

STARWOOD PROPERTY TRUST, INC.
Form 10-Q
August 09, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

Commission file number 001-34436

Starwood Property Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

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

591 West Putnam Avenue
Greenwich, Connecticut
(Address of principal executive offices)

06830
(Zip Code)

Registrant's telephone number, including area code:

(203) 422-8100

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

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

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

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if
smaller reporting company)

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

The number of shares of the issuer's common stock, \$0.01 par value, outstanding as of August 5, 2010, was 47,583,800.

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 their dates.

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, 2009, including those set forth under the caption "Risk Factors";

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 opportunities acceptable to us;

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; and

the availability of and costs associated with sources of liquidity and financing.

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. Condensed Consolidated Financial Statements.

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

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

| | June 30, 2010 | December 31, 2009 |
|---|---------------------|---------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 210,469 | \$ 645,129 |
| Loans held for investment, net | 865,373 | 214,521 |
| Mortgage backed securities, held-to-maturity | 247,962 | 245,896 |
| Mortgage backed securities, available-for-sale | 69,538 | |
| Other investments | 8,480 | |
| Accrued interest receivable | 7,181 | 2,180 |
| Other assets | 1,722 | 1,060 |
| Total Assets | \$ 1,410,725 | \$ 1,108,786 |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Payable for unsettled securities purchased | \$ 11,685 | \$ |
| Accounts payable and accrued expenses | 2,005 | 1,034 |
| Related-party payable | 3,941 | 3,546 |
| Dividends payable | 12,157 | 5,349 |
| Derivative liabilities | 5,016 | |
| Secured financing agreements | 449,548 | 171,394 |
| Deferred offering costs | 27,195 | 27,195 |
| Other liabilities | 5,383 | 4,233 |
| Total Liabilities | 516,930 | 212,751 |
| Commitments and contingencies (Note 12) | | |
| Equity: | | |
| Starwood Property Trust, Inc. Stockholders' Equity: | | |
| Preferred stock, \$0.01 par value per share 100,000,000 shares authorized, no shares issued and outstanding | | |
| Common stock, \$0.01 par value per share, 500,000,000 shares authorized, 47,583,800 shares issued and outstanding | 476 | 476 |
| Additional paid-in capital | 898,763 | 895,857 |
| Accumulated other comprehensive loss | (1,943) | |
| Accumulated deficit | (14,430) | (8,366) |
| Total Starwood Property Trust, Inc. Stockholders' Equity | 882,866 | 887,967 |
| Non-controlling interests in consolidated subsidiaries | 10,929 | 8,068 |
| Total Equity | 893,795 | 896,035 |
| Total Liabilities and Stockholders' Equity | \$ 1,410,725 | \$ 1,108,786 |

See notes to condensed consolidated financial statements

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statement of Operations

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

| | For the Three-Month Period Ended June 30, 2010 | For the Six-Month Period Ended June 30, 2010 |
|---|--|--|
| Net interest margin: | | |
| Interest income from mortgage-backed securities | \$ 4,703 | \$ 9,034 |
| Interest income from loans | 16,627 | 26,326 |
| Interest expense | (3,352) | (4,984) |
| Net interest margin | 17,978 | 30,376 |
| Expenses: | | |
| Management fees (including \$1,327 and \$2,869 of non-cash stock-based compensation) | 4,792 | 9,762 |
| General and administrative (including \$19 and \$37 of non-cash stock based compensation) | 1,665 | 3,444 |
| Total expenses | 6,457 | 13,206 |
| Income before other income (expense) and taxes | 11,521 | 17,170 |
| Interest income from cash balances | 229 | 840 |
| Loss on sale of available-for-sale securities | (2) | (2) |
| Unrealized loss on currency hedges | (3,694) | (3,694) |
| Unrealized foreign currency remeasurement gain | 3,396 | 3,396 |
| Income before taxes | 11,450 | 17,710 |
| Income tax provision | 40 | 40 |
| Net income | 11,410 | 17,670 |
| Net income attributable to non-controlling interests | 561 | 880 |
| Net income attributable to Starwood Property Trust, Inc. | \$ 10,849 | \$ 16,790 |

Net income per share of common stock:

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| | | | | |
|---|----|------------|----|------------|
| Basic | \$ | 0.23 | \$ | 0.35 |
| Diluted | \$ | 0.22 | \$ | 0.35 |
| Weighted average number of shares of common stock outstanding: | | | | |
| Basic | | 47,749,705 | | 47,706,032 |
| Diluted | | 48,626,300 | | 48,626,300 |

See notes to condensed consolidated financial statements

Starwood Property Trust, Inc. and Subsidiaries
Consolidated Statement of Equity
(Unaudited, amounts in thousands, except share and per share data)

| | Common Stock | | Additional | Accumulated | Accumulated | Total | | Total |
|--|-------------------|---------------|-------------------|--------------------|----------------------------------|----------------------|---------------------------|-------------------|
| | Shares | Par Value | Paid-In Capital | Deficit | Other Comprehensive Income(Loss) | Stockholders' Equity | Non-controlling interests | Equity |
| Balance at August 17, 2009 (Commencement of Operations) | 100 | \$ | \$ 1 | \$ | \$ | \$ 1 | \$ | \$ 1 |
| Proceeds from public offering of common stock | 46,575,000 | 466 | 931,034 | | | 931,500 | | 931,500 |
| Underwriting and offering costs | | | (57,588) | | | (57,588) | | (57,588) |
| Proceeds from private placement | 1,000,000 | 10 | 19,990 | | | 20,000 | | 20,000 |
| Cancellation of shares | (100) | | (1) | | | (1) | | (1) |
| Stock-based compensation | 8,800 | | 2,421 | | | 2,421 | | 2,421 |
| Net loss | | | | (3,017) | | (3,017) | 437 | (2,580) |
| Dividends declared, \$0.11 per share | | | | (5,349) | | (5,349) | | (5,349) |
| Contribution from non-controlling interests | | | | | | | 50,855 | 50,855 |
| Distribution to non-controlling interests | | | | | | | (43,224) | (43,224) |
| Balance at December 31, 2009 | 47,583,800 | \$ 476 | \$ 895,857 | \$ (8,366) | \$ | \$ 887,967 | \$ 8,068 | \$ 896,035 |
| Stock-based compensation | | | 2,906 | | | 2,906 | | 2,906 |
| Net income | | | | 16,790 | | 16,790 | 880 | 17,670 |
| Dividends declared, \$0.47 per share | | | | (22,854) | | (22,854) | | (22,854) |
| Other comprehensive loss, net | | | | | (1,943) | (1,943) | | (1,943) |
| Contribution from non-controlling interests | | | | | | | 2,579 | 2,579 |
| Distribution to non-controlling interests | | | | | | | (598) | (598) |
| Balance at June 30, 2010 | 47,583,800 | \$ 476 | \$ 898,763 | \$ (14,430) | \$ (1,943) | \$ 882,866 | \$ 10,929 | \$ 893,795 |

See notes to condensed consolidated financial statements

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited, amounts in thousands)

| | For the Three-Month Period Ended June 30, 2010 | For the Six-Month Period Ended June 30, 2010 |
|---|---|---|
| Net income | \$ 11,410 | \$ 17,670 |
| Other comprehensive loss | | |
| Change in fair value of interest rate hedge | (1,202) | (1,322) |
| Change in fair value of available-for-sale securities | | |