

STARWOOD PROPERTY TRUST, INC.

Form 10-Q

November 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 September 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)

**27-0247747**  
(I.R.S. Employer)

Edgar Filing: STARWOOD PROPERTY TRUST, INC. - Form 10-Q

Incorporation or Organization)

Identification No.)

**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  Smaller reporting company   
(Do not check if a 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 November 6, 2012 was 135,290,351.

---

**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, June 30, 2012 and September 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;

- 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 September 30, 2012,	As of December 31, 2011,
<b>Assets:</b>		
Cash and cash equivalents	\$ 144,199	\$ 114,027
Loans held for investment	2,580,789	2,268,599
Loans held-for-sale at fair value		128,593
Loans transferred as secured borrowings	86,021	50,316
Mortgage-backed securities, available-for-sale, at fair value	866,865	341,734
Other investments	75,750	44,379
Accrued interest receivable	18,314	15,176
Derivative assets	11,024	12,816
Other assets	22,385	21,807
<b>Total Assets</b>	<b>\$ 3,805,347</b>	<b>\$ 2,997,447</b>
<b>Liabilities and Equity</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 8,869	\$ 5,051
Related-party payable	12,545	8,348
Dividends payable	51,629	41,431
Derivative liabilities	25,591	19,652
Secured financing agreements, net	1,309,450	1,103,517
Loan transfer secured borrowings	88,268	53,199
Other liabilities	7,757	1,102
<b>Total Liabilities</b>	<b>1,504,109</b>	<b>1,232,300</b>
Commitments and contingencies (Note 14)		
<b>Equity:</b>		
<b>Starwood Property Trust, Inc. Stockholders Equity:</b>		
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 117,516,201 issued and 116,890,351 outstanding as of September 30, 2012 and 93,811,351 issued and 93,185,501 outstanding as of December 31, 2011	1,175	938
Additional paid-in capital	2,297,971	1,828,319
Treasury stock (625,850 shares as of September 30, 2012 and December 31, 2011, respectively)	(10,642)	(10,642)
Accumulated other comprehensive income (loss)	62,183	(3,998)
Accumulated deficit	(54,938)	(55,129)
<b>Total Starwood Property Trust, Inc. Stockholders Equity</b>	<b>2,295,749</b>	<b>1,759,488</b>
<b>Non-controlling interests in consolidated subsidiaries</b>	<b>5,489</b>	<b>5,659</b>
<b>Total Equity</b>	<b>2,301,238</b>	<b>1,765,147</b>

<b>Total Liabilities and Equity</b>	\$	<b>3,805,347</b>	\$	<b>2,997,447</b>
-------------------------------------	----	------------------	----	------------------

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 September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Net interest margin:</b>				
Interest income from mortgage-backed securities	\$ 16,585	\$ 6,195	\$ 40,404	\$ 20,176
Interest income from loans	56,261	51,879	179,078	125,643
Interest expense	(12,030)	(7,321)	(34,345)	(21,723)
<b>Net interest margin</b>	<b>60,816</b>	<b>50,753</b>	<b>185,137</b>	<b>124,096</b>
<b>Expenses:</b>				
Management fees (including \$4,097 and \$2,922 for the three months ended September 30, 2012 and 2011 and \$11,926 and \$10,268 for the nine months ended September 30, 2012 and 2011 of non-cash stock-based compensation)	14,659	10,004	42,673	29,014
Acquisition and investment pursuit costs	622	1,201	2,737	1,820
General and administrative (including \$139 and \$69 for the three months ended September 30, 2012 and 2011 and \$370 and \$164 for the nine months ended September 30, 2012 and 2011 of non-cash stock-based compensation)	3,084	2,177	8,838	7,041
<b>Total expenses</b>	<b>18,365</b>	<b>13,382</b>	<b>54,248</b>	<b>37,875</b>
<b>Income before other income (expense) and income taxes</b>	<b>42,451</b>	<b>37,371</b>	<b>130,889</b>	<b>86,221</b>
Interest income from cash balances	66	63	180	326
Other income (expense)	621	975	2,923	1,422
Other-than-temporary impairment ( OTTI ), net of \$61 and \$435 recognized in other comprehensive income (loss) for the three months ended September 30, 2012 and 2011 and \$2,854 and \$435 for the nine months ended September 30, 2012 and 2011	(676)	(892)	(2,728)	(2,621)
Net gains on sales of investments	9,017	4,961	19,147	20,836
Net realized foreign currency gains (losses)	(337)	(61)	8,515	(63)
Net gains (losses) on currency derivatives	(7,510)	8,617	(10,392)	2,382
Net gains (losses) on interest rate derivatives	(51)	(19,171)	608	(25,982)
Net gains on credit derivatives		2,259		3,730
Net change in unrealized gains (losses) on loans held-for-sale at fair value		(10,679)	(5,760)	(1,725)
Unrealized foreign currency remeasurement gains (losses)	7,062	(9,403)	2,707	(4,245)
<b>Income before income taxes</b>	<b>50,643</b>	<b>14,040</b>	<b>146,089</b>	<b>80,281</b>
Income tax provision (benefit)	301	(463)	840	741
<b>Net Income</b>	<b>50,342</b>	<b>14,503</b>	<b>145,249</b>	<b>79,540</b>
Net income attributable to non-controlling interests	(130)	(25)	(388)	(1,191)

Edgar Filing: STARWOOD PROPERTY TRUST, INC. - Form 10-Q

<b>Net income attributable to Starwood Property Trust, Inc.</b>	\$	<b>50,212</b>	\$	<b>14,478</b>	\$	<b>144,861</b>	\$	<b>78,349</b>
<b>Net income per share of common stock:</b>								
Basic	\$	0.43	\$	0.16	\$	1.34	\$	0.95
Diluted		0.43		0.15		1.34		0.94
Distributions declared per common share	\$	0.44	\$	0.44	\$	1.32	\$	1.30

See notes to condensed consolidated financial statements.



## Starwood Property Trust, Inc. and Subsidiaries

## Condensed Consolidated Statements of Comprehensive Income

(Unaudited, amounts in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Net Income</b>	\$ 50,342	\$ 14,503	\$ 145,249	\$ 79,540
Other comprehensive income:				
Change in fair value of cash flow hedges	(411)	(17)	(1,623)	14
Unrealized gain (loss) in fair value of available-for-sale securities	47,895	(15,819)	64,307	(11,137)
Reclassification adjustment for net realized gains (losses) on sale of securities	1,736		769	(10,305)
Reclassification for OTTI	676	892	2,728	2,621
Comprehensive income (loss)	100,238	(441)	211,430	60,733
Less: Comprehensive income attributable to non-controlling interests	(130)	(25)	(388)	(52)
<b>Comprehensive income (loss) attributable to Starwood Property Trust, Inc.</b>	\$ 100,108	\$ (466)	\$ 211,042	\$ 60,681

See notes to condensed consolidated financial statements.

## Starwood Property Trust, Inc. and Subsidiaries

## Condensed Consolidated Statement of Equity

(Unaudited, amounts in thousands, except share data)

	Common Stock Shares	Stock Par Value	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Starwood Property Trust, Inc. Stockholders Equity	Non- Controlling Interests	Total Equity
<b>Balance, January 1, 2012</b>	<b>93,811,351</b>	<b>\$ 938</b>	<b>\$ 1,828,319</b>	<b>625,850</b>	<b>\$ (10,642)</b>	<b>\$ (55,129)</b>	<b>\$ (3,998)</b>	<b>\$ 1,759,488</b>	<b>\$ 5,659</b>	<b>\$ 1,765,147</b>
Proceeds from public offering of common stock	23,000,000	230	457,091					457,321		457,321
Underwriting and offering costs			(2,250)					(2,250)		(2,250)
Stock-based compensation	584,427	6	12,290					12,296		12,296
Manager incentive fee paid in stock	120,423	1								