees were $1.9 million. The 2007-1 CLO Trust permits reinvestment of collateral principal repayments for a six-year period ending in May 2013. Should the Company determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes. During 2012, the Company repurchased $0.2 million of the 2007-1 CLO Trust s Class C notes. During 2010, the Company repurchased $5.0 million of the 2007-1 CLO Trust s Class D notes. During 2009, the Company repurchased $1.0 million of the 2007-1 CLO Trust s Class D notes. During 2009, Moody s downgraded all of the notes of the 2007-1 CLO Trust. As a result of the downgrade, amortization of the 2007-1 CLO Trust changed from pro rata to sequential, resulting in future scheduled principal payments made in order of the notes seniority until all available funds are exhausted for each payment. During 2010, Standard and Poor s downgraded the Class A-1 notes, the Class A-2 notes, the Class C notes and the Class D notes of the 2007-1 CLO Trust. The downgrade did not have any material consequence as the amortization of the 2007-1 CLO Trust changed from pro rata to sequential after the Moody s downgrade in 2009. During the second quarter of, 2011, Moody s upgraded the Class C notes, the Class D notes, and the Class E notes. During 2011, Standard and Poor s upgraded the Class D notes. During the fourth quarter of 2011, Moody s upgraded all of the notes of the 2007-1 CLO Trust. During the third quarter of 2012, Fitch affirmed its ratings of all of the notes of the 2007-1 CLO Trust.

The Company receives a loan collateral management fee and excess interest spread. The Company expects to receive a principal distribution when the term debt is retired. If loan collateral in the 2007-1 CLO Trust is in default under the terms of the indenture, the excess interest spread from the 2007-1 CLO Trust could not be distributed until the undistributed cash plus recoveries equals the outstanding balance of the defaulted loan or if the Company elected to remove the defaulted collateral. The Company may have defaults in the 2007-1 CLO Trust in the future. If the Company does not elect to remove any future defaulted loans, it would not expect to receive excess interest spread payments until the undistributed cash plus any recoveries equal the outstanding balances of any potential defaulted loan collateral.

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

	Notes originally issued	Outstanding balance March 31, 2013	Interest rate	Original maturity	Ratings (S&P/Moody s/ Fitch)(1)
	($ in thousands)				
2007-1 CLO Trust					
Class A-1	$ 336,500	$ 317,890	Libor +0.24%	September 30, 2022	AA+/Aaa/AAA
Class A-2	100,000	77,300	Libor +0.26%	September 30, 2022	AA+/Aaa/AAA
Class B	24,000	24,000	Libor +0.55%	September 30, 2022	AA/Aa3/AA
Class C	58,500	58,293	Libor +1.30%	September 30, 2022	BBB+/Baa1/A
Class D	27,000	21,000	Libor +2.30%	September 30, 2022	BB-/Ba1/BBB+
	$ 546,000	$ 498,483			

(1) These ratings were initially given in June 2007, are unaudited and are subject to change from time to time. Fitch affirmed its ratings on February 24, 2009. During the first quarter of 2009, Moody s downgraded the Class C notes and the Class D notes. During the third quarter of 2009, Moody s downgraded the Class A-1 notes, the Class A-2 notes and the Class B notes. During the second quarter of 2010, Standard and Poor s downgraded the Class A-1 notes, the Class A-2 notes, the Class C notes to the ratings shown above, and also downgraded the Class D notes. During the second quarter of 2011, Moody s upgraded the Class C notes and the Class D notes. During the second quarter of 2011, Standard and Poor s upgraded the Class D notes to the rating shown above. During the fourth quarter of 2011, Moody s upgraded all of the notes to the ratings shown above. During the third quarter of 2012, Fitch affirmed its ratings (source: Bloomberg Finance L.P.).

On December 18, 2012, the Company completed a term debt transaction. In conjunction with this transaction the Company established a separate single-purpose bankruptcy-remote subsidiary, NewStar Commercial Loan Funding 2012-2 LLC (the 2012-2 CLO Trust) and contributed $325.9 million in loans and investments (including unfunded commitments), or portions thereof, to the 2012-2 CLO Trust. The

Company remains the servicer of the loans. Simultaneously with the initial contributions, the 2012-2 CLO Trust issued $263.3 million of notes to institutional investors. The Company retained $40.4 million, comprising 100% of the 2012-2 CLO Trust s trust certificates in addition to the entire $22.2 million of subordinated notes. At March 31, 2013, the $263.3 million of outstanding drawn notes were collateralized by the specific loans and investments, principal collection account cash and principal payment receivables totaling $325.9 million. At March 31, 2013, deferred financing fees were $3.4 million. The 2012-2 CLO Trust permits reinvestment of collateral principal repayments for a three-year period ending in January 2016. Should the Company determine that reinvestment of collateral principal repayments are impractical in light of market conditions or if collateral principal repayments are not reinvested within a prescribed timeframe, such funds may be used to repay the outstanding notes.

The Company receives a loan collateral management fee and excess interest spread. The Company expects to receive a principal distribution when the term debt is retired. If loan collateral in the 2012-2 CLO Trust is in default under the terms of the indenture, the excess interest spread from the 2012-2 CLO Trust may not be distributed if the overcollateralization ratio, or other collateral quality tests, are not satisfied. The Company may have defaults in the 2012-2 CLO Trust in the future. If the Company does not elect to remove any future defaulted loans, it may not receive excess interest spread payments until the overcollateralization ratio, or other collateral quality tests, are cured.

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

	Notes originally issued	Outstanding balance March 31, 2013	Interest rate	Original maturity	Ratings (Moody s/S&P)(1)
	($ in thousands)				
2012-2 CLO Trust					
Class A	$ 190,700	$ 190,700	Libor +1.90%	January 20, 2023	Aaa/AAA
Class B	26,000	26,000	Libor +3.25%	January 20, 2023	Aa2/N/A
Class C	35,200	35,200	Libor +4.25%	January 20, 2023	A2/N/A
Class D	11,400	11,400	Libor +6.25%	January 20, 2023	Baa2/N/A
	$ 263,300	$ 263,300			

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

Note 7. Repurchase Agreement

Loans sold under agreements to repurchase	Three Months Ended March 31, 2013	Year Ended December 31, 2012
	($ in thousands)	
Outstanding at end of period	$ 30,194	$ 30,583
Maximum outstanding at any month end	30,416	60,500
Average balance for the period	30,398	48,817
Weighted average rate at end of period	5.20%	5.21%

On June 7, 2011, the Company entered into a five-year, $68.0 million financing arrangement with Macquarie Bank Limited backed primarily by a portfolio of commercial mortgage loans previously originated by the Company. The financing was structured as a master repurchase agreement under which the Company sold the portfolio of commercial mortgage loans to Macquarie for an aggregate purchase price of $68.0 million. The Company also agreed to repurchase the commercial mortgage loans from time to time (including a minimum quarterly amount), and agreed to repurchase all of the commercial mortgage loans by June 7, 2016. Upon the repurchase of a commercial mortgage loan, the Company is obligated to repay the principal amount related to such mortgage loan plus accrued interest (at a rate based on LIBOR plus a margin) to the date of repurchase. The Company will continue to service the commercial mortgage loans. The facility accrues interest at a variable rate per annum, which was 5.20% as of March 31, 2013. As of March 31, 2013, unamortized deferred financing fees were $1.1 million and the outstanding balance was $30.2 million. During the three months ended March 31, 2013, the Company made principal payments totaling $0.4 million. As part of the agreement, there is a minimum aggregate interest margin payment of $8.4 million required to be made over the life of the facility. The Company cannot control the rate at which the underlying commercial mortgage loans are repaid. If the facility is not utilized to cover this minimum requirement, then a make-whole fee is required to be made to satisfy the minimum aggregate interest margin payment.

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Note 8. Stockholders Equity

Stockholders Equity

As of March 31, 2013 and December 31, 2012, the Company s authorized capital consists of preferred and common stock and the following was authorized and outstanding:

	March 31, 2013		December 31, 2012	
	Shares authorized	Shares outstanding	Shares authorized	Shares outstanding
	(In thousands)			
Preferred stock	5,000	0	5,000	0
Common stock	145,000	49,443	145,000	49,311

Preferred Stock

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

Common Stock

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

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

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

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

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

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

On November 19, 2012, the Company s Board of Directors authorized the repurchase of up to $10 million of the Company s common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares purchased will be determined by the company s management based on its evaluation of market condition and other factors. The repurchase program, which will expire on December 31, 2013 unless extended by the Board of Directors, may be suspended or discontinued at any time without notice. As of March 31, 2013, the Company had not repurchased any shares of its common stock under the program.

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Restricted Stock

During the three months ended March 31, 2013, the Company issued 148,373 shares of restricted stock to certain employees of the Company pursuant to the Company s 2006 Incentive Plan, as amended. The fair value of the shares of restricted stock is equal to the closing price of the Company s stock on the date of issuance. The shares of restricted stock vest in three equal installments on each of the first three anniversaries of the date of grant.

Restricted stock activity for the three months ended March 31, 2013 was as follows:

	Shares	Grant-date fair value ($ in thousands)
Non-vested as of December 31, 2012	2,418,860	$ 19,810
Granted	148,373	2,051
Vested	(55,267)	(563)
Forfeited	0	0
Non-vested as of March 31, 2013	2,511,966	$ 21,298

The Company recognized $1.5 million of compensation expense related to restricted stock during each of the three months ended March 31, 2013 and 2012. The unrecognized compensation cost of $3.6 million at March 31, 2013 is expected to be recognized over the next three years.

Stock Options

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

Stock option activity for the three months ended March 31, 2013 was as follows:

	Options
Outstanding as of January 1, 2013	5,618,819
Granted	0
Exercised	(736)
Forfeited	0
Outstanding as of March 31, 2013	5,618,083
Vested as of March 31, 2013	5,442,953
Exercisable as of March 31, 2013	5,442,953

As of March 31, 2013, the total unrecognized compensation cost related to nonvested options granted was $0.03 million. This cost is expected to be recognized over a weighted average period of less than one year. During the three months ended March 31, 2013 and 2012, the Company recognized compensation expense related to its stock options of $0.1 million and $0.4 million, respectively.

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Note 9. Income Per Share

The computations of basic and diluted income per share for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31, 2013 (In thousands)	Three Months Ended March 31, 2012 (In thousands)
Numerator:		
Net income	$ 6,154	$ 6,082
Denominator:		
Denominator for basic income per common share	47,357	47,374
Denominator:		
Denominator for diluted income per common share	47,357	47,374
Potentially dilutive securities - options	3,587	2,835
Potentially dilutive securities - restricted stock	2,000	2,000
Potentially dilutive securities - warrants	312	0
Total weighted average diluted shares	53,256	52,209