UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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 (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 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 May 7, 2013 was 166,175,195.

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, 2012 and in this Form 10-Q for the quarter ended March 31, 2013, 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;

- the Company s ability to integrate the segments of LNR Property LLC, a Delaware limited liability company (LNR), which were acquired on April 19, 2013, into our business and achieve the benefits that the we anticipate from this acquisition;

- 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; 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 data)

	As of March 31, 2013	As of December 31, 2012
Assets:		
Cash and cash equivalents	$ 173,074	$ 177,671
Restricted cash	41,469	3,429
Loans held for investment, net	2,530,489	2,914,434
Loans held-for-sale	378,690	
Loans transferred as secured borrowings	85,763	85,901
Mortgage-backed securities, available-for-sale, at fair value	635,533	862,587
Securities, held to maturity	37,190	
Other investments	430,044	221,983
Accrued interest receivable	20,500	24,120
Receivable for securities sold	206,608	
Derivative assets	14,933	9,227
Other assets	56,675	25,021
Total Assets	**$ 4,610,968**	**$ 4,324,373**
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued expenses	$ 18,738	$ 8,890
Related-party payable	11,110	1,803
Dividends payable	60,147	73,796
Derivative liabilities	17,468	27,770
Secured financing agreements, net	1,027,820	1,305,812
Convertible senior notes, net	560,423	
Loan transfer secured borrowings	87,523	87,893
Other liabilities	47,340	21,204
Total Liabilities	**1,830,569**	**1,527,168**
Commitments and contingencies (Note 16)		
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, 136,326,045 issued and 135,700,195 outstanding as of March 31, 2013 and 136,125,356 issued and 135,499,506 outstanding as of December 31, 2012	1,363	1,361
Additional paid-in capital	2,754,491	2,721,353
Treasury stock (625,850 shares)	(10,642)	(10,642)
Accumulated other comprehensive income	70,544	79,675
Accumulated deficit	(70,305)	(72,401)

Total Starwood Property Trust, Inc. Stockholders Equity		2,745,451		2,719,346
Non-controlling interests in consolidated subsidiaries		34,948		77,859
Total Equity		2,780,399		2,797,205
Total Liabilities and Equity	**$**	**4,610,968**	**$**	**4,324,373**

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 March 31, 2013		2012	
Net interest margin:				
Interest income from mortgage-backed securities	$	15,428	$	8,675
Interest income from loans		67,765		69,077
Interest expense		(16,987)		(11,852)
Net interest margin		**66,206**		**65,900**
Expenses:				
Management fees (including $4,508 and $3,649 for the three-months ended March 31, 2013 and 2012, respectively, of non-cash stock-based compensation)		14,275		15,167
Business combination costs		4,391		
Investment pursuit costs		81		861
General and administrative (including $148 and $116 for the three-months ended March 31, 2013 and 2012, respectively, of non-cash stock-based compensation)		4,286		3,023
Loan loss allowance		30		
Total expenses		**23,063**		**19,051**
Income before other income (expense) and income taxes		**43,143**		**46,849**
Other (expense) income		(1,726)		803
Other-than-temporary impairment (OTTI), net of $485 and $1,439 recognized in other comprehensive income (loss) for the three-months ended March 31, 2013 and 2012, respectively		(42)		(656)
Net gains on sales of investments		13,859		7,333
Net realized foreign currency (losses) gains		(239)		8,834
Net gains (losses) on currency derivatives		16,078		(6,257)
Net gains on interest rate derivatives		150		566
Net change in unrealized (losses) on loans held-for-sale at fair value				(5,760)
Unrealized gain on securities		405		
Unrealized foreign currency remeasurement losses		(7,427)		(1,025)
Income before income taxes		64,201		50,687
Income tax provision		777		399
Net Income		**63,424**		**50,288**
Net income attributable to non-controlling interests		(1,181)		(129)
Net income attributable to Starwood Property Trust, Inc.	**$**	**62,243**	**$**	**50,159**
Net income per share of common stock:				
Basic	$	0.46	$	0. 53
Diluted	$	0.46	$	0. 53
Distributions declared per common share	$	0.44	$	0. 44

See notes to condensed consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, amounts in thousands)

	For the Three-Months Ended March 31, 2013	2012
Net Income	$ 63,424	$ 50,288
Other comprehensive income (net change by component):		
Cash flow hedges	279	(252)
Unrealized gain (loss) on available-for-sale securities	(2,349)	15,113
Foreign currency remeasurement	(7,061)	
Other comprehensive income	(9,131)	14,861
Comprehensive income	54,293	65,149
Less: Comprehensive income attributable to non-controlling interests	(1,181)	(129)
Comprehensive income attributable to Starwood Property Trust, Inc.	$ 53,112	$ 65,020

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		Additional	Treasury Stock			Accumulated Other	Total Starwood Property Trust, Inc.	Non-	
	Shares	Par Value	Paid-In Capital	Shares	Amount	Accumulated Deficit	Comprehensive Income (Loss)	Stockholders Equity	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**
Convertible senior notes										
Stock-based compensation	193,541	2	3,763					3,765		3,765
Manager incentive fee paid in stock										
Net income						50,159		50,159	129	50,288
Dividends declared, $0.44 per share						(41,439)		(41,439)		(41,439)
Other comprehensive loss, net							14,861	14,861		14,861
Distribution to non-controlling interests									(191)	(191)
Balance, March 31, 2012	**94,004,892**	**$ 940**	**$ 1,832,082**	**625,850**	**$ (10,642)**	**$ (46,409)**	**$ 10,863**	**$ 1,786,834**	**$ 5,597**	**$ 1,792,431**
Balance, January 1, 2013	**136,125,356**	**$ 1,361**	**$ 2,721,353**	**625,850**	**$ (10,642)**	**$ (72,401)**	**$ 79,675**	**$ 2,719,346**	**$ 77,859**	**$ 2,797,205**
Convertible senior notes			28,118					28,118		28,118
Stock-based compensation	187,501	2	4,654					4,656		4,656
Manager incentive fee paid in stock	13,188		366					366		366
Net income						62,243		62,243	1,181	63,424
Dividends declared, $0.44 per share						(60,147)		(60,147)		(60,147)
Other comprehensive income, net							(9,131)	(9,131)		(9,131)
Contribution from non-controlling interests									6	6
Distribution to non-controlling interests									(44,098)	(44,098)
	136,326,045	**$ 1,363**	**$ 2,754,491**	**625,850**	**$ (10,642)**	**$ (70,305)**	**$ 70,544**	**$ 2,745,451**	**$ 34,948**	**$ 2,780,399**

Balance, March 31, 2013

See notes to condensed consolidated financial statement

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Amounts in thousands)

	For the Three-Months Ended March 31, 2013	2012
Cash Flows from Operating Activities:		
Net income	$ 63,424	$ 50,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs	3,193	1,132
Amortization of net convertible debt discount and deferred fees	841	
Accretion of net discount on mortgage-backed securities (MBS)	(9,180)	(5,616)
Accretion of net deferred loan fees and discounts	(7,856)	(21,622)
Accretion of premium from loan transfer secured borrowings	(374)	(221)
Stock-based compensation	4,656	3,765
Incentive-fee compensation	366	
Gain on sale of available-for-sale securities	(13,157)	(46)
Gain on sale of loans		(7,287)
Gain on foreign currency remeasurement	(37)	(9,146)
Gain on sale of real estate assets	(335)	
Gain on currency hedges	(72)	
Gain on sale of other investments	(1,107)	
Unrealized gains on securities	(405)	
Unrealized gains (losses) on loans held-for-sale at fair value		5,760
Unrealized gains on interest rate hedges	(240)	(9,779)
Unrealized (gains) losses on currency hedges	(16,006)	8,573
Unrealized foreign currency remeasurement losses	7,427	1,025
OTTI	42	656
Loan loss allowance	30	
Depreciation	713	
Changes in operating assets and liabilities:		
Related-party payable	9,307	5,002
Accrued interest receivable, less purchased interest	1,802	(1,870)
Other assets	5,839	11,388
Accounts payable and accrued expenses	9,848	2
Other liabilities	26,136	9,995
Proceeds from sale of held for sale loans		132,128
Net cash provided by operating activities	**84,855**	**174,127**
Cash Flows from Investing Activities:		
Purchase of mortgage-backed securities		(301,772)
Proceeds from sale of mortgage-backed securities	12,711	46
Mortgage-backed securities principal paydowns	21,726	20,099
Origination and purchase of loans held for investment	(129,817)	(218,872)
Loan maturities	82,410	147,707
Proceeds from sale of loans and participations	44,631	28,786
Loan investment repayments	11,241	6,211
Purchased interest on investments		(437)
Purchase of securities, held to maturity	(37,175)	
Investments in other investments	(104,142)	(99)
Acquisition and improvement of real estate	(114,925)	

Proceeds from sale of real estate	3,360	
Return of investment from other investments	150	303
Proceeds from sale of other investments	6,769	
Return of investment basis in purchased derivative asset	518	968
Deposit on business combination	(40,665)	
Restricted cash	(38,040)	
Net cash used in investing activities	**(281,248)**	**(317,060)**

	For the Three-Months Ended March 31, 2013	2012
Cash Flows from Financing Activities:		
Borrowings under secured financing agreements	347,521	383,037
Borrowings under convertible debt offering	587,700	
Principal repayments on borrowings under secured financing arrangements	(625,513)	(177,694)
Payment of deferred financing costs	(24)	(2,250)
Payment of dividends	(73,796)	(41,431)
Contributions from non-controlling interest owners	6	
Distributions to non-controlling interest owners	(44,098)	(191)
Net cash provided by financing activities	**191,796**	**161,471**
Net (decrease) increase in cash and cash equivalents	(4,597)	18,538
Cash and cash equivalents, beginning of period	177,671	114,027
Cash and cash equivalents, end of period	$ 173,074	$ 132,565
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 10,536	$ 13,143
Income taxes paid	$ 327	
Supplemental disclosure of non-cash investing and financing activities:		
Dividends declared, but not yet paid	$ 60,147	$ 41,439
Unsettled securities trade receivable	$ 206,608	

See notes to condensed consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

As of March 31, 2013

(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). From our inception in 2009 through the end of the first quarter of 2013, we have been focused primarily on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities, and other commercial real estate-related debt investments. We collectively refer to the following as our target assets:

- Commercial real estate mortgage loans;
- Commercial real estate mortgage-backed securities (CMBS);
- Other commercial real estate-related debt investments;
- Residential mortgage-backed securities (RMBS); and
- Residential real estate owned (REO) and residential non-performing mortgage loans.

As market conditions change over time, we may adjust our strategy to take advantage of changes in interest rates and credit spreads as well as economic and credit conditions. Refer to Note 17 for disclosure of our acquisition of LNR, which was consummated on April 19, 2013.

We are organized and conduct our operations to qualify as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended (the Code). As such, we will generally not be subject to U.S. federal corporate income tax on that portion of our 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 and conduct our business primarily through our various wholly owned subsidiaries. We are externally managed and advised by SPT Management, LLC (our Manager) pursuant to the terms of a Management Agreement. Our Manager is controlled by Barry Sternlicht, our Chairman and Chief Executive Officer. Our Manager is an affiliate of Starwood Capital Group, a privately-held private equity firm founded and controlled by Mr. Sternlicht.

As of March 31, 2013, investments with collateral in the hospitality, office, and retail property sectors represented 42.7%, 16.8%, and 15.2% 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 consolidated financial statements include our accounts and those of our consolidated subsidiaries. Intercompany amounts have been eliminated. In the opinion of management, 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 included. 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 the projection of cash flows we expect to receive on our investments, which has a significant impact on the amounts of interest income, credit losses (if any), and fair values that we record 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 at which we estimate market participants would discount the expected cash flows.

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 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, 2012, as filed with the Securities and Exchange Commission (SEC). The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the operating results for the full year.

Segment Reporting

We are focused primarily 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. The Company maintains its 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. Held-to-maturity securities are stated at cost plus any premiums or discounts, which are amortized or accreted through the consolidated statements of operations using the effective interest method. Securities we (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 March 31, 2013, our CMBS and RMBS securities were classified as available-for-sale. The classification of each investment involves management s judgment, which is subject to change. Purchases and sales of securities are recorded on the trade date.

When the estimated fair value of a security is less than its amortized cost, we consider whether there is an other-than-temporary impairment (OTTI) in the value of the security. An impairment is deemed 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 expect to recover the entire amortized cost basis of the security even if we do not intend to sell the security or believe it is more likely than not that we will be required to sell the security before recovering our cost basis. If the impairment is deemed to be an OTTI, 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 equal to the entire difference between our amortized cost basis and fair value. Whereas, if the OTTI has resulted from our conclusion that we will not recover our cost basis even if we do not intend to sell the security or believe it is 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 the security. Determining whether there is an OTTI may require us to exercise significant judgment and make significant assumptions, including, but not limited to, estimated cash flows, estimated prepayments, loss assumptions, and assumptions regarding changes in interest rates. 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 unamortized acquisition premiums or discounts, loan fees, and origination and acquisition costs as applicable, unless the loans are deemed impaired. We evaluate each loan classified as held for investment for impairment at least quarterly. 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 considered to be impaired, we 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. After completing the evaluation of each loan as described above, we consider whether any loans shared specific characteristics with other loans such that it was probable, as a group, such loans have incurred an impairment loss as a result of their common characteristic(s).

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.

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 the loans at fair value at the time they were acquired under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825, *Financial Instruments*. Refer to Note 15 to the consolidated financial statements for further disclosure regarding loans held-for-sale.

Residential Real Estate & Non-Performing Residential Loans

We account for real estate at cost less accumulated depreciation and amortization. We compute depreciation using the straight-line method over the estimated useful lives of the assets. We depreciate rental real estate over periods up to 30 years. Real estate in development is related to the development of property (including land) and assets that have not yet been placed in service for our intended use. Depreciation for furniture and fixtures commences once it is placed in service and depreciation for buildings and leasehold improvements commences once they are ready for our intended use. We depreciate furniture and fixtures over periods up to 5 years. We depreciate lease hold improvements over the greater of 15 year or the remaining depreciable life of the asset it improved. Land is not depreciated.

Our non-performing residential loans are on nonaccrual status at the time of purchase as it is probable that principal or interest is not fully collectible. Generally, when loans are placed on nonaccrual status, accrued interest receivable is reversed against interest income in the current period. Interest payments received thereafter are applied as a reduction to the remaining principal balance as long as concern exists as to the ultimate collection of the principal.

Revenue Recognition

Interest income on performing loans is accrued based on the outstanding principal amount and contractual terms of our loans and securities. Discounts or premiums associated with the purchase of loans and investment securities are amortized or accreted into interest income as a yield adjustment on the effective interest method, based on expected cash flows through the expected maturity date of the investment. On at least a quarterly basis, we review and, if appropriate, make adjustments to our cash flow projections. We have historically collected, and expect to continue to collect, all contractual amounts due on our loans and CMBS, and non-credit deteriorated RMBS. As a result, we do not adjust the projected cash flows to reflect anticipated credit losses for these types of investments. Conversely, the majority of our RMBS have been purchased at a discount to par value, and we did not expect to collect all amounts contractually due at the time we acquired the securities. Accordingly, we expect that a portion of the purchase discount will not be recognized as interest income, and is instead viewed as a non-accretable yield. The amount considered as non-accretable yield may change over time based on the actual performance of these securities, their underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a credit deteriorated security is more favorable than forecasted, we will generally accrete more credit discount into interest income than initially or previously expected. These adjustments are made prospectively beginning in the period subsequent to the determination that a favorable change in performance is projected. Conversely, if the performance of a credit deteriorated security is less favorable than forecasted, an other-than-temporary impairment may be taken, and the amount of discount accreted into income will generally be less than previously expected.

For loans that we have not elected to record at fair value under ASC 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 direct loan costs are recorded directly in income and are not deferred.

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

Rental income attributable to residential leases is recorded when due from tenants, which approximates the amount that would result from straight-lining rents over the lease term. The initial term of our residential leases is generally one year, with renewals upon consent of both parties on an annual or monthly basis.

Investments in Unconsolidated Entities

We own non-controlling equity interests in various privately-held partnerships and limited liability companies. Unless we elect the fair value option under ASC 825, we use the cost method to account for investments when we own five percent or less of, and 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.

Investments in unconsolidated entities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is measured based on the excess of the carrying amount of an investment over its estimated fair value. Impairment analyses are based on current plans, intended holding periods and available information at the time the analyses are prepared.

We also own publicly traded equity securities of a company in the real estate industry. For publicly traded companies where we have virtually no influence over the activities of these companies and minimal ownership percentages the 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). For publicly traded securities where we have the ability to exercise significant influence, but not control, over underlying investees, we have elected the fair value reporting option and assets are reported at fair value on the balance sheet with unrealized gains and losses reported in earnings. Dividends on our available-for-sale equity securities are recorded in the statement of operations on the record date.

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 ASC 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 by allocating the carrying value of the underlying mortgage between securities or loans sold and the interests retained based on their fair values, as applicable. The gain or loss on sale is the difference between the cash proceeds from the sale and the amount allocated to the securities or loans 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 charged to current earnings and not deferred.

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 March 31, 2013 and December 31, 2012, 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 for loans held for investment and other comprehensive income for securities available for sale.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash investments, CMBS, RMBS, held to maturity security, 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 and convertible debt instruments are capitalized and amortized over the respective loan terms of the respective facilities as a component of interest expense. As of March 31, 2013 and December 31, 2012, we had approximately $5.5 million and $7.8 million, respectively, of capitalized financing costs, net of amortization. For the three months ended March 31, 2013 and March 31, 2012, approximately $3.2 million and $1.1 million, respectively, of amortization was included in interest expense on the statements 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 units, which are participating securities as defined in GAAP. Diluted earnings per share reflects the potential dilution that that could occur from shares issuable in connection with the incentive fee paid to our Manager under the management agreement and conversion of the convertible senior notes into shares of common stock, except when doing so would be anti-dilutive.

Share-based Payments

We recognize the cost of share-based compensation and payment transactions using the same expense category as would be charged for payments in cash. The fair value of the restricted stock or restricted stock units granted is recorded to expense on a straight-line basis over the vesting period for the award, with an offsetting 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, which requires the amount to be adjusted in each subsequent reporting period based on the fair value of the award at the end of the reporting period until the award has vested.

Income Taxes

We have elected to be taxed as a REIT and intend 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. A REIT s net income from prohibited transactions is subject to a 100% penalty tax. We have seven 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 months ended March 31, 2013, we recorded a provision for income taxes of $0.8 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 months ended March 31, 2012, we recorded a provision for income taxes of $0.4 million related to the activities in our TRSs, based on a federal income tax rate of 34% and state income tax rate of 7.5%.

Underwriting Commissions and Offering Costs

Underwriting and offering costs related to our equity offering activities, which consist primarily of our equity offerings in April and early October of 2012 as well as our at-the-market offering program (refer to disclosure in Note 12), aggregated zero for the three months ended March 31, 2013 and March 31, 2012. Underwriting and offering costs are reflected as a reduction in additional paid-in capital in the Consolidated Statements of Equity.

3. Debt Securities

The Company classified all CMBS and RMBS investments as available-for-sale as of March 31, 2013 and December 31, 2012. 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 March 31, 2013 and December 31, 2012 (amounts in thousands):

				Unrealized Gains or (Losses) Recognized in Accumulated Other Comprehensive (Loss) Income				
March 31, 2013	**Purchase Amortized Cost**	**Credit OTTI**	**Recorded Amortized Cost**	**Non-Credit OTTI**	**Unrealized Gains**	**Unrealized Losses**	**Net Fair Value Adjustment**	**Fair Value**
CMBS	$ 293,850	$	$ 293,850	$	$ 20,640	$	$ 20,640	$ 314,490
RMBS	271,945	(10,161)	261,784	(485)	59,866	(122)	59,259	321,043
Total	$ 565,795	$ (10,161)	$ 555,634	$ (485)	$ 80,506	$ (122)	$ 79,899	$ 635,533

March 31, 2013	**Weighted Average Coupon(1)**	**Weighted Average Rating**	**Weighted Average Life (WAL) (Years)(3)**
CMBS	5.3%	BB+(2)	3.6
RMBS	1.1%	CCC+	5.8

(1) Calculated using the one-month LIBOR rate as of March 31, 2013 of 0.20370%.

(2) Includes a $212.8 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 March 31, 2013 in the range of 38%-43%. The remaining $101.7 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 March 31, 2013. Assumptions for the calculation of the WAL are adjusted as necessary for changes in projected principal repayments and/or maturity dates of the security.

Unrealized Gains or (Losses) Recognized in Accumulated Other Comprehensive (Loss) Income

December 31, 2012	Purchase Amortized Cost	Credit OTTI	Recorded Amortized Cost	Non-Credit OTTI	Unrealized Gains	Unrealized Losses	Net Fair Value Adjustment	Fair Value
CMBS	$ 498,064	$	$ 498,064	$	$ 31,370	$	$ 31,370	$ 529,434
RMBS	293,321	(10,194)	283,127		50,717	(691)	50,026	333,153
Total	$ 791,385	$ (10,194)	$ 781,191	$	$ 82,087	$ (691)	$ 81,396	$ 862,587

December 31, 2012	Weighted Average Coupon(1)	Weighted Average Rating	Weighted Average Life (WAL) (Years)(3)
CMBS	4.3%	BB+(2)	3.3
RMBS	1.1%	CCC+	5.4

(1) Calculated using the December 31, 2012 one-month LIBOR rate of 0.2087% for floating rate securities.

(2) Approximately 20.4% of the CMBS securities are rated BB+. The remaining 79.6% are securities where the obligors are certain special purpose entities that were formed to hold substantially all of the assets of a worldwide operator of hotels, resorts and timeshare properties; the securities are not rated but the loan-to-value ratio was estimated to be in the range of 39%-44% at December 31, 2012.

(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 a denominator equal to the sum of the expected principal payments. This calculation was made as of December 31, 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.

The following table contains a reconciliation of aggregate principal balance to amortized cost for our CMBS and RMBS as of March 31, 2013 and December 31, 2012 (amounts in thousands):

	March 31, 2013		December 31, 2012	
	CMBS	RMBS	CMBS	RMBS
Principal balance	$ 302,459	$ 456,814	$ 519,575	$ 489,218
Accretable yield	(8,609)	(98,957)	(21,511)	(108,486)
Non-accretable difference		(96,073)		(97,605)
Total discount	(8,609)	(195,030)	(21,511)	(206,091)
Amortized cost	$ 293,850	$ 261,784	$ 498,064	$ 283,127

The principal balance of credit deteriorated RMBS was $407.3 million and $438.0 million as of March 31, 2013 and December 31, 2012, respectively. Accretable yield related to these securities totaled $86.9 million and $93.6 million, as of March 31, 2013 and December 31, 2012, respectively.

The following table discloses the changes to accretable yield and non-accretable difference for our CMBS and RMBS during the three month period ended March 31, 2013:

	For the three months ended March 31, 2013			
	Accretable Yield		Non-Accretable Difference	
	CMBS	RMBS	CMBS	RMBS
Balance as of December 31, 2012	$ 21,511	$ 108,486	$	$ 97,605
Accretion of discount	(3,029)	(6,151)		
Principal write-downs				(496)
Sales	(9,873)	(2,418)		(2,038)

OTTI		42	
Transfer to/from non-accretable difference		(1,002)	1,002
Balance as of March 31, 2013	$ 8,609	$ 98,957	$ 96,073

During the three-months ended March 31, 2013, purchases and sales executed, as well as the principal payments received, were as follows (amounts in thousands):

March 31, 2013	**Held to Maturity Security**	**RMBS**	**CMBS**
Purchases	$ 37,190	$	$
Sales/Maturities		12,711	206,608
Principal payments received		16,868	4,858

During the three-months ended March 31, 2012, purchases and sales executed, as well as the principal payments received, were as follows (amounts in thousands):

March 31, 2012	RMBS	CMBS
Purchases	$	$ 301,772
Sales		
Principal pay-downs	16,539	3,560

During the three-months ended March 31, 2013, the Company sold a CMBS position which was recorded on the trade date. As of March 31, 2013, the Company had recorded a receivable for the securities sold of $206.6 million. The sale generated a gain of approximately $11.0 million. The sale settled shortly after March 31, 2013, and the Company received $66.5 million after repayment of related financing.

Within the hospitality sector, as of March 31, 2013 we had an aggregate investment of $212.8 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, 2013, the aggregate face value of $211.8 million represented 3.0% of the total face value of this operator s senior secured debt outstanding, and the aggregate carrying value of our investment represented 4.6% of our total assets. As of December 31, 2012, the aggregate face value of $421.8 million represented 5.8% of the total face value of this operator s senior debt outstanding, and the aggregate carrying value of our investment represented 9.7% of our total assets.

As of March 31, 2013, 67.7%, of the CMBS are variable rate and pay interest at LIBOR plus a weighted average spread of 2.30%. As of December 31, 2012, 79.6% of the CMBS are variable rate and paid interest at LIBOR plus a weighted average spread of 2.30%.

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 $0.6 million and $0.3 million for the three-months ended March 31, 2013 and March 31, 2012, respectively, which has been recorded as an offset to interest income in the accompanying condensed consolidated statements of operations. As of March 31, 2013, approximately $277.0 million, or 86.3%, of the RMBS are variable rate and pay interest at LIBOR plus a weighted average spread of 0.38%. As of December 31, 2012, approximately $281.2 million, or 84.4%, of the RMBS were variable rate and pay interest at LIBOR plus a weighted average spread of 0.38%. 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 are in an unrealized loss position as of March 31, 2013 for which OTTIs (full or partial) have not been recognized in earnings (amounts in thousands):

	Estimated Fair Value		Unrealized Losses	
As of March 31, 2013	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	1,868	1,738	(122)	(485)
Total	$ 1,868	$ 1,738	$ (122)	$ (485)

As of March 31, 2013 there were three securities with unrealized losses. After evaluating each security we determined that the impairments on two of these securities, totaling $0.5 million, were other-than-temporary. Credit losses represented $42 thousand 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 March 31, 2012, our aggregate MBS credit losses (as reported in the condensed consolidated statement of operations) were $0.7 million. We further determined that the remaining security was not 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 is used 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.

The following table presents the gross unrealized losses and estimated fair value of our securities that are in an unrealized loss position as of December 31, 2012 for which OTTIs (full or partial) have not been recognized in earnings (amounts in thousands)

	Estimated Fair Value		Unrealized Losses	
As of December 31, 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	$	$		