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

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 June 30, 2012

OR

o 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	**27-0247747**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

591 West Putnam Avenue **Greenwich, Connecticut**	**06830**
(Address of Principal Executive Offices)	(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 x No o

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 x No o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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;

- 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)

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 $0 for the six-months ended June 30, 2012 and 2011	(1,396)	(1,295)	(2,052)	(1,729)
Net gains on sales of investments	2,797	7,771	10,130	15,875
Net realized foreign currency gains (losses)	18	28	8,852	(2)
Net gains (losses) on currency hedges	3,375	(2,243)	(2,882)	(6,235)
Net gains (losses) on interest rate hedges	93	(7,921)	659	(6,811)
Net gains on credit hedges		1,900		1,471
Net change in unrealized gains (losses) on loans held-for-sale at fair value		5,767	(5,760)	8,954
Unrealized foreign currency remeasurement (losses) gains	(3,330)	1,174	(4,355)	5,158
Income before income taxes	44,759	34,135	95,446	66,241
Income tax provision	(140)	(823)	(539)	(1,204)
Net Income	**44,619**	**33,312**	**94,907**	**65,037**
Net income attributable to non-controlling interests	(129)	(888)	(258)	(1,166)
Net income attributable to Starwood Property Trust, Inc.	**$ 44,490**	**$ 32,424**	**$ 94,649**	**$ 63,871**
Net income per share of common stock:				
Basic	$ 0.40	$ 0.40	$ 0.92	$ 0.83
Diluted	$ 0.40	$ 0.39	$ 0.92	$ 0.82
Distributions declared per common share	$ 0.44	$ 0.44	$ 0.88	$ 0.86

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, amounts in thousands)

	For the Three-Months Ended June 30		For the Six-Months Ended June 30	
	2012	**2011**	**2012**	**2011**
Net Income	$ 44,619	$ 33,312	$ 94,907	$ 65,037
Other comprehensive income:				
Change in fair value of cash flow hedges	(960)	(564)	(1,212)	31
Unrealized gain in fair value of available-for-sale securities	1,955	5,136	16,412	4,682
Reclassification adjustment for net realized gains on sale of securities	(967)	(4,310)	(967)	(10,305)
Reclassification for OTTI	1,396	1,295	2,052	1,729
Comprehensive income	46,043	34,869	111,192	61,174
Less: Comprehensive income attributable to non-controlling interests	(129)	(52)	(258)	(27)
Comprehensive income attributable to Starwood Property Trust, Inc.	$ 45,914	$ 34,817	$ 110,934	$ 61,147

See notes to condensed consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Equity

(Unaudited, amounts in thousands, except share data)

	Common Stock Shares	Common 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
Balance, January 1, 2012	**93,811,351**	**$ 938**	**$ 1,828,319**	**625,850**	**$ (10,642)**	**$ (55,129)**	**$ (3,998)**	**$ 1,759,488**	**$ 5,659**	**$ 1,765,147**
Proceeds from public offering of common stock	23,000,000	230	457,091					457,321		457,321
Underwriting and offering costs			(642)					(642)		(642)
Stock-based compensation	399,582	4	8,056					8,060		8,060
Manager incentive fee paid in stock	70,220	1	1,386					1,387		1,387
Treasury stock purchased										
Net income						94,649		94,649	258	94,907
Dividends declared, $0.88 per share						(93,042)		(93,042)		(93,042)
Other comprehensive income, net							16,285	16,285		16,285
Distribution to non-controlling interests									(355)	(355)
Balance, June 30, 2012	**117,281,153**	**$ 1,173**	**$ 2,294,210**	**625,850**	**$ (10,642)**	**$ (53,522)**	**$ 12,287**	**$ 2,243,506**	**$ 5,562**	**$ 2,249,068**

See notes to condensed consolidated financial statements

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited, amounts in thousands)

	For the Six-Months ended June 30 2012	2011
Cash Flows from Operating Activities:		
Net income	$ 94,907	$ 65,037
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of deferred financing costs	2,451	1,433
Accretion of net discount on mortgage-backed securities	(14,496)	(7,341)
Accretion of net deferred loan fees and discounts	(29,324)	(11,670)
Amortization of premium from collateralized debt obligations	(447)	(440)
Stock-based compensation	8,060	7,441
Incentive-fee compensation	1,387	547
Gain on sale of available-for-sale securities	(2,959)	(10,472)
Gain on sale of loans	(7,171)	(5,376)
Gain on sale of other investments		(27)
Gain on foreign currency remeasurement	(9,146)	
Net change in unrealized (gains) losses on loans held-for-sale at fair value	5,760	(8,954)
Unrealized gains (losses) on interest rate hedges	(10,068)	4,230
Unrealized gains on credit hedges		(2,441)
Unrealized losses on currency hedges	5,147	6,029
Unrealized foreign currency remeasurement losses (gains)	4,355	(5,158)
OTTI	2,052	1,729
Changes in operating assets and liabilities:		
Related-party payable	3,369	2,769
Accrued interest receivable, less purchased interest	(5,924)	(3,797)
Other assets	744	(10,402)
Accounts payable and accrued expenses	602	1,776
Other liabilities	9,419	13,136
Origination of held-for-sale loans		(270,066)
Proceeds from sale of held-for-sale loans	132,012	139,784
Net cash provided by (used in) operating activities	**190,730**	**(92,233)**
Cash Flows from Investing Activities:		
Purchase of mortgage-backed securities	(479,871)	(92,589)
Proceeds from sale of mortgage-backed securities	46	283,778
Proceeds from mortgage-backed securities maturities		11,765
Mortgage-backed securities principal repayments	43,035	77,353
Origination and purchase of loans held for investment	(444,092)	(921,930)
Loan maturities	418,867	100,068
Proceeds from sale of loans held for investment	28,786	
Loan investment principal amortization	15,281	9,386
Purchased interest on investments	(591)	(730)
Investments in other investments	(27,766)	(34,239)
Return of investment from other investments	594	
Proceeds from sale of other investments		2,844
Return of investment basis in purchased derivative asset	1,922	
Purchase of treasury securities		(112,619)
Proceeds from sale of treasury securities		112,741
Cash deposited as collateral under treasury securities loan agreement		(112,741)
Return of collateral under treasury securities loan agreement		112,741
Net cash used in investing activities	**(443,789)**	**(564,172)**

Cash Flows from Financing Activities:				
Borrowings under secured financing agreements		798,052		778,825
Principal repayments on borrowings under secured financing arrangements		(836,181)		(631,796)
Payment of deferred financing costs		(3,452)		(540)
Proceeds from common stock offering		457,321		476,740
Payment of underwriting and offering costs		(642)		(28,075)
Payment of dividends		(82,870)		(59,620)
Distributions to non-controlling interest owners		(355)		(9,253)
Net cash provided by financing activities		**331,873**		**526,281**
Net increase (decrease) in cash and cash equivalents		78,814		(130,124)
Cash and cash equivalents, beginning of period		114,027		226,854
Cash and cash equivalents, end of period	$	192,841	$	96,730
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	23,535	$	14,920
Income taxes paid	$	689	$	858
Supplemental disclosure of non-cash financing activity:				
Dividends declared, but not yet paid	$	51,603	$	41,678

See notes to condensed consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

As of June 30, 2012

(Unaudited)

1. Business and Organization

Starwood Property Trust, Inc. (the Trust together with its subsidiaries, we or the Company) is a Maryland corporation that commenced operations on August 17, 2009 (Inception) upon the completion of its initial public offering (IPO). We are focused primarily on originating, investing in, financing and managing commercial mortgage loans and other commercial and residential real estate-related debt investments. We also invest in residential mortgage-backed securities (RMBS), certain commercial mortgage-backed securities (CMBS), and other real estate related investments. We are externally managed and advised by SPT Management, LLC (the Manager).

We are organized and conduct our operations such that the Trust qualifies as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended (the Code). As such, the Trust will generally not be subject to U.S. federal corporate income tax on that portion of net income that is distributed to stockholders if we distribute at least 90% of our taxable income to our stockholders by prescribed dates and comply with various other requirements.

We are organized as a holding company that conducts our business primarily through four wholly-owned subsidiaries. In 2009, we formed joint ventures (the Joint Ventures) with Starwood Hospitality Fund II (Hotel II) and Starwood Opportunity Fund VIII (SOF VIII) in accordance with the co-investment and allocation agreement with our Manager. The Joint Ventures are owned 75% (and controlled) by us and are therefore consolidated into our condensed consolidated financial statements. As of June 30, 2012, the investments held by the Joint Ventures had been sold and there were no remaining substantive investments in these entities.

As of June 30, 2012, investments with collateral in the hospitality, retail, and office property sectors represented 48.3%, 15.8%, and 19.3% of our investment portfolio, respectively. Such allocations could materially change in the future.

2. Summary of Significant Accounting Policies

Basis of Accounting and Principles of Consolidation

The accompanying condensed consolidated financial statements include our accounts and those of our consolidated subsidiaries. Intercompany amounts have been eliminated. All adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flow have been made. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The most significant and subjective estimate that we make is estimating the cash flows that we expect to receive on our investments, which has a significant impact on the amounts of interest income, credit losses (if any), and estimated fair values that we report and/or disclose. In addition, the fair value of financial instruments that are estimated using a discounted cash flows method are significantly impacted by the rates that we conclude are appropriate.

A non-controlling interest in a consolidated subsidiary is defined as the portion of the equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent . Non-controlling interests are presented as a separate component of equity in the condensed consolidated balance sheets. In addition, the presentation of net income attributes earnings to controlling and non-controlling interests.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the period ended December 31, 2011, as filed with the Securities and Exchange Commission (SEC). The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the operating results for the full year.

Segment Reporting

We are primarily focused on originating and acquiring real estate-related debt investments and currently operate in one reportable segment.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and short-term investments. Short-term investments are comprised of highly liquid instruments with original maturities of three months or less. We maintain our cash and cash equivalents in multiple financial institutions and at times these balances exceed federally insurable limits.

Debt Securities

GAAP requires that at the time of purchase, we designate debt securities as held-to-maturity, available-for-sale, or trading depending on our investment strategy and ability to hold such securities to maturity. Under GAAP, held-to-maturity securities are stated at cost plus any premiums or less any discounts, with any such amounts being amortized/accreted through the condensed consolidated statements of operations using the effective interest method. Securities that we either (i) do not hold for the purpose of selling in the near-term or (ii) may dispose of prior to maturity are classified as available-for-sale and are carried at fair value in the accompanying financial statements. Unrealized gains or losses on available-for-sale securities are reported as a component of accumulated other comprehensive income (loss) in stockholders equity. As of June 30, 2012, our CMBS and RMBS were classified as available-for-sale. The classification of each investment involves management s judgment, which is subject to change.

When the estimated fair value of a security is less than its amortized cost, we consider whether its impairment is other-than-temporary impairment (OTTI). An impairment is deemed to be an OTTI if (i) we intend to sell the security, (ii) it is more likely than not that we will be required to sell the security before recovering our cost basis, or (iii) we do not otherwise expect to recover the entire amortized cost basis of the security. If an impairment is deemed to be other-than-temporary, the resulting accounting treatment depends on the factors causing the OTTI. If the OTTI has resulted from (i) our intention to sell the security, or (ii) our judgment that it is more likely than not that we will be required to sell the security before recovering our cost basis, an impairment loss is recognized in current earnings in an amount equal to the entire difference between the security s amortized cost basis and its fair value. Whereas, if the OTTI has resulted from our conclusion that (i) we will not recover our cost basis even if we do not intend to sell the security or (ii) it is not more likely than not that we will be required to sell the security before recovering our cost basis, only the credit loss portion of the impairment is recorded in current earnings, and the portion of the loss related to other factors, such as changes in interest rates, continues to be recognized in accumulated other comprehensive income (loss). Following the recognition of an OTTI through earnings, a new cost basis is established for an impaired security. Determining whether an impairment is other-than-temporary may require us to exercise significant judgment in selecting various assumptions used in estimating future cash flows, including, but not limited to, estimated prepayments and loss assumptions. As a result, actual OTTI losses could differ from reported amounts. Such judgments and assumptions are based upon a number of factors, including (i) credit of the issuer or the underlying borrowers, (ii) credit rating of the security, (iii) key terms of the security, (iv) performance of the underlying loans, including debt service coverage and loan-to-value ratios, (v) the value of the collateral for the underlying loans, (vi) the effect of local, industry, and broader economic factors, and (vii) the historical and anticipated trends in defaults and loss severities for similar securities.

Loans Held for Investment

Loans that are held for investment are carried at cost, net of amounts such as unamortized acquisition premiums or discounts, loan fees, and origination and acquisition costs as applicable, unless the loans are deemed impaired.

At least quarterly, we evaluate each loan held for investment for impairment. As none of our loans were considered to be credit deteriorated at closing, impairment occurs when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is impaired, we would record an allowance to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan s contractual effective rate, or the fair value of the collateral if repayment is expected solely from the collateral.

Our loans are typically collateralized by real estate. As a result, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower. Specifically, a property s operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations are sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan, and/or (iii) the property s liquidation value. We also evaluate the financial wherewithal of any loan guarantors as well as the borrower s competency in managing and operating the properties. In addition, we consider the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management and finance personnel, who utilize various data sources, including (i) periodic financial data such as property occupancy, tenant profile, rental rates, operating expenses, the borrower s exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and discussions with market participants.

In addition, all loans that are not considered to be individually impaired are also evaluated to determine whether (i) they have one or more characteristics that are also present in other loans, and (ii) when such loans are evaluated as a group, the shared characteristic(s) indicate that it is probable that a loss has been incurred by such group of loans.

Upon completion of the process above, we concluded that no allowance for loan losses was necessary as of June 30, 2012 and December 31, 2011. Significant judgment is required when evaluating loans for impairment; therefore, actual results over time could be materially different.

Loans Held-for-sale

Loans that we intend to sell or liquidate in the short-term are classified as held-for-sale and are carried at the lower of amortized cost or fair value, unless we have elected to record any such loans at fair value at the time they were acquired under Financial Accounting Standards Board (FASB) Topic 825, *Financial Instruments.* Upfront costs and fees related to loans for which the fair value option is elected are recognized in earnings as incurred and not deferred. Refer to Note 7 of the condensed consolidated financial statements for further disclosure regarding loans sold.

U.S. Treasury Securities Sold Short

In February 2011, in order to hedge the impact of interest rate increases on the fair value of our RMBS portfolio, we took short positions on U.S. Treasury securities with durations similar to those expected within our RMBS portfolio. To execute our hedging strategy, we sold to a third party $112.7 million in U.S. Treasury securities that were simultaneously borrowed from our prime broker. The entire cash sale proceeds from the third party were then immediately deposited with our prime broker as collateral for the U.S. Treasury securities borrowing. On March 31, 2011, we purchased from a third party the same series of U.S. Treasury securities that had been borrowed. The securities were then immediately delivered to the prime broker in repayment of the securities borrowing, thereby settling the short position. We realized a gain from this strategy of approximately $122 thousand, which is comprised of the $194 thousand favorable movement in the prices of U.S. Treasury securities (from our short position), offset by $72 thousand of interest that accrued on the securities during the term of the borrowing and transaction costs.

Revenue Recognition

Interest income is accrued based on the outstanding principal amount and the contractual terms of our loans and securities. Discounts or premiums associated with the purchase of loans and investment securities are amortized into interest income as a yield adjustment on the effective interest method, based on expected cash flows through the expected maturity date of the security. For loans that we have not elected to record at fair value under FASB Topic 825, origination fees and direct loan origination costs are also recognized in interest income over the loan term as a yield adjustment using the effective interest method. When we elect to record a loan at fair value, origination fees and costs incurred in originating the loan are recorded in the income statement at closing.

Upon the sale of loans or securities, the excess (or deficiency) of net proceeds over amortized cost is recognized as a realized gain (or loss).

Investments in Unconsolidated Entities

We own non-controlling equity interests in a limited number of privately-held partnerships and limited liability companies. We use the cost method to account for investments when we (i) own five percent or less of, and (ii) do not have significant influence over, the underlying investees. We use the equity method to account for all other non-controlling interests in partnerships and limited liability companies. Cost method investments are initially recorded at cost and income is generally recorded when distributions are received. Equity method investments are initially recorded at cost and subsequently adjusted for our share of income or loss, as well as contributions made or distributions received.

We also own common stock of certain publicly traded real estate companies. We have no influence over the activities of these companies due to our minimal percentage ownership. These investments are classified as available-for-sale and reported at fair value in the balance sheet, with unrealized gains and losses reported as a component of other comprehensive income (loss). Dividends on these equity securities are recorded in the statement of operations on the record date.

Investments in unconsolidated entities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When the fair value of an equity investment in an unconsolidated entity is less than its cost basis, we consider whether the impairment is other-than-temporary. OTTI analyses are based on current plans, intended holding periods and other available information at the time the analyses are prepared.

Securitization/Sale and Financing Arrangements

We periodically sell our financial assets, such as commercial mortgage loans, CMBS and other assets. In connection with these transactions, we may retain or acquire senior or subordinated interests in the related assets. Gains and losses on such transactions are recognized using the guidance in FASB Topic 860, *Transfers and Servicing*, which is based on a financial components approach that focuses on control. Under this approach, after a transfer of financial assets that meets the criteria for treatment as a sale legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint, and transferred control an entity recognizes the financial assets it retains and any liabilities it has incurred, derecognizes the financial assets it has sold, and derecognizes liabilities when extinguished. We determine the gain or loss on sale of mortgage loans as the difference between the sale proceeds, including the fair value of any interests retained, as applicable, and the carrying amount of the assets sold.

Acquisition and Investment Pursuit Costs

Net costs incurred in connection with acquiring investments, as well as in pursuing unsuccessful investment acquisitions and loan originations, are recorded directly in the statement of operations.

Foreign Currency Transactions

Our assets and liabilities denominated in foreign currencies are translated into U.S. dollars using foreign currency exchange rates at the end of the reporting period. Income and expenses are translated at the weighted-average exchange rates for each reporting period. As of June 30, 2012 and December 31, 2011, the U.S. dollar was the functional currency of all investments denominated in foreign currencies. The effects of translating the assets, liabilities and income of our foreign investments are included in unrealized foreign currency remeasurement (loss) gain in the statements of operations.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash investments, CMBS, RMBS, loan investments, and interest receivable. We may place cash investments in excess of insured amounts with high quality financial institutions. We perform an ongoing analysis of credit risk concentrations in our investment portfolio by evaluating exposure to various counterparties, markets, underlying property types, contract terms, tenant mix, and other credit metrics.

Derivative Instruments and Hedging Activities

GAAP provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Further, we must provide qualitative disclosures that explain our objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

We record all derivatives in the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and have satisfied the criteria necessary to apply hedge accounting under GAAP. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We regularly enter into derivative contracts that are intended to economically hedge certain of our risks, even though the transactions may not qualify for, or we may not elect to pursue, hedge accounting. In such cases, changes in the fair value of the derivatives are recorded in earnings.

Deferred Financing Costs

Costs incurred in connection with obtaining secured financing arrangements are capitalized and amortized over the initial terms of the respective facilities as a component of interest expense. As of June 30, 2012 and December 31, 2011, we had approximately $6.0 million and $5.0 million, respectively, of capitalized financing costs, net of amortization. For the three and six months ended June 30, 2012, approximately $1.3 million and $2.5 million, respectively, of amortization was included in interest expense on the statement of operations. For the three and six months ended June 30, 2011, approximately $1.0 million and $1.4 million, respectively, of amortization was included in interest expense on the statement of operations.

Earnings per share

We calculate basic earnings per share by dividing net income attributable to the Company for the period by the weighted-average of shares of common stock outstanding for that period after consideration of the earnings allocated to our restricted stock and restricted stock units, which are participating securities as defined under GAAP. Diluted earnings per share takes into effect any dilutive instruments, such as restricted stock and restricted stock units, except when doing so would be anti-dilutive.

Share-based payments

We recognize the cost of share-based compensation using the same expense category that would be charged if the amounts were paid in cash. The fair value of restricted stock and restricted stock units granted is recorded to expense on a straight-line basis over the vesting period for the award, with a corresponding increase in stockholders   equity. For grants to employees and directors, the fair value is determined based upon the stock price on the grant date. For non-employee grants, the fair value is based on the stock price when the shares vest.

Income Taxes

The Trust has elected to be taxed as a REIT and intends to comply with the Code with respect thereto. Accordingly, we will not be subject to federal income tax as long as certain asset, income, dividend distribution and stock ownership tests are met. Many of these requirements are technical and complex and if we fail to meet these requirements we may be subject to federal, state, and local income tax and penalties. In addition, a REIT   s income from prohibited transactions is subject to a 100% penalty tax. We have three taxable REIT subsidiaries (the   TRSs) where certain investments may be made and activities conducted that (i) may have otherwise been subject to the prohibited transaction tax and (ii) may not be favorably treated for purposes of complying with the various requirements for REIT qualification. The income, if any, within the TRSs is subject to federal and state income taxes as a domestic C corporation based upon the TRSs   net income. For the three and six months ended June 30, 2012, we recorded a provision for income taxes of $0.1 million and $0.5 million related to the activities in our TRSs. These provisions were determined using a Federal income tax rate of 34% and state income tax rate of 7.5%. For the three and six months ended June 30, 2011, we recorded a provision for income taxes of $0.8 million and $1.2 million related to the activities in our TRSs. These provisions were determined using a Federal income tax rate of 34% and state income tax rate of 7.5%.

Underwriting Commissions and Offering Costs

Underwriting and offering costs incurred totaled approximately $642 thousand in connection with our equity offering in April 2012, $1.1 million in connection with our equity offering in May 2011. Underwriting and offering costs are reflected as a reduction in additional paid-in capital in the statement of equity.

Recent Accounting Pronouncements

In December 2011, the FASB issued amended guidance which will enhance disclosures required by GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. This information will enable users of an entity   s financial statements to evaluate the effect or potential effect of netting arrangements on an entity   s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. We will be required to apply the amendments beginning with our first quarter, 2013 financial statements by providing the disclosures required by those amendments retrospectively for all comparative periods presented. We are in the process of evaluating the impact that this guidance will have on our financial statement disclosures.

3. Debt Securities

We classified all CMBS and RMBS investments as available-for-sale as of June 30, 2012 and December 31, 2011. The CMBS and RMBS classified as available-for-sale are reported at fair value in the balance sheet with changes in fair value recorded in accumulated other comprehensive (loss) income. The tables below summarize various attributes of our investments in mortgage-backed securities (MBS) available-for-sale as of June 30, 2012 and December 31, 2011 (amounts in thousands):

				Unrealized Gains or (Losses) Recognized in Accumulated Other Comprehensive Income (Loss)				
June 30, 2012	**Purchased Amortized Cost**	**Credit OTTI**	**Recorded Amortized Cost**	**Non-Credit OTTI**	**Unrealized Gains**	**Unrealized Losses**	**Net Fair Value Adjustment**	**Fair Value**
CMBS	$ 662,117	$	$ 662,117	$	$ 12,932	$	$ 12,932	$ 675,049
RMBS	237,044	(7,909)	229,135	(1,354)	8,445	(2,770)	4,321	233,456
Total	$ 899,161	$ (7,909)	$ 891,252	$ (1,354)	$ 21,377	$ (2,770)	$ 17,253	$ 908,505

June 30, 2012	**Weighted Average Coupon (1)**	**Weighted Average Rating**	**Weighted Average Life (WAL) (Years) (3)**	**Weighted Average Yield (4)**
CMBS	3.8%	(2)	3.6	6.7%
RMBS	2.0%	B-	3.9	9.6%

(1) The weighted average coupon of the MBS is calculated as a fraction, with the numerator as the sum of (i) the stated interest rate for each individual security as of quarter-end, multiplied with (ii) the current face amount of each individual security, and the denominator as the sum of the total current face amount of the MBS. For floating rate MBS, the interest rate used is comprised of the stated spread plus the applicable LIBOR rate which is 0.24575%, as of June 30, 2012.

(2) Includes a $578.5 million investment in senior securities that were not rated, that are secured by substantially all of the assets of a worldwide operator of hotels, resorts, and timeshare properties, and which had an estimated loan-to-value ratio as of June 30, 2012 in the range of 39%-44%. The remaining $97 million CMBS investment position is rated BB+.

(3) Represents the WAL of each respective group of MBS. The WAL of each individual security is calculated as a fraction, the numerator of which is the sum of the timing (in years) of each expected future principal payment multiplied by the balance of the respective payment, and with the denominator equal to the sum of the expected principal payments. This calculation was made as of June 30, 2012. Assumptions for the calculation of the WAL are adjusted as necessary for changes in projected principal repayments and/or maturity dates of the security.

(4) Most of the CMBS and all of the RMBS were purchased at a discount, some of which will be accreted into income over the expected remaining life of the security. The majority of the income from these securities is earned from the accretion of these discounts.

Within the hospitality sector, as of June 30, 2012 we had an aggregate investment of $578.5 million in senior debt secured by substantially all of the assets of a worldwide operator of hotels, resorts and timeshare properties. As of March 31, 2012 the debt investment was comprised of $115.5 million in loans and $387.6 million in securities. On April 16, 2012 the remaining $115.5 million of loans were converted to securities. As of June 30, 2012, the aggregate face value of $608.9 million represented 8.2% of the total face value of the senior debt outstanding, and the aggregate carrying value of our investment represented 16.7% of our total assets.

December 31, 2011	Purchased Amortized Cost	Credit OTTI	Recorded Amortized Cost	Non-Credit OTTI	Unrealized Gains or (Losses) Recognized in Accumulated Other Comprehensive Income (Loss) Unrealized Gains	Unrealized Losses	Net Fair Value Adjustment	Fair Value
CMBS	**$** 177,353	$	$ 177,353	$	$	$ (567)	$ (567)	$ 176,786
RMBS	170,424	(6,001)	164,423	(1,310)	3,367	(1,532)	525	164,948
Total	**$** 347,777	$ (6,001)	$ 341,776	$ (1,310)	$ 3,367	$ (2,099)	$ (42)	$ 341,734

December 31, 2011	Weighted Average Coupon(1)	Weighted Average Rating	WAL (3)
CMBS	2.1%	(2)	3.5
RMBS	1.0%	B-	4.8

(1) The weighted average coupon of the MBS is calculated as a fraction, with the numerator as the sum of (i) the stated interest rate for each individual security as of quarter-end, multiplied with (ii) the current face amount of each individual security, and the denominator as the sum of the total current face amount of the MBS. For floating rate MBS, the interest rate used is comprised of the stated spread plus the greater of the applicable LIBOR rate at each respective quarter-end. The one-month LIBOR rate as of December 31, 2011 was 0.2953%.

(2) Represents senior securities that were not rated, that are secured by substantially all of the assets of a worldwide operator of hotels, resorts, and timeshare properties, and which had an estimated loan-to-value ratio as of December 31, 2011 in the range of 39%-44%.

(3) Represents the WAL of each respective group of MBS. The WAL of each individual security or loan is calculated as a fraction, the numerator of which is the sum of the timing (in years) of each expected future principal payment multiplied by the balance of the respective payment, and with the denominator equal to the sum of the expected principal payments. This calculation was made as of December 31, 2011. Assumptions for the calculation of the WAL are adjusted as necessary for changes in projected principal repayments and/or maturity dates of the security.

During the six-months ended June 30, 2012, purchases and sales executed, as well as the principal payments received, were as follows (amounts in thousands):

	RMBS	CMBS
Purchases	$ 107,618	$ 372,253
Sales/Maturities	16,624	
Principal payments received	33,768	9,268

During the six-months ended June 30, 2012, we did not sell any CMBS positions. There have been no CMBS maturities during the six-months ended June 30, 2012.

During the six-months ended June 30, 2011, the purchases, sales, and principal pay-downs were as follows:

	RMBS	CMBS
Purchases	$ 45,315	$
Sales	49,951	223,378
Principal pay-downs	37,003	40,350

As of June 30, 2012, 85.7%, of the CMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 1.75%. As of December 31, 2011, 100.0% of the CMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 1.75%.

Subject to certain limitations on durations, we have allocated an amount to invest in RMBS that cannot exceed 10% of our total assets. We have engaged a third party manager who specializes in RMBS to execute the trading of RMBS, the cost of which was $0.7 million and $0.4 million for the six-months ended June 30, 2012 and June 30, 2011, respectively, which has been recorded as an offset to interest income in the accompanying condensed consolidated statements of operations. As of June 30, 2012, approximately $197.1 million, or 84.5%, of the RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.37%. As of December 31, 2011, approximately $154.7 million, or 93.8%, of the RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.43%. We purchased all of the RMBS at a discount that will be accreted into income over the expected remaining life of the security. The majority of the income from this strategy is earned from the accretion of these discounts.

The following table presents the gross unrealized losses and estimated fair value of our securities that were in an unrealized loss position as of June 30, 2012 and for which OTTI charges have not been recognized in earnings, fully or partially (amounts in thousands):

	Estimated Fair Value				Unrealized Losses			
As of June 30, 2012	**Securities with a loss less than 12 months**		**Securities with a loss greater than 12 months**		**Securities with a loss less than 12 months**		**Securities with a loss greater than 12 months**	
CMBS	$		$		$		$	
RMBS		89,408		1,263		(3,709)		(415)
Total	$	89,408	$	1,263	$	(3,709)	$	(415)

As of June 30, 2012 there were 25 securities with unrealized losses. After evaluating each security we determined that the impairments on 14 of these securities, all of which are non-agency and whose impairments totaled $2.8 million, were other-than-temporary. Credit losses represented $1.4 million of this total, which we calculated by comparing (i) the estimated future cash flows of each security discounted at the yield determined as of the initial acquisition date or, if since revised, as of the last date previously revised to (ii) our amortized cost basis. For the three months ended June 30, 2012, our aggregate MBS credit losses (as reported in the condensed consolidated statement of operations) were $1.4 million. We further determined that none of the 11 remaining securities was other-than-temporarily impaired. We considered a number of factors in reaching this conclusion, including that we did not intend to sell any individual security, it was not considered more likely than not that we would be forced to sell any individual security prior to recovering our amortized cost, and there were no material credit events that would have caused us to otherwise conclude that we would not recover our cost. Significant judgment is required in projecting cash flows for our impaired RMBS, all of which were non-agency and none of which we expect to sell or be forced to sell before recovering our current cost basis. Actual cash flows income and/or realized impairments could be materially different from what is currently projected and/or reported.

The following table presents the gross unrealized losses and estimated fair value of our securities that were in an unrealized loss position as of December 31, 2011 and for which OTTI charges have not been recognized in earnings, fully or partially (amounts in thousands):

	Estimated Fair Value		Unrealized Losses	
As of December 31, 2011	**Securities with a loss less than 12 months**	**Securities with a loss greater than 12 months**	**Securities with a loss less than 12 months**	**Securities with a loss greater than 12 months**
CMBS	$ 176,786	$	$ (567)	$
RMBS	70,103	2,684	(2,444)	(399)
Total	$ 246,889	$ 2,684	$ (3,011)	$ (399)

As of December 31, 2011 there were 42 securities with unrealized losses. After evaluating each security we determined that the impairments on 25 of these securities, all of which are non-agency and whose impairments totaled $4.7 million, were other-than-temporary. Credit losses represented $3.4 million of this total, which we calculated by comparing (i) the estimated future cash flows of each security discounted at the yield determined as of the initial acquisition date or, if since revised, as of the last date previously revised, to (ii) our amortized cost basis. For the year ended December 31, 2011, our aggregate MBS credit losses (as reported in the statement of operations) were $6.0 million. We further determined that none of the 17 remaining securities were other-than-temporarily impaired. We considered a number of factors in reaching this conclusion, including that we did not intend to sell any individual security, it was not considered more likely than not that we would be forced to sell any individual security prior to recovering our amortized cost, and there were no material credit events that would have caused us to otherwise conclude that we would not recover our cost. Significant judgment is required in projecting cash flows for our non-agency RMBS. As a result, actual income and/or impairments could be materially different from what is currently projected and/or reported.

4. Loans

Our investments in loans held-for-investment are accounted for at amortized cost and the loans held-for-sale are accounted for at the lower of cost or fair value, unless we elect (upon origination or acquisition) to record such loans at fair value. The following table summarizes our investments in mortgages and loans by subordination class as of June 30, 2012 and December 31, 2011 (amounts in thousands):

June 30, 2012	**Carrying Value**	**Face Amount**	**Weighted Average Coupon (2)**	**Weighted Average Life (years) (3)**
First mortgages	$ 1,356,206	$ 1,398,638	6.9%	3.5
Subordinated mortgages **(1)**	314,111	347,835	9.5%	4.4
Mezzanine loans	500,215	507,654	10.8%	4.1
Total loans held for investment	2,170,532	2,254,127		
Loans held in securitization trust	50,294	50,578	5.1%	2.9
Total Loans	$ 2,220,826	$ 2,304,705		

December 31, 2011	Carrying Value	Face Amount	Weighted Average Coupon (2)	Weighted Average Life (years) (3)
First mortgages	$ 1,202,611	$ 1,248,549	6.6%	3.2
Subordinated mortgages **(1)**	437,163	487,175	7.4%	4.1
Mezzanine loans	628,825	642,831	8.4%	3.0
Total loans held for investment	2,268,599	2,378,555		
First mortgages held-for-sale at fair value	128,593	122,833	5.9%	8.9
Loans held in securitization trust	50,316	50,632	5.0%	3.7
Total Loans	$ 2,447,508	$ 2,552,020		

(1) Subordinated mortgages includes (i) subordinated mortgages that we retain after having sold first mortgage positions related to the same collateral, (ii) B-Notes, and (iii) subordinated loan participations.

(2) The weighted average coupon of each respective group of loans is calculated as a fraction, with the numerator as the sum of (i) the stated interest rate for each individual loan as of quarter-end, converted to a 30/360 interest accrual basis, multiplied with (ii) the face amount of each individual loan, and the denominator as the sum of each respective group of loans. For floating rate loans, the interest rate used is comprised of the stated spread plus the greater of the (i) LIBOR floor or (ii) applicable LIBOR rate at each respective quarter-end.

(3) Represents the WAL of each respective group of loans. The WAL is calculated as a fraction, the numerator of which is the sum of the timing (in years) of each expected future principal payment multiplied by the balance of the respective payment, and with the denominator equal to the sum of the expected principal payments. Assumptions for the calculation of the WAL are adjusted as necessary for changes in projected principal repayments and/or maturity dates of the loan.

As of June 30, 2012, approximately $1.1 billion, or 49.5% of the loans were variable rate and pay interest at LIBOR plus a weighted-average spread of 5.95%. The following table summarizes our investments in floating rate loans (amounts in thousands):

	June 30, 2012		December 31, 2011	
Index	**Rate**	**Carrying Value**	**Rate**	**Carrying Value**
1 Month LIBOR	0.2458%	$ 49,709	0.2953%	$ 264,030
3 Month LIBOR	0.4606%	14,744	0.5810%	143,371
1 Month Citibank LIBOR(1)	0.2400%	109,946	0.2700%	134,041
3 Month Citibank LIBOR(1)	0.4500%	7,157	0.5600%	7,102
6 Month Citibank LIBOR(1)	0.7200%		0.7800%	6,039
LIBOR Floor	0.5% - 2.0%	917,083	0.5% - 2.0%	551,275
Total		$ 1,098,639		$ 1,105,858

(1) The Citibank LIBOR rate is equal to the rate per annum at which deposits in United States dollars are offered by the principal office of Citibank, N.A. in London, England to prime banks in the London interbank market.

We evaluate each of our loans for impairment at least quarterly. Our loans are typically collateralized by real estate. As a result, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower. Specifically, a property s operating results and any cash reserves are analyzed and used to assess (i) whether cash flow from operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan at maturity, and/or (iii) the property s liquidation value. We also evaluate the financial wherewithal of any loan guarantors as well as the borrower s competency in managing and operating the properties. In addition, we consider the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including (i) periodic financial data such as property operating statements, occupancy, tenant profile, rental rates, operating expenses, the borrower s exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and discussions with market participants.

Our evaluation process as described above produces an internal risk rating between 1 and 5, which is a weighted-average of the numerical ratings in the following categories: (i) sponsor capability and financial condition, (ii) loan and collateral performance relative to underwriting, (iii) quality and stability of collateral cash flows, and (iv) loan structure. We utilize the overall risk ratings as a concise means to monitor any credit migration on a loan as well as on the whole portfolio. While the overall risk rating is generally not the sole factor we use in determining whether a loan is impaired, a loan with a higher overall risk rating would tend to have more adverse indicators of impairment, and therefore would be more likely to experience a credit loss. For any loans rated as a 5, we would record a loan loss allowance in an amount equal to the greater of (i) 1.5% of the aggregate net carrying amount and (ii) the loss amount measured by the excess of the loan s carrying amount over the estimated collateral value.

The rating categories generally include the characteristics described below, but these are utilized as guidelines and therefore not every loan will have all of the characteristics described in each category:

Rating		Characteristics
1	•	Sponsor capability and financial condition Sponsor is highly rated or investment grade or, if private, the equivalent thereof with significant management experience.
	•	Loan collateral and performance relative to underwriting The collateral has surpassed underwritten expectations.
	•	Quality and stability of collateral cash flows Occupancy is stabilized, the property has had a history of consistently high occupancy, and the property has a diverse and high quality tenant mix.
	•	Loan structure Loan-to-collateral value ratio (LTV) does not exceed 65%. The loan has structural features that enhance the credit profile.
2	•	Sponsor capability and financial condition Strong sponsorship with experienced management team and a responsibly leveraged portfolio.

	• Loan collateral and performance relative to underwriting Collateral performance equals or exceeds underwritten expectations and covenants and performance criteria are being met or exceeded.
	• Quality and stability of collateral cash flows Occupancy is stabilized with a diverse tenant mix.
	• Loan structure LTV does not exceed 70% and unique property risks are mitigated by structural features.
3	• Sponsor capability and financial condition Sponsor has historically met its credit obligations, routinely pays off loans at maturity, and has a capable management team.
	• Loan collateral and performance relative to underwriting Property performance is consistent with underwritten expectations.
	• Quality and stability of collateral cash flows Occupancy is stabilized, near stabilized, or is on track with underwriting.
	• Loan structure LTV does not exceed 80%.
4	• Sponsor capability and financial condition Sponsor credit history includes missed payments, past due payment, and maturity extensions. Management team is capable but thin.
	• Loan collateral and performance relative to underwriting Property performance lags behind underwritten expectations. Performance criteria and loan covenants have required occasional waivers. A sale of the property may be necessary in order for the borrower to pay off the loan at maturity.
	• Quality and stability of collateral cash flows Occupancy is not stabilized and the property has a large amount of rollover.
	• Loan structure LTV is 80% to 90%.
5	• Sponsor capability and financial condition Credit history includes defaults, deeds-in-lieu, foreclosures, and/or bankruptcies.
	• Loan collateral and performance relative to underwriting Property performance is significantly worse than underwritten expectations. The loan is not in compliance with loan covenants and performance criteria and may be in default. Sale proceeds would not be sufficient to pay off the loan at maturity.
	• Quality and stability of collateral cash flows The property has material vacancy and significant rollover of remaining tenants.
	• Loan structure LTV exceeds 90%.

As of June 30, 2012, the risk ratings by class of loan were as follows (amounts in thousands):

Risk Rating Category	Balance Sheet Classification at June 30, 2012 Loans Held for Investment First Mortgages	Subordinated Mortgages	Mezzanine Loans	Loans held in Securitization Trust	Total
1	$	$	$	$	$
2	100,532	2,442	159,003	13,154	275,131
3	1,204,499	256,581	341,212	37,140	1,839,432
4	51,175	55,088			106,263
5					
	$ 1,356,206	$ 314,111	$ 500,215	$ 50,294	$ 2,220,826

As of December 31, 2011, the risk ratings by class of loan were as follows (amounts in thousands):

Risk Rating Category	Balance Sheet Classification at December 31, 2011 Loans Held for Investment First Mortgages	Subordinated Mortgages	Mezzanine Loans	Loans Held for Sale First Mortgages	Loans held in Securitization Trust	Total
1	$	$	$	$	$	$
2	108,900	131,281	139,167	89,760	13,193	482,301
3	1,054,717	251,788	481,982	38,833	37,123	1,864,443
4	38,994	54,094	7,676			100,764
5						
	$ 1,202,611	$ 437,163	$ 628,825	$ 128,593	$ 50,316	$ 2,447,508

After completing our analysis of each loan, including the resulting risk ratings as described above, we concluded that no allowance for loan losses was necessary as of June 30, 2012 and December 31, 2011.

For the three months ended June 30, 2012, the activity in our loan portfolio (including loans held-for-sale) was as follows (amounts in thousands):

Balance March 31, 2012	$	2,383,797
Acquisitions/originations		219,657
Additional funding		5,563
Capitalized interest (1)		878
Basis of loans sold		
Basis of loans prepaid/matured		(271,160)
Transfer out- Loan converted to a security		(115,100)
Principal repayments		(9,070)
Discount accretion/premium amortization		7,702
Unrealized foreign currency remeasurement loss		(1,441)
Net change in unrealized loss on loans held-for-sale at fair value		
Balance June 30, 2012	$	2,220,826

For the six months ended June 30, 2012, the activity in our loan portfolio (including loans held-for-sale) was as follows (amounts in thousands):

Balance December 31, 2011	$	2,447,508
Acquisitions/originations		433,345
Additional funding		10,747
Capitalized interest (1)		2,550
Basis of loans sold		(153,627)
Basis of loans prepaid/matured		(409,721)
Transfer out- Loan converted to a security		(115,100)
Principal repayments		(15,281)
Discount accretion/premium amortization		29,324
Unrealized foreign currency remeasurement loss		(3,159)
Net change in unrealized loss on loans held-for-sale at fair value		(5,760)
Balance June 30, 2012	$	2,220,826

(1) Represents accrued interest income on loans whose terms do not require current payment of interest.

We acquired or originated $444.1 million (face value of loans, net of $3.0 million in upfront fees collected at closing) in loans during the six months ended June 30, 2012, which included: (1) a $125.0 million participation in a senior loan, converted to a CMBS in the second quarter, secured by all the material assets of a major hotel company for a discounted purchase price of $115.7 million; (2) an origination of a $63.0 million first mortgage, of which $59.0 million was funded at closing, collateralized by 10 office buildings located in California; (3) an origination of a $40.0 million mezzanine loan secured by a 10-property portfolio of full-service and extended-stay hotels located in eight different states; (4) an origination of a $73.0 million junior mezzanine loan, of which $45.0 million was initially funded, collateralized by six office buildings in Virginia; (5) an origination of a $170.0 million first mortgage loan, of which $135.0 million was initially funded, collateralized by two office buildings in midtown Manhattan; (6) an origination of a $11.6 million first mortgage loan collateralized by a collection of office, retail and parking properties in downtown San Diego, California; (7) an origination of a $30.0 million mezzanine loan collateralized by an office building in Pennsylvania; and (8) approximately $10.8 million in additional funding on existing loan investments.

We sold $153.6 million of loans during the six months ended June 30, 2012, which included: (1) six loans with a carrying value of $122.7 million to an independent third party resulting in proceeds, net of financing repayments, of $40.6 million and (2) 50% of our Euro denominated loan to a strategic partner resulting in proceeds of $28.8 million. The transaction was neutral from an earnings perspective net of the associated currency hedge gain. Additionally, 10 loans matured or were prepaid during the six months ended June 30, 2012, which resulted in proceeds of $409.7 million (net of realized foreign currency remeasurement gain of $9.2 million) and accelerated accretion of purchase discounts of $14.9 million.

5. Other Investments

On May 24 and June 28, 2012 we acquired 226 and 26 residential real estate owned (REO) properties from a major bank at a cost of $24.6 million and $2.8 million, respectively. Most of the properties were vacant at acquisition, and we are actively preparing the properties to be either rented or sold, as applicable. From the date of acquisition through June 30, 2012, we incurred approximately $0.3 million in costs of getting the properties ready for their intended use, and such costs were added to our investment basis.

Through June 30, 2012, we had purchased a net total of $13.8 million ($9.3 million of which was purchased during the year ended December 31, 2011) of publicly traded equity securities that are classified as available-for-sale and carried at fair value with changes in fair value recorded to other comprehensive income (loss). For the three months ended June 30, 2012 and June 30, 2011, we had an unrealized gain of $0.2 million and unrealized loss of $2.6 million, respectively, related to these investments, and recognized dividend income of $0.2 million and $0.2 million, respectively, included as a component of other income in the condensed consolidated statements of operations. $2.0 million of the equity securities have been in an unrealized loss position for less than 12 months and are not other-than-temporarily impaired. We evaluated the remaining $11.8 million of securities in an unrealized loss position for greater than 12 months and have concluded they are not other-than-temporarily impaired. The unrealized loss at June 30, 2012 for these securities is $2.5 million.

In June 2011, we acquired a non-controlling 49% interest in a privately-held limited liability company for $25.5 million, which is accounted for under the equity method. The entity owns a mezzanine loan participation, and our share of earnings for the three and six months ended June 30, 2012 was $0.6 million and $1.2 million, which is included in other income on the condensed consolidated statements of operations. The impact of this investment was immaterial to earnings for the three and six months ended June 30, 2011.

In January 2010, we committed $6.3 million to acquire a 5.6% interest in a privately-held limited liability company formed to acquire assets of a commercial real estate debt management and servicing business primarily for the opportunity to participate in debt opportunities arising from the venture s special servicing business (the Participation Right). In May 2010, we made an additional $3.4 million commitment to the venture to maintain at least a 5% ownership and its corresponding Participation Right. Because we do not have control or significant influence over the venture, the investment is accounted for under the cost method. As of June 30, 2012, we had funded $8.0 million of our commitment. We recognized $0.8 and $0.8 million for the three and six months ended June 30, 2012 or 2011 related to this investment, which is included in other income on the condensed consolidated statements of operations. For the three and six months ended June 30, 2011, we recognized $0.5 million and $0.5 million related to this investment, which is included in other income on the condensed consolidated statements of operations.

6. Secured Financing Agreements

On March 31, 2010, Starwood Property Mortgage Sub-1, L.L.C. (SPM Sub-1), our indirect wholly-owned subsidiary, entered into a Master Repurchase and Securities Contract (the Wells Repurchase Agreement) with Wells Fargo Bank, National Association (Wells Fargo). The Wells Repurchase Agreement is secured by approximately $105.2 million of the diversified loan portfolio purchased from Teachers Insurance and Annuity Association of America on February 26, 2010 (the TIAA Portfolio). Advances under the Wells Repurchase Agreement accrue interest at a per annum pricing rate equal to the sum of one-month LIBOR plus the pricing margin of 3.0%. If an event of default (as such term is defined in the Wells Repurchase Agreement) occurs and is continuing, amounts borrowed may become due and payable and interest accrues at the default rate, which is equal to the pricing rate plus 4.0%. The maturity date of the Wells Repurchase Agreement is May 31, 2013. The Wells Repurchase Agreement allowed for advances through May 31, 2010. As of June 30, 2012, $69.4 million was outstanding under the Wells Repurchase Agreement and the carrying value of the pledged collateral was $105.2 million. The Company guarantees certain of the obligations of SPM Sub-1 under the Wells Repurchase Agreement up to maximum liability of 25% of the then currently outstanding repurchase price of all purchased assets.

On August 6, 2010, Starwood Property Mortgage Sub-2, L.L.C. (SPM Sub-2), our indirect wholly-owned subsidiary, entered into a second Master Repurchase and Securities Contract with Wells Fargo, which second repurchase facility was amended and restated by SPM Sub-2 and Starwood Property Mortgage Sub-2-A, L.L.C. (SPM Sub-2-A), our indirect wholly-owned subsidiaries, on February 28, 2011, pursuant to an Amended and Restated Master Repurchase and Securities Contract (the Second Wells Repurchase Agreement). The Second Wells Repurchase Agreement was amended on May 24, 2011 and November 3, 2011 (Amendment No. 2), and is being used by SPM Sub-2 and SPM Sub-2-A to finance the acquisition or origination of commercial mortgage loans (and participations therein) and mezzanine loans. In connection with Amendment No. 2, available borrowings under the facility increased by $200 million to $550 million. Advances under the Second Wells Repurchase Agreement accrue interest at a per annum pricing rate equal to the sum of one-month LIBOR plus a margin of between 1.75% and 6.0% depending on the type of asset being financed. If an event of default (as such term is defined in the Second Wells Repurchase Agreement) occurs and is continuing, amounts borrowed may become due and payable immediately and interest accrues at the default rate, which is equal to the pricing rate plus 4.0%. The initial maturity date of the Second Wells Repurchase Agreement is August 5, 2013, subject to two one-year extension options, each of which may be exercised by us upon the satisfaction of certain conditions and the payment of an extension fee. The Company guarantees certain of the obligations of SPM Sub-2 and SPM Sub-2-A under the Wells Repurchase Agreement up to a maximum liability of either 25% or 100% of the then-currently outstanding repurchase price of purchased assets, depending upon the type of asset being financed. As of June 30, 2012, $264.4 million was outstanding under the Second Wells Repurchase Agreement and the carrying value of the pledged collateral was $826.3 million.

On December 2, 2010, Starwood Property Mortgage Sub-3, L.L.C. (SPM Sub-3), our indirect wholly-owned subsidiary, entered into a Master Repurchase Agreement with Goldman Sachs Mortgage Company, which repurchase facility was amended and restated by SPM Sub-3 and Starwood Property Mortgage Sub-3-A, L.L.C. (SPM Sub-3-A), our indirect wholly-owned subsidiary, on February 28, 2011, pursuant to an Amended and Restated Master Repurchase Agreement (the Goldman Repurchase Agreement). The Goldman Repurchase Agreement will be used to finance the acquisition or origination by SPM Sub-3 and SPM Sub-3-A of commercial mortgage loans that are eligible for CMBS securitization. The Goldman Repurchase Agreement provides for asset purchases of up to $150 million. The Company guarantees certain of the obligations of SPM Sub-3 and SPM Sub-3-A under the Goldman Repurchase Agreement up to a maximum liability of 25% of the then-currently outstanding repurchase price of all purchased loans. Advances under the Goldman Repurchase Agreement accrue interest at a per annum pricing rate equal to the sum of one-month LIBOR plus a margin of between 1.95% and 2.25% depending on the loan-to-value ratio of the purchased mortgage loan. If an event of default (as such term is defined in the Goldman Repurchase Agreement) occurs and is continuing, amounts borrowed may become due and payable immediately and interest accrues at the default rate, which is equal to the pricing rate plus 2.0%. The maturity date of the Goldman Repurchase Agreement is December 3, 2012. As of June 30, 2012, there were no borrowings under the Goldman Repurchase Agreement.

On March 18, 2011, Starwood Property Mortgage, L.L.C. (SPM), our indirect wholly-owned subsidiary, entered into a third Master Repurchase and Securities Contract with Wells Fargo (the Third Wells Repurchase Agreement). The Third Wells Repurchase Agreement is being used by SPM to finance the acquisition and ownership of RMBS and provides for asset purchases up to $175 million. Advances under the Third Wells Repurchase Agreement generally accrue interest at a per annum pricing rate equal to one-month LIBOR plus a margin of 2.10%. If an event of default (as such term is defined in the Third Wells Repurchase Agreement) occurs and is continuing, amounts borrowed may become due and payable immediately and interest accrues at the default rate, which is equal to the pricing rate plus 4.0%. The facility was scheduled to terminate on March 16, 2012. We extended the facility for an additional year and the new facility termination date is March 16, 2013. The Company has guaranteed certain of the obligations of SPM under the Third Wells Repurchase Agreement. As of June 30, 2012, $128.3 million was outstanding and the carrying value of the pledged collateral was $210.5 million.

On June 30, 2011, Starwood Property Mortgage Sub-4, L.L.C. (SPM Sub-4) and Starwood Property Mortgage Sub-4-A, L.L.C. (SPM Sub-4-A), our indirect wholly-owned subsidiaries, entered into a Mortgage Loan Purchase Agreement (the Deutsche Repurchase Agreement) with Deutsche Bank AG, Cayman Islands Branch. The Deutsche Repurchase Agreement provides for asset purchases of up to $150 million. The Company has guaranteed certain of the obligations of SPM Sub-4 and SPM Sub-4-A under the Deutsche Repurchase Agreement up to a maximum liability of the sum of (a) the greater of (i) 25% of the then currently outstanding repurchase price of all purchased loans, and (ii) $20,000,000, plus (b) all obligations associated with hedging. Advances under the Deutsche Repurchase Agreement accrue interest at a pricing rate equal to the sum of one-month LIBOR plus a margin of between 1.85% and 2.5% depending on the property type and loan-to-value ratio of the purchased mortgage asset. If an event of default (as such term is defined in the Deutsche Repurchase Agreement) occurs and is continuing, amounts borrowed may become due and payable immediately and interest accrues at the default rate, which is equal to the pricing rate plus 4.0%. The initial maturity date of the Deutsche Repurchase Agreement was June 30, 2012, with two one-year extension options subject to the satisfaction of certain conditions. We did not exercise our extension options and as a result the facility expired on June 30, 2012.

On June 28, 2011, SPT Rosslyn Holdings, L.L.C. (SPT Rosslyn), our indirect wholly-owned subsidiary, entered into a Master Repurchase Agreement (the Second Deutsche Repurchase Agreement) with Deutsche Bank AG, New York Branch (Deutsche NY). In connection with the Second Deutsche Repurchase Agreement, SPT Rosslyn transferred assets to Deutsche NY, with such transfer providing access to repurchase borrowings of up to $117.4 million. Interest on these borrowings accrues at a pricing rate equal to one-month LIBOR plus a margin of between 3.5% and 5.0%, depending on the loan-to-value. If an event of default (as such term is defined in the Second Deutsche Repurchase Agreement) occurs and is continuing, amounts borrowed may become due and payable immediately and interest accrues at the default rate, which is equal to the pricing rate plus 5.0%. The Company has guaranteed certain of the obligations of SPT Rosslyn under the Second Deutsche Repurchase Agreement. The facility was paid down in full simultaneously with a loan payoff during May 2012. The facility expired as scheduled in May 2012.

On December 30, 2011, Starwood Property Mortgage Sub-5, L.L.C. (SPM Sub-5) and Starwood Property Mortgage Sub-5-A, L.L.C. (SPM Sub-5-A), our indirect wholly-owned subsidiaries, entered into a fourth Master Repurchase and Securities Contract with Wells Fargo (the Fourth Wells Repurchase Agreement). The Fourth Wells Repurchase Agreement provides for advances up to $206.1 million and is secured by a loan portfolio of 23 separate commercial mortgage loans. As of June 30, 2012, advances under the Fourth Wells Repurchase Agreement accrued interest at one-month LIBOR plus a pricing margin of 2.75%. The availability of additional advances, as well as the pricing margin on all outstanding borrowings at any given time, is determined by the current operating cash flows and fair values of the underlying collateral, both in relation to the existing collateral loan receivable balances outstanding, and all as approved by Wells Fargo. The overall term of the Fourth Wells Repurchase Agreement is three years, with two one-year conditional extensions. As of June 30, 2012, SPM Sub-5-A had borrowed $206.1 million under this facility and the carrying value of the pledged collateral was $274.7 million. At closing, we paid a 0.50% commitment fee based upon the total committed proceeds. If the overall facility is extended beginning in December 2014, we would pay a 0.25% extension fee for each year. The Company guarantees 60% of the currently outstanding repurchase price for all purchased assets; however, the Company guarantees 100% of the outstanding balance of any individual repurchase transaction involving a collateral property with operating cash flows that at any time is less than 15% of the related collateral loan receivable balance.

On March 6, 2012, Starwood Property Mortgage Sub-7, LLC (SPM Sub-7), our indirect wholly-owned subsidiary, entered into a Master Repurchase Agreement with Goldman Sachs International (the Second Goldman Repurchase Agreement). At closing, we borrowed $155.4 million under the Second Goldman Repurchase Agreement to finance the acquisition of $222.8 million in senior debt securities that are expected to mature on November 15, 2015. The senior debt securities were issued by certain special purpose entities that were formed to hold substantially all of the assets of a worldwide operator of hotels, resorts and timeshare properties. Advances under the Second Goldman Repurchase Agreement accrue interest at a per annum rate of one-month LIBOR plus a spread of 2.90%. The maturity date of the Second Goldman Repurchase Agreement is August 15, 2015. The carrying value of the collateral senior debt securities was $208.0 million and the amount outstanding under the facility was $152.8 million at June 30, 2012.

On March 26, 2012, Starwood Property Mortgage Sub-6, LLC (SPM Sub-6) and Starwood Property Mortgage Sub-6-A (SPM Sub-6-A), our indirect wholly-owned subsidiaries, entered into a Master Repurchase Agreement with Citibank, N.A. (the Citi Repurchase Agreement). The Citi Repurchase Agreement provides for asset purchases of up to $125.0 million to finance commercial mortgage loans and senior interests in commercial mortgage loans originated or acquired by us and including loans and interests intended to be included in commercial mortgage loan securitizations as well as those not intended to be securitized. Advances under the Citi Repurchase Agreement accrue interest at a per annum interest rate equal to the sum of (i) 30-day LIBOR plus (ii) a margin of between 1.75% and 3.75% depending on (A) asset type, (B) the amount advanced and (C) the debt yield and loan-to-value ratios of the purchased mortgage loan, provided that the aggregate weighted average interest rate shall not at any time be less than the sum of one-month LIBOR plus 2.25%. The facility has an initial maturity date of March 29, 2014, subject to three one-year extension options, which may be exercised by us upon the satisfaction of certain conditions. We have guaranteed the obligations of our subsidiaries under the facility up to a maximum liability of 25% of the then-currently outstanding repurchase price of assets financed. There were no borrowings under the Citi Repurchase Agreement as of June 30, 2012.

Under the Wells Repurchase Agreement, the Second Wells Repurchase Agreement, the Goldman Repurchase Agreement, the Third Wells Repurchase Agreement, the Deutsche Repurchase Agreement, the Second Deutsche Repurchase Agreement, the Fourth Wells Repurchase Agreement, the Second Goldman Repurchase Agreement, and the Citi Repurchase Agreement, the counterparty retains the sole discretion over both whether to purchase the loan or security from us and, subject to certain conditions, the market value of such loan or security for purposes of determining whether we are required to pay margin to the counterparty.

On December 3, 2010, SPT Real Estate Sub II, LLC (SPT II), our wholly-owned subsidiary, entered into a term loan credit agreement (the BAML Credit Agreement) with Bank of America, N.A. (Bank of America) as administrative agent and as lender, and us and certain of our subsidiaries as guarantors. The BAML Credit Agreement, amended and restated on March 9, 2012 (Amended BAML Credit Agreement), provides for loans of up to $244.4 million as of June 30, 2012. The initial draw under the BAML Credit Agreement in December 2010 was used, in part, to finance the acquisition of a $205.0 million participation (the Participation) in a senior secured loan due November 15, 2015 from Bank of America. The Participation was converted into a security in June 2011 and is due from certain special purpose entities that were formed to hold substantially all of the assets of a worldwide operator of hotels, resorts and timeshare properties. In connection with the March 9, 2012 amendment, we borrowed an additional $81.0 million to partially finance the $125.0 million acquisition of additional participation interest in the senior secured loan.

Advances under the Amended BAML Credit Agreement accrue interest at a per annum rate based on LIBOR or a base rate, at the election of SPT II. The margin can vary between 2.35% and 2.50% over LIBOR, and between 1.35% and 1.50% over base rate, based on the performance of the underlying hospitality collateral. The initial maturity date of the Amended BAML Credit Agreement is November 30, 2014, subject to a 12 month extension option, exercisable by SPT II upon satisfaction of certain conditions set forth in the Amended BAML Credit Agreement. Bank of America retains the sole discretion, subject to certain conditions, over the market value of collateral assets for purposes of determining whether we are required to pay margin to Bank of America. As of June 30, 2012, $244.4 million was outstanding under the BAML Credit Agreement. The carrying value of the CMBS pledged as collateral under the Credit agreement was $370.4 million as of June 30, 2012. If an event of default (as such term is defined in the Amended BAML Credit Agreement) occurs and is continuing, amounts borrowed may become due and payable immediately and interest would accrue at an additional 2% per annum over the applicable rate.

The following table sets forth our five-year principal repayments schedule for the secured financings, assuming no defaults or expected extensions and excluding the collateralized debt obligation in securitization trust (amounts in thousands).   Our credit facilities generally require principal to be paid down prior to the facilities   respective maturities if and when we receive principal payments on, or sell, the investment collateral that we have pledged. The amount for the remainder of 2012 generally represents the principal repayments that are scheduled or otherwise expected to be received on our loan and MBS investments:

2012 (remaining)	$	46,624
2013		490,826
2014		183,125
2015		344,813
2016 and thereafter		
Total	$	1,065,388

7. Loan Securitization/Sale Activities

During 2010, we participated in a commercial mortgage securitization which generated non-recourse match funded financing with an effective cost of funds of approximately 3.5%. We separated five mortgage loans with an aggregate face value of $178.0 million into senior and junior loans. We contributed the five senior loans, or A Notes (the   Contributed Loans   ), with a face value of approximately $84.0 million to the securitization trust and received approximately $92.0 million in proceeds, while retaining $94.0 million of junior interests. The Contributed Loans are secured by office, retail and industrial properties and have remaining maturities between four and seven years. Each of the five Contributed Loans was either originated or acquired by us as part of a first mortgage loan. In connection with the securitization, two of the first mortgage loans were each split by us into an A Note and a B Note and three of the first mortgage loans had each been previously split into A Notes, B Notes and C Notes. The secured financing liability relates to two of the Contributed Loans that we securitized but did not qualify for sale treatment under GAAP. As of June 30, 2012 and December 31, 2011, the balance of the loans pledged to the securitization trust was $50.3 million and $50.3 million, respectively, and the related liability of the securitization trust was $52.8 million and $53.2 million, respectively.

During the first quarter of 2011, we contributed three loans to a securitization trust for approximately $56.0 million in gross proceeds. Control of the loans was surrendered in the loan transfer and it was therefore treated as a sale under GAAP, resulting in a gain of $1.9 million. We effectively realized a net gain of $1.8 million on this transaction after considering the realized losses on the interest rate hedges of $0.1 million that was terminated in connection with the sale.

During the first quarter of 2012, we sold six loans with a carrying value of $122.7 million to an independent third party resulting in proceeds, net of financing repayments, of $40.6 million. Control of the loans was surrendered in the loan transfer and it was therefore treated as a sale under GAAP, resulting in a realized gain of $9.4 million. The net economic gain of this transaction, including a realized loss of $8.4 million on the termination of the corresponding interest rate hedge, was $1.0 million. Additionally, we sold 50% of our Euro denominated loan to a strategic partner resulting in proceeds of $28.8 million and a realized loss of $2.1 million; however, this transaction was earnings neutral after considering the realized gains on the related currency hedges of $2.1 million that were terminated in connection with the sale. We have no continuing involvement in the loans.

8. Derivatives and Hedging Activity

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, foreign exchange, liquidity, and credit risk primarily by managing the amount, sources, and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates, credit spreads, and foreign exchange rates. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of the known or expected cash receipts and known or expected cash payments principally related to our investments, anticipated level of loan sales, and borrowings.

Cash Flow Hedges of Forecasted Interest Payments

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

In connection with our repurchase agreements, we have entered into nine interest rate swaps that have been designated as cash flow hedges of the interest rate risk associated with forecasted interest payments. As of June 30, 2012, the aggregate notional of our interest rate swaps designated as cash flow hedges of interest rate risk totaled $341.0 million. Under these agreements, we will pay fixed monthly coupons at fixed rates ranging from 0.557% to 2.228% of the notional amount to the counterparty and receive floating rate LIBOR. Our interest rate swaps designated as cash flow hedges of interest rate risk have maturities ranging from November 2012 to October 2018.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six months ended June 30, 2012 we recorded $0 as hedge ineffectiveness in earnings. During the three and six months ended June 30, 2011 we record $0 and $45 thousand, respectively, as hedge ineffectiveness in earnings, which is included in interest expense on the condensed consolidated statements of operations.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the associated variable-rate debt. Over the next twelve months, we estimate that an additional $1.8 million will be reclassified as an increase to interest expense. We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of 76 months.

Non-designated Hedges

Derivatives not designated as hedges are derivatives that do not meet the criteria for hedge accounting under GAAP or for which we have not elected to designate as hedges. We do not use these derivatives for speculative purposes but instead they are used to manage our exposure to foreign exchange rates, interest rate changes, and certain credit spreads. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in net (losses) gains on interest rate, currency or credit hedges in the condensed consolidated statements of operations.

During 2010, we entered into a series of forward contracts whereby we agree to sell an amount of GBP for agreed upon amounts of USD at various dates through October 2013. These forward contracts were executed to economically fix the USD amounts of GBP-denominated cash flows expected to be received by us related to our GBP-denominated loan investment. During 2011, we entered into a series of forward contracts whereby we agreed to sell an amount of EUR for an agreed upon amount of USD at various dates through June of 2014. These forward contracts were executed to economically fix the USD amount of EUR-denominated cash flows expected to be received by us related to our mezzanine loan in Germany. During the three months ended March 31, 2012, we terminated a portion of our contracts to sell EUR. The purpose of the terminations was to reduce the amount of EUR we were to sell at future dates as a result of the refinancing of our EUR-denominated loan investment. During the three months ended March 31, 2012, we entered into positions to buy GBP for an agreed upon amount of USD at various dates through 2013 to fix the future value of our losses on pre-existing GBP forward positions. We also entered into a new series of forward contracts whereby we agreed to sell GBP for an agreed upon amount of USD at various dates through March 2016.

As of June 30, 2012, we had 16 foreign exchange forward derivatives to sell GBP with a total notional amount of GBP 185.2 million, 8 foreign exchange forward derivatives to buy GBP with a total notional amount of GBP 97.3 million and 9 foreign exchange forward derivatives to sell EUR with a total notional of EUR 28.2 million that were not designated as hedges in qualifying hedging relationships.

During 2010 and 2011, we entered into several interest rate swaps that were not designated as hedges. Under these remaining agreements, we pay fixed coupons at fixed rates ranging from 0.716% to 2.505% of the notional amount to the counterparty and receive floating rate LIBOR. These interest rate swaps are used to limit the price exposure of certain assets due to changes in benchmark USD-LIBOR swap rates from which the pricing of these assets is derived. As of June 30, 2012, the aggregate notional amount of these five remaining interest rate swaps totaled $165.0 million. Changes in the fair value of these interest rate swaps are recorded directly in earnings.

In connection with our acquisition of a loan portfolio during the fourth quarter of 2011, we entered into nine interest rate swaps whereby we receive fixed coupons ranging from 2.86% to 6.28% of the notional amount and pay floating rate LIBOR. We acquired these swaps at a cost of $7.5 million. The premium paid reflects the fact that these swaps had above market rates which we receive. These swaps effectively convert certain floating rate loans we acquired to fixed rate loans. As of June 30, 2012, the aggregate notional amount of these swaps totaled $107.3 million. Changes in the fair value of these interest rate swaps are recorded directly in earnings.

During the six months ended June 30, 2011 we entered into a series of derivatives that are intended to hedge against increases in market credit spreads of CMBS. Such movements would have a negative impact on the proceeds we expect to receive from contributing loans into commercial mortgage loan securitizations. The aggregate notional amount of the derivatives was $153.0 million and they matured between July 2011 and December 2011. Under the terms of the contract, a market credit spread index was defined at the contract s inception by reference to a portfolio of specific independent CMBS. To the extent the referenced credit spread index increases, our counterparty pays us. To the extent the referenced credit spread index decreases, we pay our counterparty. We pay/receive approximately every 30 days based upon the movement in the referenced index during such period. The net gain from inception of the hedge through June 30, 2011 was $2.4 million and we were due $2.7 million as of June 30, 2011. As movements in the referenced index were settled each month, the $2.7 million receivable as of June 30, 2011 is considered to be a reasonable estimate of the contract s fair value as of that date. There were no credit hedges in place during the six months ended June 30, 2012.

The table below presents the fair value of our derivative financial instruments as well as their classification on the balance sheet as of June 30, 2012 and December 31, 2011 (amounts in thousands).

Tabular Disclosure of Fair Values of Derivative Instruments (amounts in thousands)

	Derivatives in an Asset Position				**Derivatives in a Liability Position**			
	As of June 30, 2012		**As of December 31, 2011**		**As of June 30, 2012**		**As of December 31, 2011**	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments								
Interest rate swaps	Derivative Assets	$	N/A	$	Derivative Liabilities	$ 2,632	Derivative Liabilities	$ 1,420
Total derivatives designated as hedging instruments		$		$		$ 2,632		$ 1,420
Derivatives not designated as hedging instruments								
Interest rate swaps	Derivative Assets	$ 6,318	Derivative Assets	$ 7,555	Derivative Liabilities	$ 1,947	Derivative Liabilities	$ 11,342
Foreign exchange contracts	Derivative Assets	3,477	Derivative Assets	5,261	Derivative Liabilities	10,254	Derivative Liabilities	6,890
Total derivatives *not* designated as hedging instruments		$ 9,795		$ 12,816		$ 12,201		$ 18,232

Cash flow hedges impact for the three months ended June 30, 2012 (amounts in thousands):

Derivative type for cash flow hedge	**Amount of loss recognized in OCI**	**Location of loss reclassified from accumulated OCI**	**Amount of loss reclassified from accumulated OCI**	**Location of loss recognized in income on**	**Amount of loss recognized in income on**

	on derivative (effective portion)	into income (effective portion)	into income (effective portion)	derivative (ineffective portion)	derivative (ineffective portion)
Interest Rate Swaps	$ 1,623	Interest Expense	$ 664	Interest Expense	$

Cash flow hedges impact for the three months ended June 30, 2011 (amounts in thousands):

Derivative type for cash flow hedge	Amount of loss recognized in OCI on derivative (effective portion)	Location of loss reclassified from accumulated OCI into income (effective portion)	Amount of loss reclassified from accumulated OCI into income (effective portion)	Location of gain recognized in income on derivative (ineffective portion)	Amount of gain recognized in income on derivative (ineffective portion)
Interest Rate Swaps	$ 1,183	Interest Expense	$ 619	Interest Expense	$

Cash flow hedges impact for the six months ended June 30, 2012 (amounts in thousands):

Derivative type for cash flow hedge	Amount of loss recognized in OCI on derivative (effective portion)	Location of loss reclassified from accumulated OCI into income (effective portion)	Amount of loss reclassified from accumulated OCI into income (effective portion)	Location of loss recognized in income on derivative (ineffective portion)	Amount of loss recognized in income on derivative (ineffective portion)
Interest Rate Swaps	$ 2,463	Interest Expense	$ 1,251	Interest Expense	$

Cash flow hedges impact for the six months ended June 30, 2011 (amounts in thousands):

Derivative type for cash flow hedge	Amount of loss recognized in OCI on derivative (effective portion)	Location of loss reclassified from accumulated OCI into income (effective portion)	Amount of loss reclassified from accumulated OCI into income (effective portion)	Location of gain recognized in income on derivative (ineffective portion)	Amount of gain recognized in income on derivative (ineffective portion)
Interest Rate Swaps	$ 1,215	Interest Expense	$ 1,203	Interest Expense	$ 45

Non-Designated derivatives impact for the three months ended June 30, 2012 and June 30, 2011 (amounts in thousands):

Derivatives Not Designated as Hedging Instruments		Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative 2012	2011
Interest Rate Swaps	Realized losses	Gains (losses) on interest rate hedges	$ (196)	$ (2,003)
Interest Rate Swaps	Net change in unrealized gains (losses)	Gains (losses) on interest rate hedges	$ 289	$ (5,918)
Foreign Exchange	Realized losses	Gains (losses) on currency hedges	$ (51)	$ (130)
Foreign Exchange	Net change in unrealized gains (losses)	Gains (losses) on currency hedges	$ 3,426	$ (2,113)
Credit Spread Derivative	Realized losses	Gains (losses) on credit spread hedges	$	$ (728)
Credit Spread Derivative	Net change in unrealized gains	Gains (losses) on credit spread hedges	$	$ 2,628

Non-Designated derivatives impact for the six months ended June 30, 2012 and June 30, 2011 (amounts in thousands):

Derivatives Not Designated as Hedging Instruments		Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative 2012	2011
Interest Rate Swaps	Realized losses	Gains (losses) on interest rate hedges	$ (9,409)	$ (2,581)
Interest Rate Swaps	Net change in unrealized gains (losses)	Gains (losses) on interest rate hedges	$ 10,068	$ (4,230)
Foreign Exchange	Realized gains (losses)	Gains (losses) on currency hedges	$ 2,265	$ (206)
Foreign Exchange	Net change in unrealized losses	Gains (losses) on currency hedges	$ (5,147)	$ (6,029)
Credit Spread Derivative	Realized losses	Gains (losses) on credit spread hedges	$	$ (970)
Credit Spread Derivative	Net change in unrealized gains	Gains (losses) on credit spread hedges	$	$ 2,441

Credit-risk-related Contingent Features

We have entered into agreements with certain of our derivative counterparties that contain provisions where if we were to default on any of our indebtedness, including defaults where repayment of the indebtedness has not been accelerated by the lender, we may also be declared in default on our derivative obligations. We also have certain agreements that contain provisions where if our ratio of principal amount of indebtedness to total assets at any time exceeds 75%, then we could be declared in default of our derivative obligations.

As of June 30, 2012 the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was $12.5 million. As of June 30, 2012, we have received collateral of $6.9 million related to these agreements. If we had breached any of these provisions at June 30, 2012, we could have been required to settle our obligations under the agreements at their termination liability value of $12.5 million.

9. Related-Party Transactions

Management Agreement

We entered into a Management Agreement with our Manager upon closing of our IPO, which provides for an initial term of three years with automatic one-year extensions thereafter unless terminated as described below. Under the Management Agreement, our Manager, subject to the oversight of our board of directors, is required to manage our day-to-day activities, for which our Manager receives a base management fee and is eligible for an incentive fee and stock awards. Our Manager is also entitled to charge us for certain expenses incurred on our behalf, as described below.

Base Management Fee. The base management fee is 1.5% of our stockholders equity per annum and is calculated and payable quarterly in arrears in cash. For purposes of calculating the management fee, our stockholders equity means: (a) the sum of (1) the net proceeds from all issuances of our equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus (2) our retained earnings at the end of the most recently completed calendar quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (b) any amount that we pay to repurchase our common stock since inception. It also excludes (1) any unrealized gains and losses and other non-cash items that have impacted stockholders equity as reported in our financial statements prepared in accordance with GAAP, and (2) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case after discussions between our Manager and our independent directors and approval by a majority of our independent directors. As a result, our stockholders equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders equity shown in our condensed consolidated financial statements.

For the three and six months ended June 30, 2012 approximately $8.1 million and $14.8 million was incurred for base management fees, respectively, of which $8.1 million was payable at June 30, 2012. For the three and six months ended June 30, 2011, approximately $5.8 million and $10.9 million was incurred for base management fees, respectively. The management fee payable as December 31, 2011 was $6.7 million.

Incentive Fee. From August 17, 2009 (the effective date of the Management Agreement), our Manager is entitled to be paid the incentive fee described below with respect to each calendar quarter (or part thereof that the Management Agreement is in effect) if (1) our Core Earnings (as defined below) for the previous 12-month period (or part thereof that the Management Agreement is in effect) exceeds an 8% threshold, and (2) our Core Earnings for the 12 most recently completed calendar quarters (or part thereof that the Management Agreement is in effect) is greater than zero.

The incentive fee will be an amount, not less than zero, equal to the difference between (1) the product of (x) 20% and (y) the difference between (i) our Core Earnings (as defined below) for the previous 12-month period (or part thereof that the Management Agreement is in effect), and (ii) the product of (A) the weighted average of the issue price per share of our common stock of all of our public offerings multiplied by the weighted average number of all shares of common stock outstanding (including any restricted stock units, any restricted shares of common stock and other shares of common stock underlying awards granted under our equity incentive plans) in such previous 12-month period (or part thereof that the Management Agreement is in effect), and (B) 8%, and (2) the sum of any incentive fee paid to our Manager with respect to the first three calendar quarters of such previous 12-month period (or part thereof that the Management Agreement is in effect). One half of each quarterly installment of the incentive fee is payable in shares of our common stock so long as the ownership of such additional number of shares by our Manager would not violate the 9.8% stock ownership limit set forth in our articles of incorporation, after giving effect to any waiver from such limit that our board of directors may grant in the future. The remainder of the incentive fee is payable in cash. The number of shares to be issued to our Manager is equal to the dollar amount of the portion of the quarterly installment of the incentive fee payable in shares divided by the average of the closing prices of our common stock on the New York Stock Exchange for the five trading days prior to the date on which such quarterly installment is paid.

Core Earnings is a non-GAAP financial measure. We calculate Core Earnings as GAAP net income (loss) excluding non-cash equity compensation expense, the incentive fee, depreciation and amortization of real estate (to the extent that we own properties), and any unrealized gains, losses or other non-cash items recorded in net income for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income. The amount is adjusted to exclude one-time events pursuant to changes in GAAP and certain other non-cash adjustments, in each case after discussions between our Manager and our independent directors and as approved by a majority of our independent directors.

For the three and six months ended June 30, 2012, we incurred approximately $0.6 million and $5.4 million in incentive fee. During the quarter ended June 30, 2012, we paid the manager $2.8 million of the incentive fee earned, 50% in cash and the remaining 50% in stock through the issuance of 70,220 shares of common stock at a price of $19.76 per share. As of June 30, 2012, the incentive fee payable was $2.6 million, which is included in related party payable in the condensed consolidated balance sheet. For the three and six months ended June 30, 2011, we incurred approximately $0.4 million and $0.8 million in incentive fee. During the quarter ended June, 30, 2011, we paid the manager $0.4 million of the incentive fee earned, 50% in cash and the remaining 50% in stock through the issuance of 9,021 shares of common stock at a price of $22.08 per share.

Expense Reimbursement. We are required to reimburse our Manager for operating expenses incurred by our Manager on our behalf. In addition, pursuant to the terms of the Management Agreement, we are required to reimburse our Manager for the cost of legal, tax, consulting, auditing and other similar services rendered for us by our Manager s personnel provided that such costs are no greater than those that would be payable if the services were provided by an independent third party. The expense reimbursement is not subject to any dollar limitations but is subject to review by our independent directors. For the three and six months ended June 30, 2012, approximately $1.3 million and $2.9 million were incurred, respectively, for executive compensation and other reimbursable expenses of which approximately $1.1 was payable as of June 30, 2012. For the three and six months ended June 30, 2011, approximately $1.0 million and $1.8 million were incurred, respectively, for executive compensation and other reimbursable expenses of which approximately $0.7 million was payable as of June 30, 2011.

Termination Fee. After the initial three-year term, we can terminate the Management Agreement without cause, as defined in the Management Agreement, with an affirmative two-thirds vote by our independent directors and 180 days written notice to our Manager. Upon termination without cause, our Manager is due a termination fee equal to three times the sum of the average annual base management fee and incentive fee earned by our Manager over the preceding eight calendar quarters. No termination fee is payable if our Manager is terminated for cause, as defined in the Management Agreement, which can be done at any time with 30 days written notice from our board of directors.

Loan Investments

In April 2011 we purchased a $35 million *pari passu* participation interest (the Participation Interest) in a $75million subordinate loan (the Mammoth Loan) from an independent third party and a syndicate of financial institutions and other entities acting as subordinate lenders to Mammoth Mountain Ski Area, LLC (Mammoth). Mammoth is a single-purpose, bankruptcy remote entity that is owned and controlled by Starwood Global Opportunity Fund VII-A, L.P., Starwood Global Opportunity Fund VII-B, L.P., Starwood U.S. Opportunity Fund VII-D, L.P. and Starwood U.S. Opportunity Fund VII-D-2, L.P. (collectively, the Sponsors). Each of the Sponsors is indirectly wholly-owned by Starwood Capital Group Global I, L.L.C., and an affiliate of our Chief Executive Officer. The Mammoth Loan was approved by our non-executive directors in accordance with our related party transaction policy. The Mammoth Loan has a term of up to six years and an interest rate of 14.0% through April 2014 and 13.25% thereafter. We acquired our Participation Interest in the Mammoth Loan from an independent third party and own such Participation Interest subject to a participation agreement between us and the independent third party (the Participation Agreement). The Participation Agreement provides for the payment to us, on a pro rata basis with an independent third party, of customary payments in respect of our Participation Interest and affords us customary voting, approval and consent rights so long as no event of default is continuing under the Mammoth Loan.

See Note 15 to the condensed consolidated financial statements for disclosure of a related party loan investment that closed subsequent to June 30, 2012.

10. Stockholders Equity

The Company s authorized capital stock consists of 100,000,000 shares of preferred stock, $0.01 par value per share, and 500,000,000 shares of common stock, $0.01 par value per share.

In May 2011, we completed another follow-on offering of 22,000,000 shares of our common stock at a price of $21.67 per share.

In April 2012, we completed another follow-on offering of 23,000,000 shares of our common stock at a price of $19.88 per share.

In June 2012 we entered into an ATM Equity Offering Sales Agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated, or the agent, relating to our shares of common stock. In accordance with the terms of the agreement, we may offer and sell shares of our common stock having an aggregate gross sales price of up to $250,000,000 from time to time through the agent, as our sales agent. Sales of the shares, if any, will be made by means of ordinary brokers transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices. Through August 6, 2012, we had not directed our sales agent to sell any shares.

At the time of our IPO in 2009, the underwriters for the IPO agreed to defer and condition the receipt of a portion of their underwriting fees on our future achievement of certain minimum investment returns. Similarly, at the time of the IPO our Manager agreed to pay to the underwriters a separate portion of the underwriting fees on our behalf, with our reimbursement of our Manager of those amounts conditioned upon our achievement of the same investment returns. In the absence of the achievement of such investment returns, we would not pay the underwriters the deferred portion of the underwriting fees nor would our Manager be reimbursed for the portion of the underwriting fees that it paid on our behalf. Specifically, pursuant to the IPO underwriting agreement among the underwriters, our Manager and us, we were required to pay to the underwriters $18.1 million of underwriting fees if during any full four calendar quarter period during the 24 full calendar quarters after the consummation of the IPO our Core Earnings for any such four-quarter period exceeded the product of (x) the weighted-average of the issue price per share of all public offerings of our common stock, multiplied by the weighted-average number of shares outstanding (including any restricted stock units, any restricted shares of common stock and any other shares of common stock underlying awards granted under our equity incentive plans) in such four-quarter period and (y) 8%. Additionally, because at the time of our IPO our Manager paid $9.1 million of underwriting fees on our behalf, pursuant to our Management Agreement with our Manager, we agreed to reimburse our Manager for such payments to the extent the same 8% performance threshold was exceeded. For the four calendar quarter periods ended March 31, 2011 we exceeded the threshold and therefore paid $27.2 million related to these contingent arrangements during the second quarter of 2011. Prior to 2011, we had recorded a deferred liability and an offsetting reduction to additional paid-in-capital for the full $27.2 million based upon actual and forecasted operating results at the time.

In August 2011, our board of directors authorized us to repurchase up to $100 million of our outstanding common shares over a one-year period. Purchases made pursuant to the program are to be made in either the open market or in privately negotiated transactions from time to time as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchases are determined by us and are subject to economic and market conditions, stock price, applicable legal requirements and other factors. The program may be suspended or discontinued at any time. Through December 31, 2011, we purchased 625,850 common shares on the open market at an aggregate cost of approximately $10.6 million, resulting in a weighted average share cost of $17.00. No additional shares were purchased during the six months ended June 30, 2012.

Our board of directors declared the following dividends in 2011 and 2012:

Ex-Dividend Date	Record Date	Announce Date	Pay Date	Amount	Frequency
6/27/2012	6/29/2012	5/8/2012	7/13/2012	$ 0.44	Quarterly
3/28/2012	3/30/2012	2/29/2012	4/13/2012	$ 0.44	Quarterly
12/28/2011	12/31/2011	11/4/2011	1/13/2012	$ 0.44	Quarterly
9/28/2011	9/30/2011	8/2/2011	10/14/2011	$ 0.44	Quarterly
6/28/2011	6/30/2011	5/10/2011	7/15/2011	$ 0.44	Quarterly
3/29/2011	3/31/2011	3/1/2011	4/15/2011	$ 0.42	Quarterly

Equity Incentive Plans

We have reserved an aggregate of 3,112,500 shares of common stock for issuance under the Starwood Property Trust, Inc. Equity Plan and Starwood Property Trust, Inc. Manager Equity Plan and an additional 100,000 shares of common stock for issuance under the Starwood Property Trust, Inc. Non-Executive Director Stock Plan. These plans provide for the issuance of restricted stock or restricted stock units. The holders of awards of restricted stock or restricted stock units will be entitled to receive dividends or distribution equivalents, which will be payable at such time dividends are paid on our outstanding shares of common stock.

We granted each of our four independent directors 2,200 shares of restricted stock concurrently with our IPO, with a total fair value of approximately $175 thousand. The grants vest ratably in three annual installments on each of the first, second, and third anniversaries of the grant date, respectively, subject to the director s continued service. Effective August 19, 2010, we granted each of our four independent directors an additional 1,000 shares of restricted stock, with a total fair value of approximately $75 thousand. The grants vested in one annual installment on the first anniversary of the grant. Effective August 19, 2011, we granted each of our four independent directors an additional 2,877 shares of restricted stock, with a total fair value of approximately $200 thousand. The grant will vest in one annual installment on the first anniversary of the grant, subject to the director s continued service. For the three and six months ended June 30, 2012, approximately $64 thousand and $129 thousand were included in general and administrative expense, respectively, related to the grants. For the three and six months ended June 30, 2011, approximately $33 thousand and $66 thousand were included in general and administrative expense, respectively, related to the grants.

In August 2009, we granted 1,037,500 restricted stock units with a fair value of approximately $20.8 million at the grant date to our Manager under the Manager Equity Plan. The grants vest ratably in quarterly installments over three years beginning on October 1, 2009, with 86,458 shares vesting each quarter, respectively. In connection with the supplemental equity offering in December 2010, we granted 1,075,000 restricted stock units with a fair value of approximately $21.8 million at the grant date to our Manager under the Manager Equity Plan. The grants vest ratably in quarterly installments over three years beginning on March 31, 2011, with 89,583 shares vesting each quarter. In May 2012, we granted 30,000 restricted stock units with a fair value of $602 thousand to the manager under the manager Equity Plan. As of the grant date, 75% of these shares vested and the remaining shares vest in quarterly installments at a rate of 8.33% per quarter beginning on June 30, 2012. For the three and six months ended June 30, 2012, approximately 201,041 and 377,082 shares have vested, respectively, and approximately $4.2 million and $7.8 million has been included in management fees related to these grants, respectively. For the three and six months ended June 30, 2011, approximately 176,041 and 352,082 shares have vested, respectively, and approximately $3.5 million and $7.3 million has been included in management fees related to these grants, respectively.

In May 2011, we issued 9,021 shares of common stock to the Manager at a price of $22.08 per share. In August 2011, we issued 54,234 shares of common stock to the Manager at a price of $18.58 per share. In May 2012, we issued 70,220 shares of common stock to the Manager at a price of $19.76. These shares were issued to the Manager as part of the incentive compensation due to the Manager under the Management Agreement, see Note 9.

In February 2011, we granted 11,082 restricted stock units with a fair value of $250 thousand to an employee under the Starwood Property Trust, Inc. Equity Plan. The award vests ratably in quarterly installments over three years beginning on March 31, 2011. In March 2012, we granted 17,500 restricted stock units with a fair value of $368 thousand to employees under the Starwood Property Trust, Inc. Equity Plan. Of the total award, 12,500 restricted shares vest in quarterly installments over three years beginning on March 31, 2012 and 5,000 shares vest in annual installments over three years beginning on December 31, 2012. For the three and six months ended June 30, 2012, 1,965 and 3,930 shares, respectively, have vested, and approximately $51 thousand and $103 thousand, respectively, was included in general and administrative expense related to these grants. For the three and six months ended June 30, 2011, 923 and 1,847 shares have vested, respectively, and approximately $21 thousand and $29 thousand, respectively, was included in general and administrative expense related to these grants.

Schedule of Non-Vested Share and Share Equivalents

	Restricted Stock Grants to Independent Directors	Restricted Stock Unit Grants to Employees	Restricted Stock Unit Grants to Manager	Total
Balance as of December 31, 2011	15,175	7,385	976,044	998,604
Granted		17,500	30,000	47,500
Vested	(733)	(3,930)	(377,082)	(381,745)
Forfeited				
Balance as of June 30, 2012	14,442	20,955	628,962	664,359

Vesting Schedule

	Restricted Stock Grants to Independent Directors	Restricted Stock Unit Grants to Employees	Restricted Stock Unit Grants to Manager	Total
2012 (remainder of)	13,708	5,597	270,629	289,934
2013	734	9,527	358,333	368,594
2014		5,831		5,831