

STARWOOD PROPERTY TRUST, INC.
Form 10-Q
August 07, 2012

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

Commission file number 001-34436

Starwood Property Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

27-0247747
(I.R.S. Employer
Identification No.)

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591 West Putnam Avenue
Greenwich, Connecticut
(Address of Principal Executive Offices)

06830
(Zip Code)

Registrant's telephone number, including area code:

(203) 422-8100

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

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

The number of shares of the issuer's common stock, \$0.01 par value, outstanding as of August 6, 2012 was 116,655,303.

Special Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements, including without limitation, statements concerning our operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are developed by combining currently available information with our beliefs and assumptions and are generally identified by the words believe, expect, anticipate and other similar expressions. Forward-looking statements do not guarantee future performance, which may be materially different from that expressed in, or implied by, any such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made.

These forward-looking statements are based largely on our current beliefs, assumptions and expectations of our future performance taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or within our control, and which could materially affect actual results, performance or achievements. Factors that may cause actual results to vary from our forward-looking statements include, but are not limited to:

- factors described in our Annual Report on Form 10-K for the year ended December 31, 2011 and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012, including those set forth under the captions Risk Factors and Business ;
- defaults by borrowers in paying debt service on outstanding items;
- impairment in the value of real estate property securing our loans;
- availability of mortgage origination and acquisition opportunities acceptable to us;
- potential mismatches in the timing of asset repayments and the maturity of the associated financing agreements;
- national and local economic and business conditions;
- general and local commercial real estate property conditions;
- changes in federal government policies;

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- changes in federal, state and local governmental laws and regulations;
- increased competition from entities engaged in mortgage lending;
- changes in interest rates;
- changes in the exchange rates between the U.S. dollar and the respective currencies for our non-dollar denominated investments; and
- the availability of and costs associated with sources of liquidity.

In light of these risks and uncertainties, there can be no assurances that the results referred to in the forward-looking statements contained in this Quarterly Report on Form 10-Q will in fact occur. Except to the extent required by applicable law or regulation, we undertake no obligation to, and expressly disclaim any such obligation to, update or revise any forward-looking

statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, changes to future results over time or otherwise.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited, amounts in thousands, except share and per share data)

	As of June 30, 2012	As of December 31, 2011
Assets:		
Cash and cash equivalents	\$ 192,841	\$ 114,027
Loans held for investment	2,170,532	2,268,599
Loans held-for-sale at fair value		128,593
Loans held in securitization trust	50,294	50,316
Mortgage-backed securities, available-for-sale, at fair value	908,505	341,734
Other investments	71,753	44,379
Accrued interest receivable	19,172	15,176
Derivative assets	9,795	12,816
Other assets	38,643	21,807
Total Assets	\$ 3,461,535	\$ 2,997,447
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,653	\$ 5,051
Related-party payable	11,717	8,348
Dividends payable	51,603	41,431
Derivative liabilities	14,833	19,652
Secured financing agreements, net	1,065,388	1,103,517
Collateralized debt obligation in securitization trust	52,752	53,199
Other liabilities	10,521	1,102
Total Liabilities	1,212,467	1,232,300
Commitments and contingencies (Note 14)		
Equity:		
Starwood Property Trust, Inc. Stockholders Equity:		
Preferred stock, \$0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding		
Common stock, \$0.01 per share, 500,000,000 shares authorized, and 117,281,153 issued and 116,655,303 outstanding as of June 30, 2012 and 93,811,351 issued and 93,185,501 outstanding as of December 31, 2011	1,173	938
Additional paid-in capital	2,294,210	1,828,319
	(10,642)	(10,642)

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Treasury stock (625,850 shares as of June 30, 2012 and 625,850 shares as of December 31, 2011, respectively)

Accumulated other comprehensive income (loss)	12,287	(3,998)
Accumulated deficit	(53,522)	(55,129)
Total Starwood Property Trust, Inc. Stockholders' Equity	2,243,506	1,759,488
Non-controlling interests in consolidated subsidiaries	5,562	5,659
Total Equity	2,249,068	1,765,147
Total Liabilities and Equity	\$ 3,461,535	\$ 2,997,447

See notes to condensed consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited, amounts in thousands, except per share data)

	For the Three-Months Ended June 30		For the Six-Months Ended June 30	
	2012	2011	2012	2011
Net interest margin:				
Interest income from mortgage-backed securities	\$ 15,144	\$ 7,121	\$ 23,819	\$ 13,981
Interest income from loans	53,740	41,047	122,817	73,764
Interest expense	(10,463)	(7,041)	(22,315)	(14,402)
Net interest margin	58,421	41,127	124,321	73,343
Expenses:				
Management fees (including \$4,180 and \$3,501 for the three-months ended June 30, 2012 and 2011 and \$7,829 and \$7,345 for the six-months ended June 30, 2012 and 2011 of non-cash stock-based compensation)	12,847	9,664	28,014	19,010
Acquisition and investment pursuit costs	1,254	531	2,115	619
General and administrative (including \$116 and \$56 for the three-months ended June 30, 2012 and 2011 and \$232 and \$96 for the six-months ended June 30, 2012 and 2011 of non-cash stock-based compensation)	2,731	2,760	5,754	4,864
Total expenses	16,832	12,955	35,883	24,493
Income before other income (expense) and income taxes	41,589	28,172	88,438	48,850
Interest income from cash balances	65	119	114	263
Other income (expense)	1,548	663	2,302	447
Other-than-temporary impairment (OTTI), net of \$1,354 and \$0 recognized in other comprehensive income (loss) for the three-months ended June 30, 2012 and 2011 and \$2,793 and \$0 for the six-months ended June 30, 2012 and 2011	(1,396)	(1,295)	(2,052)	(1,729)