

BLACKSTONE MORTGAGE TRUST, INC.

Form 10-Q

April 29, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014**

**OR**

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

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**Commission File Number: 001-14788**

**Blackstone Mortgage Trust, Inc.**

(Exact name of Registrant as specified in its charter)

Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**94-6181186**  
(I.R.S. Employer  
Identification No.)

**345 Park Avenue, 42<sup>nd</sup> Floor**

**New York, New York 10154**

(Address of principal executive offices)(Zip Code)

**(212) 655-0220**

(Registrant's telephone number, including area code)

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 of this chapter) 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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒

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

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

The number of the Registrant's outstanding shares of class A common stock, par value \$0.01 per share, as of April 22, 2014 was 48,476,651.

---

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

|         |  |    |
|---------|--|----|
| ITEM 1. | <u>FINANCIAL STATEMENTS</u>  | 2  |
|         | Unaudited Consolidated Financial Statements  |    |
|         | <u>Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013</u>                                    | 2  |
|         | <u>Consolidated Statements of Operations for the Three Months Ended March 31, 2014 and 2013</u>                  | 3  |
|         | <u>Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended March 31, 2014 and 2013</u> | 4  |
|         | <u>Consolidated Statements of Changes in Equity for the Three Months Ended March 31, 2014 and 2013</u>           | 5  |
|         | <u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013</u>                  | 6  |
|         | <u>Notes to Consolidated Financial Statements</u>  | 7  |
| ITEM 2. | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>                     | 30 |
| ITEM 3. | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>  | 44 |
| ITEM 4. | <u>CONTROLS AND PROCEDURES</u>   | 45 |

**PART II. OTHER INFORMATION**

|          |  |    |
|----------|--|----|
| ITEM 1.  | <u>LEGAL PROCEEDINGS</u>   | 46 |
| ITEM 1A. | <u>RISK FACTORS</u>  | 46 |
| ITEM 2.  | <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> | 46 |
| ITEM 3.  | <u>DEFAULTS UPON SENIOR SECURITIES</u>                             | 46 |
| ITEM 4.  | <u>MINE SAFETY DISCLOSURES</u>                                     | 46 |
| ITEM 5.  | <u>OTHER INFORMATION</u>   | 46 |
| ITEM 6.  | <u>EXHIBITS</u>  | 47 |
|          | <u>SIGNATURES</u>  | 49 |

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Blackstone Mortgage Trust, Inc.****Consolidated Balance Sheets (Unaudited)****(in thousands, except per share data)**

|   | <b>March 31,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|---|---------------------------|------------------------------|
| <b>Assets</b>   |                           |                              |
| Cash and cash equivalents   | \$ 70,834                 | \$ 52,342                    |
| Restricted cash   | 10,677                    | 10,096                       |
| Loans receivable, net   | 2,710,159                 | 2,047,223                    |
| Equity investments in unconsolidated subsidiaries   | 23,394                    | 22,480                       |
| Accrued interest receivable, prepaid expenses, and other assets   | 79,323                    | 80,639                       |
| <b>Total assets</b>   | <b>\$ 2,894,387</b>       | <b>\$ 2,212,780</b>          |
| <b>Liabilities and equity</b>   |                           |                              |
| Accounts payable, accrued expenses, and other liabilities   | \$ 66,711                 | \$ 56,972                    |
| Repurchase obligations  | 1,529,788                 | 1,109,353                    |
| Convertible notes, net  | 160,094                   | 159,524                      |
| Securitized debt obligations  | 39,394                    | 40,181                       |
| Participations sold   | 90,000                    | 90,000                       |
| <b>Total liabilities</b>  | <b>1,885,987</b>          | <b>1,456,030</b>             |
| <b>Equity</b>   |                           |                              |
| Class A common stock, \$0.01 par value, 100,000 shares authorized, 38,655 and 28,802 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively | 387                       | 288                          |
| Restricted class A common stock, \$0.01 par value, 622 and 700 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively                       | 6                         | 7                            |
| Additional paid-in capital  | 1,510,860                 | 1,252,986                    |
| Accumulated other comprehensive income  | 834                       | 798                          |
| Accumulated deficit   | (542,004)                 | (536,170)                    |
| <b>Total Blackstone Mortgage Trust, Inc. stockholders' equity</b>   | <b>970,083</b>            | <b>717,909</b>               |
| Non-controlling interests   | 38,317                    | 38,841                       |
| <b>Total equity</b>   | <b>1,008,400</b>          | <b>756,750</b>               |
| <b>Total liabilities and equity</b>   | <b>\$ 2,894,387</b>       | <b>\$ 2,212,780</b>          |

*See accompanying notes to consolidated financial statements.*

## Blackstone Mortgage Trust, Inc.

## Consolidated Statements of Operations (Unaudited)

(in thousands, except share and per share data)

|  | Three Months Ended March 31, |            |
|--|------------------------------|------------|
|  | 2014                         | 2013       |
| <b>Income from loans and other investments</b>                           |                              |            |
| Interest and related income  | \$ 33,656                    | \$ 1,456   |
| Less: Interest and related expenses                                      | 12,074                       | 777        |
| <b>Income from loans and other investments, net</b>                      | 21,582                       | 679        |
| <b>Other expenses</b>  |                              |            |
| Management fees  | 3,397                        | 63         |
| General and administrative expenses                                      | 3,199                        | 1,975      |
| <b>Total other expenses</b>  | 6,596                        | 2,038      |
| Valuation allowance on loans held-for-sale                               |                              | (200)      |
| Loss on investments at fair value  | (1,339)                      |            |
| <b>Income (loss) before income taxes</b>                                 | 13,647                       | (1,559)    |
| <b>Income tax provision</b>  | 531                          | 38         |
| <b>Net income (loss)</b>   | 13,116                       | (1,597)    |
| <b>Net income attributable to non-controlling interests</b>              | (51)                         | (1,518)    |
| <b>Net income (loss) attributable to Blackstone Mortgage Trust, Inc.</b> | \$ 13,065                    | \$ (3,115) |
| <b>Net income (loss) per share of common stock</b>                       |                              |            |
| Basic  | \$ 0.34                      | \$ (1.03)  |
| Diluted  | \$ 0.34                      | \$ (1.03)  |
| <b>Weighted-average shares of common stock outstanding</b>               |                              |            |
| Basic  | 37,967,365                   | 3,016,425  |
| Diluted  | 37,967,365                   | 3,016,425  |
| <b>Dividends declared per share of common stock</b>                      | \$ 0.48                      | \$         |

See accompanying notes to consolidated financial statements.

**Blackstone Mortgage Trust, Inc.**

**Consolidated Statements of Comprehensive Income (Loss) (Unaudited)**

**(in thousands)**

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2014</b>                         | <b>2013</b> |
| Net income (loss)   | \$ 13,116                           | \$ (1,597)  |
| Other comprehensive income:   |                                     |             |
| Unrealized gain on foreign currency remeasurement                           | 36                                  |             |
| Other comprehensive income  | 36                                  |             |
| Comprehensive income (loss)   | 13,152                              | (1,597)     |
| Comprehensive income attributable to non-controlling interests              | (51)                                | (1,518)     |
| Comprehensive income (loss) attributable to Blackstone Mortgage Trust, Inc. | \$ 13,101                           | \$ (3,115)  |

*See accompanying notes to consolidated financial statements.*

**Blackstone Mortgage Trust, Inc.**

**Consolidated Statements of Changes in Equity (Unaudited)**

(in thousands)

|  | Blackstone Mortgage Trust, Inc. |                                       |                                  |                                  |                        |            |                              |              |
|--|---------------------------------|---------------------------------------|----------------------------------|----------------------------------|------------------------|------------|------------------------------|--------------|
|  | Accumulated                     |                                       |                                  |                                  |                        |            |                              |              |
|  | Class<br>A<br>Common<br>Stock   | Restricted<br>Class A<br>Common Stock | Additional<br>Paid-In<br>Capital | Other<br>Comprehensive<br>Income | Accumulated<br>Deficit | Total      | Non-controlling<br>Interests | Total        |
| <b>Balance at December 31, 2012</b>        | \$ 293                          | \$                                    | \$ 609,002                       | \$                               | \$ (535,851)           | \$ 73,444  | \$ 80,009                    | \$ 153,453   |
| Deferred directors' compensation           |                                 |                                       | 38                               |                                  |                        | 38         |                              | 38           |
| Net (loss) income                          |                                 |                                       |                                  |                                  | (3,115)                | (3,115)    | 1,518                        | (1,597)      |
| Consolidation of subsidiaries              |                                 |                                       |                                  |                                  | 5,728                  | 5,728      | 6,235                        | 11,963       |
| Distributions to non-controlling interests |                                 |                                       |                                  |                                  |                        |            | (1,412)                      | (1,412)      |
| <b>Balance at March 31, 2013</b>           | \$ 293                          | \$                                    | \$ 609,040                       | \$                               | \$ (533,238)           | \$ 76,095  | \$ 86,350                    | \$ 162,445   |
| <b>Balance at December 31, 2013</b>        | \$ 288                          | \$ 7                                  | \$ 1,252,986                     | \$ 798                           | \$ (536,170)           | \$ 717,909 | \$ 38,841                    | \$ 756,750   |
| Shares of class A common stock issued      | 99                              |                                       | 255,994                          |                                  |                        | 256,093    |                              | 256,093      |
| Restricted class A common stock earned     |                                 | (1)                                   | 1,741                            |                                  |                        | 1,740      |                              | 1,740        |
| Deferred directors' compensation           |                                 |                                       | 139                              |                                  |                        | 139        |                              | 139          |
| Other comprehensive income                 |                                 |                                       |                                  | 36                               |                        | 36         |                              | 36           |
| Net income                                 |                                 |                                       |                                  |                                  | 13,065                 | 13,065     | 51                           | 13,116       |
| Dividends declared on common stock         |                                 |                                       |                                  |                                  | (18,899)               | (18,899)   |                              | (18,899)     |
| Distributions to non-controlling interests |                                 |                                       |                                  |                                  |                        |            | (575)                        | (575)        |
| <b>Balance at March 31, 2014</b>           | \$ 387                          | \$ 6                                  | \$ 1,510,860                     | \$ 834                           | \$ (542,004)           | \$ 970,083 | \$ 38,317                    | \$ 1,008,400 |

*See accompanying notes to consolidated financial statements.*

**Blackstone Mortgage Trust, Inc.**
**Consolidated Statements of Cash Flows (Unaudited)**

(in thousands)

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2014</b>                         | <b>2013</b> |
| <b>Cash flows from operating activities</b>   |                                     |             |
| Net income (loss)   | \$ 13,116                           | \$ (1,597)  |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities |                                     |             |
| Valuation allowance on loans held-for-sale  |                                     | 200         |
| Loss on investments at fair value   | 1,339                               |             |
| Non-cash compensation expense   | 1,970                               | 1,001       |
| Amortization of deferred interest on loans  | (3,470)                             |             |
| Amortization of deferred financing costs and premiums/discount on debt obligations      | 1,625                               | 174         |
| Changes in assets and liabilities, net  |                                     |             |
| Accrued interest receivable, prepaid expenses, and other assets                         | (2,052)                             | 1,244       |
| Accounts payable, accrued expenses, and other liabilities                               | 2,510                               | (266)       |
| Net cash provided by operating activities   | 15,038                              | 756         |
| <b>Cash flows from investing activities</b>   |                                     |             |
| Principal collections and proceeds from securities                                      | 100                                 |             |
| Originations and fundings of loans receivable   | (740,236)                           |             |
| Origination and exit fees received on loans receivable                                  | 7,121                               |             |
| Principal collections and proceeds from the sale of loans receivable and other assets   | 76,462                              | 1,135       |
| (Increase) decrease in restricted cash  | (581)                               | 1,527       |
| Net cash (used in) provided by investing activities                                     | (657,134)                           | 2,662       |
| <b>Cash flows from financing activities</b>   |                                     |             |
| Borrowings under repurchase obligations   | 737,212                             |             |
| Repayments under repurchase obligations   | (315,862)                           |             |
| Repayment of securitized debt obligations   | (787)                               | (2,239)     |
| Payment of deferred financing costs   | (2,217)                             |             |
| Purchase of and distributions to non-controlling interests                              | (575)                               | (1,241)     |
| Proceeds from issuance of common stock  | 256,093                             |             |
| Dividends paid on class A common stock  | (13,276)                            |             |
| Net cash provided by (used in) financing activities                                     | 660,588                             | (3,480)     |
| <b>Net increase (decrease) in cash and cash equivalents</b>                             | <b>18,492</b>                       | <b>(62)</b> |
| Cash and cash equivalents at beginning of period  | 52,342                              | 15,423      |
| Cash and cash equivalents at end of period  | \$ 70,834                           | \$ 15,361   |
| <b>Supplemental disclosure of cash flows information</b>                                |                                     |             |
| Payments of interest  | \$ (7,629)                          | \$ (377)    |
| Payments of income taxes  | \$ (1,160)                          | \$ (38)     |
| <b>Supplemental disclosure of non-cash investing and financing activities</b>           |                                     |             |
| Dividends declared, not paid  | \$ (18,899)                         | \$          |



|                               |    |             |
|-------------------------------|----|-------------|
| Consolidation of subsidiaries | \$ | \$ (38,913) |
|-------------------------------|----|-------------|

*See accompanying notes to consolidated financial statements.*

---

**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**1. ORGANIZATION**

References herein to Blackstone Mortgage Trust, Company, we, us or our refer to Blackstone Mortgage Trust, Inc. and its subsidiaries unless context specifically requires otherwise.

Blackstone Mortgage Trust is a real estate finance company that primarily originates and purchases senior mortgage loans collateralized by properties in the United States and Europe. We are externally managed by BXMT Advisors L.L.C., or our Manager, a subsidiary of The Blackstone Group L.P., or Blackstone, and are a real estate investment trust, or REIT, traded on the New York Stock Exchange, or NYSE, under the symbol BXMT. We are headquartered in New York City.

We conduct our operations as a REIT for U.S. federal income tax purposes. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute all of our net taxable income to stockholders and maintain our qualification as a REIT. We also operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the Investment Company Act. We are organized as a holding company and conduct our business primarily through our various subsidiaries. Our business is organized into two operating segments: the Loan Origination segment and the CT Legacy Portfolio segment.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated financial statements, including the notes, are unaudited and exclude some of the disclosures required in audited financial statements. Management believes it has made all necessary adjustments, consisting of only normal recurring items, so that the consolidated financial statements are presented fairly and that estimates made in preparing its consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and the related management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the Securities and Exchange Commission

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, and include, on a consolidated basis, our accounts, the accounts of our wholly owned subsidiaries, majority owned subsidiaries, and variable interest entities, or VIEs, of which we are the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation. Certain of the assets and credit of our consolidated subsidiaries are not available to satisfy the debt or other obligations of us, our affiliates, or other entities.

Our subsidiary, CT Legacy Partners, LLC, or CT Legacy Partners, accounts for its operations in accordance with industry-specific GAAP accounting guidance for investment companies, pursuant to which it reports its investments at fair value. We have retained this accounting treatment in consolidation and, accordingly, report the loans and other investments of CT Legacy Partners at fair value on our consolidated balance sheets.

Certain reclassifications have been made in the presentation of the prior-period consolidated financial statements to conform to the current presentation including reclassifying loans receivable, at fair value, into accrued interest receivable, prepaid expenses, and other assets.

**Principles of Consolidation**

We consolidate all entities that we control through either majority ownership or voting rights. In addition, we consolidate all VIEs in which we are considered the primary beneficiary. VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary and is generally the entity with (i) the power to direct the activities that most significantly affect the VIE's economic performance and (ii) the right to receive benefits from the VIE or the

## Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

obligation to absorb losses of the VIE that could be significant to the VIE.

Certain assets of consolidated VIEs can only be used to satisfy the obligations of those VIEs, and the liabilities of consolidated VIEs are non-recourse to us. The assets and liabilities attributable to consolidated VIEs, and included in our consolidated balance sheet as of March 31, 2014, were \$47.0 million of loans receivable, \$2.0 million of accrued interest receivable, and other assets, and \$39.4 million of securitized debt obligations. As of December 31, 2013, our consolidated balance sheet included \$47.0 million of loans receivable, \$2.8 million of accrued interest receivable, and other assets, and \$40.2 million of securitized debt obligations, all of which were attributable to consolidated VIEs. As of both March 31, 2014 and December 31, 2013, all assets and liabilities of consolidated VIEs were part of our CT Legacy Portfolio segment.

**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

**Use of Estimates**

The preparation of financial statements in conformity with 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may ultimately differ from those estimates.

**Revenue Recognition**

Interest income from our loans receivable is recognized over the life of each investment using the effective interest method and is recorded on the accrual basis. Fees, premiums, discounts, and direct costs associated with these investments are deferred until the loan is advanced and are then recognized over the term of the loan as an adjustment to yield. Income accrual is generally suspended for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of our Manager, recovery of income and principal becomes doubtful. Income is then recorded on the basis of cash received until accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed.

**Cash and Cash Equivalents**

Cash and cash equivalents represent cash on hand, cash held in banks, and liquid investments with original maturities of three months or less. We may have bank balances in excess of federally insured amounts; however, we deposit our cash and cash equivalents with high credit quality institutions to minimize credit risk exposure. We have not experienced, and do not expect, any losses on our demand deposits, commercial paper, or money market investments.

**Restricted Cash**

We classify the cash balances held by CT Legacy Partners as restricted because, while these cash balances are available for use by CT Legacy Partners for its operations, they cannot be used by us until our allocable share is distributed from CT Legacy Partners and cannot be commingled with any of our unrestricted cash balances.

**Loans Receivable and Provision for Loan Losses**

We purchase and originate commercial real estate debt and related instruments generally to be held as long-term investments at amortized cost. We are required to periodically evaluate each of these loans for possible impairment. Impairment is indicated 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 determined to be impaired, we write down the loan through a charge to the provision for loan losses. Impairment of these loans, which are collateral dependent, is measured by comparing the estimated fair value of the underlying collateral to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders, and other factors deemed necessary by our Manager. Actual losses, if any, could ultimately differ from these estimates.

Our Manager performs a quarterly review of our portfolio of loans. In conjunction with this review, our Manager assesses the performance of each loan, and assigns a risk rating based on several factors, including risk of loss, loan-to-value ratio, or LTV, collateral performance, structure, exit plan, and sponsorship.

Loans are rated 1 through 8, from less risk to greater risk, which ratings are defined as follows:

## Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

**Low Risk:** A loan that is expected to perform through maturity, with relatively lower LTV, higher in- place debt yield, and stable projected cash flow.

- 2 - **Average Risk:** A loan that is expected to perform through maturity, with medium LTV, average in-place debt yield, and stable projected cash flow.
- 3 - **Acceptable Risk:** A loan that is expected to perform through maturity, with relatively higher LTV, acceptable in-place debt yield, and some uncertainty (due to lease rollover or other factors) in projected cash flow.
- 4 - **Higher Risk:** A loan that is expected to perform through maturity, but has exhibited a material deterioration in cash flow and/or other credit factors. If negative trends continue, default could occur.

---

**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

- 5 - Low Probability of Default/Loss:** A loan with one or more identified weaknesses that we expect to have a 15% probability of default or principal loss.
- 6 - Medium Probability of Default/Loss:** A loan with one or more identified weaknesses that we expect to have a 33% probability of default or principal loss.
- 7 - High Probability of Default/Loss:** A loan with one or more identified weaknesses that we expect to have a 67% or higher probability of default or principal loss.
- 8 - In Default:** A loan which is in contractual default and/or that has a very high likelihood of principal loss.

**Loans Held-for-Sale and Related Allowance**

In certain cases, we may classify loans as held-for-sale based upon the specific facts and circumstances of particular loans, including known or expected transactions. Loans held-for-sale are carried at the lower of their amortized cost basis or fair value, less cost to sell. A reduction in the fair value of loans held-for-sale is recorded as a charge to our consolidated statements of operations as a valuation allowance on loans held-for-sale.

**Participations Sold**

Participations sold represent interests in certain loans that we originated or acquired and subsequently sold. In certain instances, we present these participations sold as both assets and non-recourse liabilities because these arrangements do not qualify as sales under GAAP. Generally, participations sold are recorded as assets and liabilities in equal amounts on our consolidated balance sheets, and an equivalent amount of interest income and interest expense is recorded on our consolidated statements of operations.

**Equity Investments in Unconsolidated Subsidiaries**

Our carried interest in CT Opportunity Partners I, LP, or CTOPI, is accounted for using the equity method. CTOPI's assets and liabilities are not consolidated into our financial statements due to our determination that (i) it is not a VIE and (ii) the other investors in CTOPI have sufficient rights to preclude consolidation by us. As such, we report our allocable percentage of the net assets of CTOPI on our consolidated balance sheets. We have deferred the recognition of income from CTOPI until cash is collected or appropriate contingencies have been eliminated and, therefore, do not recognize any income from equity investments in unconsolidated subsidiaries.

**Deferred Financing Costs**

The deferred financing costs that are included in accrued interest receivable, prepaid expenses, and other assets on our consolidated balance sheets include issuance and other costs related to our debt obligations. These costs are amortized as interest expense using the effective interest method over the life of the related obligations.

**Repurchase Obligations**

We record investments financed with repurchase obligations as separate assets and the related borrowings under any repurchase agreements are recorded as separate liabilities on our consolidated balance sheets. Interest income earned on the investments and interest expense incurred on the repurchase obligations are reported separately on our consolidated statements of operations.

**Convertible Notes**

The Debt with Conversion and Other Options Topic of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or Codification, requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. The initial proceeds from the sale of convertible notes are allocated between a liability component and an equity component in a manner

## Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

that reflects interest expense at the rate of similar nonconvertible debt that could have been issued at such time. The equity component represents the excess initial proceeds received over the fair value of the liability component of the notes as of the date of issuance. We measured the fair value of the debt component of our convertible notes as of the issuance date based on our nonconvertible debt borrowing rate. The equity component of the convertible notes is reflected within additional paid-in capital on our consolidated balance sheet, and the resulting debt discount is amortized over the period during which the convertible notes are expected to be outstanding (the maturity date) as additional non-cash interest expense. The additional non-cash interest expense attributable to the convertible notes will increase in subsequent periods through the maturity date as the notes accrete to their par value over the same period.

---

**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

**Fair Value of Financial Instruments**

The Fair Value Measurements and Disclosures Topic of the Codification defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements under GAAP. Specifically, this guidance defines fair value based on exit price, or the price that would be received upon the sale of an asset or the transfer of a liability in an orderly transaction between market participants at the measurement date.

The Fair Value Measurement and Disclosures Topic of the Codification also establishes a fair value hierarchy that prioritizes and ranks the level of market price observability used in measuring financial instruments. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument, and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination, as follows:

Level 1 Generally includes only unadjusted quoted prices that are available in active markets for identical financial instruments as of the reporting date.

Level 2 Pricing inputs include quoted prices in active markets for similar instruments, quoted prices in less active or inactive markets for identical or similar instruments where multiple price quotes can be obtained, and other observable inputs, such as interest rates, yield curves, credit risks, and default rates.

Level 3 Pricing inputs are unobservable for the financial instruments and include situations where there is little, if any, market activity for the financial instrument. These inputs require significant judgment or estimation by management of third parties when determining fair value and generally represent anything that does not meet the criteria of Levels 1 and 2.

The value of each asset recorded at fair value using Level 3 inputs is determined by an internal committee composed of members of senior management of our Manager, including our Chief Executive Officer, Chief Financial Officer, and other senior officers.

Certain of our other assets are measured at fair value either (i) on a recurring basis, as of each quarter-end, or (ii) on a nonrecurring basis, as a result of impairment or other events. Our assets that are measured at fair value are discussed further in Note 12. We generally valued our assets at fair value by either (i) discounting expected cash flows based on assumptions regarding the collection of principal and interest and estimated market rates, or (ii) obtaining assessments from third-party dealers. For collateral dependent loans that are identified as impaired, we measured impairment by comparing our Manager's estimation of fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These valuations may require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders, and other factors deemed necessary by our Manager.

We are also required by GAAP to disclose fair value information about financial instruments, which is otherwise not reported in the statement of financial position at fair value, to the extent it is practicable to estimate a fair value for those instruments. These disclosure requirements exclude certain financial instruments and all non-financial instruments.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments, excluding those described above that are carried at fair value, for which it is practicable to estimate that value:



Cash and cash equivalents    The carrying amount of cash on deposit and in money market funds approximates fair value.

Restricted cash    The carrying amount of restricted cash approximates fair value.

**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

**Loans receivable, net** These assets are recorded at their amortized cost and not at fair value. The fair values for these loans are estimated by our Manager taking into consideration factors, including capitalization rates, leasing, occupancy rates, availability and cost of financing, exit plan, sponsorship, actions of other lenders, and indications of market value from other market participants. In the case of impaired loans receivable, fair value is determined by reference to the lower of amortized cost and the value of the underlying real estate collateral.

**Repurchase obligations** These facilities are recorded at their aggregate principal balance and not at fair value. The fair value was estimated based on the rate at which a similar credit facility would be priced today.

**Convertible notes, net** These notes are recorded at their amortized cost and not at fair value. These convertible notes are publicly traded and their fair values are obtained using quoted market prices.

**Securitized debt obligations** These obligations are recorded at the face value of outstanding obligations to third parties and not at fair value. The fair values for these instruments have been estimated by obtaining assessments from third-party dealers.

**Participations sold** These obligations are recorded at their face value and not at fair value. The fair value was estimated based on the value of the related loan receivable asset.

**Income Taxes**

Our financial results generally do not reflect provisions for current or deferred income taxes on our REIT taxable income. We believe that we operate in a manner that will continue to allow us to be taxed as a REIT and, as a result, we generally do not expect to pay substantial corporate level taxes other than those payable by our taxable REIT subsidiaries. If we were to fail to meet these requirements, we may be subject to federal, state, and local income tax on current and past income, and penalties. Refer to Note 10 for additional information.

**Accounting for Stock-Based Compensation**

Our stock-based compensation consists of awards issued to our Manager and certain of its employees that vest over the life of the awards. Stock-based compensation expense is recognized for these awards in net income on a variable basis over the applicable vesting period of the awards, based on the value of our class A common stock. Refer to Note 11 for additional information.

**Earnings per Share**

Basic earnings per share, or Basic EPS, is computed in accordance with the two-class method and is based on the net earnings allocable to our class A common stock, restricted class A common stock, and deferred stock units, divided by the weighted-average number of shares of class A common stock, restricted class A common stock, and stock units outstanding during the period. Our restricted class A common stock is considered a participating security, as defined by GAAP, and has been included in our Basic EPS under the two-class method as these restricted shares have the same rights as our other shares of class A common stock, including participating in any gains or losses.

Diluted earnings per share, or Diluted EPS, is determined using the treasury stock method, and is based on the net earnings allocable to our class A common stock, restricted class A common stock, and deferred stock units, divided by the weighted-average number of shares of class A common stock, restricted class A common stock, and deferred stock units. Refer to Note 8 for additional discussion of earnings per share.

**Foreign Currency**

## Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

In the normal course of business, we may enter into transactions not denominated in United States, or U.S., dollars. Foreign exchange gains and losses arising on such transactions are recorded as a gain or loss in our consolidated statements of operations. In addition, we consolidate entities that have a non-U.S. dollar functional currency. Non-U.S. dollar denominated assets and liabilities are translated to U.S. dollars at the exchange rate prevailing at the reporting date and income, expenses, gains, and losses are translated at the prevailing exchange rate on the dates that they were recorded. Cumulative translation adjustments arising from the translation of non-U.S. dollar denominated operations are recorded in other comprehensive income.

### **Segment Reporting**

We operate our real estate finance business through a Loan Origination segment and a CT Legacy Portfolio segment. The Loan Origination segment includes our activities associated with the origination and acquisition of

**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

mortgage loans, the capitalization of our loan portfolio, and the costs associated with operating our business generally. The CT Legacy Portfolio segment includes our activities specifically related to CT Legacy Partners, CT CDO I, and our equity investment in CTOPI. Our Manager identifies, makes operating decisions, and assesses the performance of each of our business segments based on financial and operating data and metrics generated from our internal information systems.

**Recent Accounting Pronouncements**

In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities, or ASU 2013-01. ASU 2013-01 was developed to clarify which instruments and transactions are subject to the offsetting disclosure requirements set forth by ASU 2011-11 Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU 2013-01 was effective for the first interim or annual period beginning on or after January 1, 2013, and was applied retrospectively for all comparative periods presented. The adoption of ASU 2013-01 did not have a material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, or ASU 2013-02. ASU 2013-02 implements the previously deferred requirement to disclose reclassification adjustments into and out of accumulated other comprehensive income in either a note or on the face of the financial statements. ASU 2013-02 was effective for the first interim or annual period beginning after December 15, 2012, and was applied prospectively. As we have not reclassified any balances into or out of accumulated other comprehensive income, the adoption of ASU 2013-02 did not have a material impact on our consolidated financial statements.

In June 2013, the FASB issued ASU 2013-08, Financial Services-Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements, or ASU 2013-08. ASU 2013-08 amends the criteria for qualification as an investment company under Topic 946 of the FASB Accounting Standards Codification, or Topic 946, and requires additional disclosure by investment companies. ASU 2013-08 is effective for the first interim or annual period beginning after December 15, 2013, and is to be applied prospectively. We currently consolidate CT Legacy Partners, which accounts for its operations as an investment company under Topic 946. The adoption of ASU 2013-08 did not impact CT Legacy Partners' status as an investment company. Further, because ASU 2013-08 specifically excluded REITs from its scope, it did not otherwise impact our consolidated financial statements.

**3. CASH AND CASH EQUIVALENTS, INCLUDING RESTRICTED CASH**

As discussed in Note 2, we deposit our cash and cash equivalents, including restricted cash, with high credit-quality institutions to minimize credit risk exposure. The following table provides details of our cash and cash equivalents, including restricted cash balances (\$ in thousands):

| Asset Category            | Depository      | Credit Rating <sup>(1)</sup> | March 31, 2014 | December 31, 2013 |
|---------------------------|-----------------|------------------------------|----------------|-------------------|
| Cash and cash equivalents | Bank of America | A-1                          | \$ 70,834      | \$ 52,342         |
| Restricted cash           | Bank of America | A-1                          | 10,677         | 10,096            |
|                           |                 |                              | \$ 81,511      | \$ 62,438         |

(1) Represents the short-term credit rating for the Bank of America, N.A. legal entity as issued by Standard & Poor's as of March 26, 2014.

**4. LOANS RECEIVABLE**

As of March 31, 2014, our consolidated balance sheet included \$2.7 billion of loans receivable related to our Loan Origination segment and \$47.0 million of loans receivable owned by CT CDO I, a consolidated securitization vehicle included in our CT Legacy Portfolio segment. Refer to Note 14 for further discussion of our operating segments.



**Blackstone Mortgage Trust, Inc.**
**Notes to Consolidated Financial Statements (continued)**
**(Unaudited)**

Activity relating to our loans receivable was (\$ in thousands):

|   | <b>Principal<br/>Balance</b> | <b>Deferred Fees and<br/>Other Items<sup>(1)</sup></b> | <b>Net Book<br/>Value</b> |
|---|------------------------------|--|---------------------------|
| December 31, 2013                               | \$ 2,076,411                 | \$ (29,188)  | \$ 2,047,223              |
| Loan fundings                                   | 740,236                      |  | 740,236                   |
| Loan repayments and sales                       | (72,850)                     |  | (72,850)                  |
| Deferred origination fees and expenses          |                              | (7,121)  | (7,121)                   |
| Amortization of deferred fees and expenses      |                              | 3,470  | 3,470                     |
| Unrealized loss on foreign currency translation |                              | (799)  | (799)                     |
| March 31, 2014                                  | \$ 2,743,797                 | \$ (33,638)  | \$ 2,710,159              |

- (1) Includes a loan loss reserve of \$10.5 million as of both March 31, 2014 and December 31, 2013, related to one loan owned by CT CDO I with a principal balance of \$10.5 million.

As of March 31, 2014, we had unfunded commitments of \$316.4 million related to 23 loans receivable, which amounts would primarily be funded to finance property improvements or lease-related expenditures by the borrowers. These future commitments will expire over the next five years.

The following table details overall statistics for our loans receivable portfolio (\$ in thousands):

|   | <b>March 31, 2014</b> | <b>December 31, 2013</b> |
|---|-----------------------|--------------------------|
| Number of loans   | 41                    | 31                       |
| Principal balance   | \$ 2,743,797          | \$ 2,076,411             |
| Net book value  | \$ 2,710,159          | \$ 2,047,223             |
| Weighted-average cash coupon <sup>(1)(2)</sup>              | L+4.60%               | L+4.64%                  |
| Weighted-average all-in yield <sup>(1)(2)</sup>             | L+5.16%               | L+5.26%                  |
| Weighted-average maximum maturity (years) <sup>(2)(3)</sup> | 4.0                   | 4.1                      |

- (1) As of March 31, 2014, 95% of our loans are indexed to one-month LIBOR and 5% are indexed to three-month LIBOR. In addition, 26% of our loans have LIBOR floors, with an average floor of 0.35%, as of March 31, 2014.
- (2) Amounts exclude non-performing loans owned by CT CDO I.
- (3) Maximum maturity assumes all extension options are exercised, however our loans may be repaid prior to such date.

# Blackstone Mortgage Trust, Inc.

## Notes to Consolidated Financial Statements (continued)

(Unaudited)

The tables below detail the types of loans in our loan portfolio, as well as the property type and geographic distribution of the properties securing these loans (\$ in thousands):

| Asset Type                           | March 31, 2014 |            | December 31, 2013 |            |
|--------------------------------------|----------------|------------|-------------------|------------|
|                                      | Net Book Value | Percentage | Net Book Value    | Percentage |
| Senior mortgage loans <sup>(1)</sup> | \$ 2,461,832   | 91%        | \$ 1,800,329      | 88%        |
| Subordinate loans <sup>(2)</sup>     | 248,327        | 9          | 246,894           | 12         |
|                                      | \$ 2,710,159   | 100%       | \$ 2,047,223      | 100%       |

| Property Type | Net Book Value |            | Net Book Value |            |
|---------------|----------------|------------|----------------|------------|
|               | Value          | Percentage | Value          | Percentage |
| Office        | \$ 1,127,370   | 42%        | \$ 864,666     | 42%        |
| Multifamily   | 691,758        | 25         | 617,464        | 30         |
| Hotel         | 615,872        | 23         | 390,492        | 19         |
| Other         | 275,159        | 10         | 174,601        | 9          |
|               | \$ 2,710,159   | 100%       | \$ 2,047,223   | 100%       |

| Geographic Location | Net Book Value |            | Net Book Value |            |
|---------------------|----------------|------------|----------------|------------|
|                     | Value          | Percentage | Value          | Percentage |
| Northeast           | \$ 1,162,339   | 43%        | \$ 828,571     | 40%        |
| West                | 512,908        | 19         | 469,262        | 23         |
| Southwest           | 302,384        | 11         | 216,429        | 11         |
| Southeast           | 273,457        | 10         | 243,798        | 12         |
| Northwest           | 239,202        | 9          | 166,207        | 8          |
| Midwest             | 100,753        | 4          | 85,708         | 4          |
| United Kingdom      | 119,116        | 4          | 37,248         | 2          |
|                     | \$ 2,710,159   | 100%       | \$ 2,047,223   | 100%       |

(1) Includes senior mortgage loans, related contiguous subordinate loans with a net book value of \$53.7 million, and pari passu participations in mortgages.

(2) Includes subordinate interests in mortgages and mezzanine loans.

### Loan risk ratings

Quarterly, our Manager evaluates our loan portfolio as described in Note 2. In conjunction with our quarterly loan portfolio review, our Manager assesses the performance of each loan, and assigns a risk rating based on several factors, including risk of loss, current LTV, collateral performance, structure, exit plan, and sponsorship. Loans are rated 1 (less risk) through 8 (greater risk), which ratings are defined in Note 2.





**Blackstone Mortgage Trust, Inc.**
**Notes to Consolidated Financial Statements (continued)**
**(Unaudited)**

The following table allocates the principal balance and net book value of our loans receivable based on our internal risk ratings (\$ in thousands):

| Risk Rating | Number of Loans | March 31, 2014    |                | Number of Loans | December 31, 2013 |                |
|-------------|-----------------|-------------------|----------------|-----------------|-------------------|----------------|
|             |                 | Principal Balance | Net Book Value |                 | Principal Balance | Net Book Value |
| 1 - 3       | 39              | \$ 2,706,249      | \$ 2,683,159   | 29              | \$ 2,038,863      | \$ 2,020,223   |
| 4 - 5       |                 |                   |                |                 |                   |                |
| 6 - 8       | 2               | 37,548            | 27,000         | 2               | 37,548            | 27,000         |
|             | 41              | \$ 2,743,797      | \$ 2,710,159   | 31              | \$ 2,076,411      | \$ 2,047,223   |

In making this risk assessment, one of the primary factors we consider is how senior or junior each loan is relative to other debt obligations of the borrower.

The following tables further allocate our loans receivable by loan type and our internal risk ratings (\$ in thousands):

| Risk Rating | Number of Loans | March 31, 2014    |                | Number of Loans | December 31, 2013 |                |
|-------------|-----------------|-------------------|----------------|-----------------|-------------------|----------------|
|             |                 | Principal Balance | Net Book Value |                 | Principal Balance | Net Book Value |
| 1 - 3       | 36              | \$ 2,478,840      | \$ 2,461,832   | 26              | \$ 1,811,513      | \$ 1,800,329   |
| 4 - 5       |                 |                   |                |                 |                   |                |
| 6 - 8       |                 |                   |                |                 |                   |                |
|             | 36              | \$ 2,478,840      | \$ 2,461,832   | 26              | \$ 1,811,513      | \$ 1,800,329   |

(1) Includes senior mortgage loans, related contiguous subordinate loans with a net book value of \$53.7 million, and pari passu participations in mortgages.

| Risk Rating | Number of Loans | March 31, 2014    |                | Number of Loans | December 31, 2013 |                |
|-------------|-----------------|-------------------|----------------|-----------------|-------------------|----------------|
|             |                 | Principal Balance | Net Book Value |                 | Principal Balance | Net Book Value |
| 1 - 3       | 3               | \$ 227,409        | \$ 221,327     | 3               | \$ 227,350        | \$ 219,894     |
| 4 - 5       |                 |                   |                |                 |                   |                |
| 6 - 8       | 2               | 37,548            | 27,000         | 2               | 37,548            | 27,000         |
|             | 5               | \$ 264,957        | \$ 248,327     | 5               | \$ 264,898        | \$ 246,894     |

## Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

(1) Includes subordinate interests in mortgages and mezzanine loans.

### *Loan impairments*

We do not have any loan impairments in our Loan Origination segment. As of both March 31, 2014 and December 31, 2013, CT CDO I, which is a component of our CT Legacy Portfolio segment, had one impaired subordinate interest in a mortgage loan with a gross book value of \$10.5 million that is delinquent on its contractual payments. We have recorded a 100% loan loss reserve on this loan. As of both March 31, 2014 and December 31, 2013, CT CDO I had one loan with a net book value of \$27.0 million in maturity default, but which had no reserve recorded due to our expectation of future repayment.

### *Nonaccrual loans*

We do not have any nonaccrual loans in our Loan Origination segment. CT CDO I, which is a component of our CT Legacy Portfolio segment, had two subordinate interests in mortgage loans on nonaccrual status with an aggregate

**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

principal balance of \$37.5 million and a net book value of \$27.0 million as of March 31, 2014. As of December 31, 2013, CT CDO I had one subordinate interest in a mortgage loan on nonaccrual status with a principal balance of \$10.5 million and a net book value of zero. In accordance with our revenue recognition policies discussed in Note 2, we do not accrue interest on loans that are 90 days past due or, in the opinion of our Manager, are otherwise uncollectable. Accordingly, we did not have any material interest receivable accrued on nonperforming loans as of March 31, 2014 or December 31, 2013.

**5. EQUITY INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES**

As of March 31, 2014, our equity investments in unconsolidated subsidiaries consisted solely of our carried interest in CTOPI, a fund sponsored and managed by an affiliate of our Manager. Activity relating to our equity investments in unconsolidated subsidiaries was (\$ in thousands):

|  | <b>CTOPI<br/>Carried Interest</b> |
|--|-----------------------------------|
| Total as of December 31, 2013              | \$ 22,480                         |
| Incentive income allocation <sup>(1)</sup> | 914                               |
| Total as of March 31, 2014                 | \$ 23,394                         |

- (1) We have deferred the recognition of incentive income allocated to us from CTOPI in respect of our carried interest in CTOPI, and recorded an offsetting liability as a component of accounts payable, accrued expenses, and other liabilities on our consolidated balance sheets.

Our carried interest in CTOPI entitles us to earn incentive compensation in an amount equal to 17.7% of the fund's profits, after a 9% preferred return and 100% return of capital to the CTOPI partners. As of March 31, 2014, we had been allocated \$33.6 million of incentive compensation from CTOPI based on a hypothetical liquidation of the fund at its net asset value. Accordingly, we have recognized this allocation as an equity investment in CTOPI on our consolidated balance sheets; however, we have deferred the recognition of income until cash is collected or appropriate contingencies have been eliminated.

The CTOPI partnership agreement provides for advance distributions in respect of our incentive compensation to allow us to pay any income taxes owed on phantom taxable income allocated to us from the partnership. We refer to these distributions as CTOPI Tax Advances. We have received an aggregate of \$10.2 million of CTOPI Tax Advances, all of which were received in prior years and reduced our equity investment in CTOPI. As a result, our net investment in the CTOPI carried interest has a book value of negative \$10.2 million, the amount of cumulative CTOPI Tax Advances received as of March 31, 2014. In the event the performance of CTOPI does not ultimately result in a sufficient allocation of incentive compensation to us, we would be required to return these CTOPI Tax Advances to the fund. As of March 31, 2014, our maximum exposure to loss from CTOPI was \$10.2 million, the aggregate amount of CTOPI Tax Advances we have received from CTOPI.

*CTOPI Incentive Management Fee Grants*

In January 2011, we created a management compensation pool for employees equal to 45% of the CTOPI incentive management fee received by us. As of March 31, 2014, we had granted 96% of the pool, and the remainder was unallocated. If any awards remain unallocated at the time incentive management fees are received by us, any amounts otherwise payable to the unallocated awards will be distributed pro rata to the plan participants then employed by an affiliate of our Manager.

Approximately 65% of these grants have the following vesting schedule: (i) one-third on the date of grant; (ii) one-third on September 13, 2012; and (iii) the remainder is contingent on continued employment with an affiliate of our Manager and upon our receipt of incentive management fees from CTOPI. Of the remaining 35% of these grants, 31% are fully vested as a result of an acceleration event, and 4% vest solely upon our

receipt of incentive management fees from CTOPI or the disposition of certain investments owned by CTOPI.

## Blackstone Mortgage Trust, Inc.

## Notes to Consolidated Financial Statements (continued)

(Unaudited)

## 6. DEBT OBLIGATIONS

*Repurchase Facilities*

During the first quarter of 2014, we entered into two revolving repurchase facilities, providing an aggregate \$912.6 million of credit. As of March 31, 2014, we had aggregate borrowings of \$1.5 billion outstanding under our repurchase facilities, with a weighted-average cash coupon of LIBOR plus 2.09% per annum and a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.36% per annum. As of March 31, 2014, outstanding borrowings under these facilities had a weighted-average maturity, excluding extension options and term-out provisions, of 2.3 years.

The following table details our repurchase obligations outstanding (\$ in thousands):

| Lender                               | March 31, 2014                          |                                     |                                      |              |                           | Dec. 31,     |
|--------------------------------------|---|-------------------------------------|--------------------------------------|--------------|---------------------------|--------------|
|                                      | Maximum<br>Facility Size <sup>(1)</sup> | Collateral<br>Assets <sup>(2)</sup> | Repurchase Borrowings <sup>(3)</sup> |              |                           | 2013         |
| Potential                            |   |                                     | Outstanding                          | Available    | Borrowings<br>Outstanding |              |
| Revolving Repurchase Facilities      |   |                                     |                                      |              |                           |              |
| Bank of America                      | \$ 500,000                              | \$ 461,041                          | \$ 364,813                           | \$ 364,813   | \$                        | \$ 271,320   |
| Citibank                             | 500,000                                 | 654,924                             | 489,340                              | 307,175      | 182,165                   | 334,692      |
| JP Morgan <sup>(4)</sup>             | 574,130                                 | 567,368                             | 437,867                              | 429,978      | 7,889                     | 257,610      |
| Wells Fargo                          | 500,000                                 | 218,650                             | 170,200                              | 139,325      | 30,875                    |              |
| Morgan Stanley <sup>(5)</sup>        | 412,600                                 | 83,335                              | 66,016                               | 66,016       |                           |              |
| Subtotal                             | 2,486,730                               | 1,985,318                           | 1,528,236                            | 1,307,307    | 220,929                   | 863,622      |
| Asset-Specific Repurchase Agreements |   |                                     |                                      |              |                           |              |
| Wells Fargo <sup>(6)</sup>           | 253,479                                 | 303,857                             | 222,481                              | 222,481      |                           | 245,731      |
| Total                                | \$ 2,740,209                            | \$ 2,289,175                        | \$ 1,750,717                         | \$ 1,529,788 | \$ 220,929                | \$ 1,109,353 |

- (1) Maximum facility size represents the total amount of borrowings provided for in each repurchase agreement, however these borrowings are only available to us once sufficient collateral assets have been pledged under each facility.
- (2) Represents the principal balance of the collateral assets.
- (3) Potential borrowings represent the total amount we could draw under each facility based on collateral already approved and pledged. When undrawn, these amounts are immediately available to us at our sole discretion under the terms of each revolving credit facility.
- (4) The JP Morgan maximum facility size is composed of a \$250.0 million facility, a £153.0 million (\$252.5 million) facility, and \$71.6 million related solely to a specific asset with a repurchase date of June 27, 2014.
- (5) The Morgan Stanley maximum facility size represents a £250.0 million (\$412.6 million) facility.
- (6) Represents an aggregate of three asset-specific repurchase agreements with Wells Fargo.
- The weighted-average outstanding repurchase obligation balance for the three months ended March 31, 2014 was \$1.1 billion.

*Revolving Repurchase Facilities*

On March 13, 2014, we entered into a \$500.0 million master repurchase agreement with Wells Fargo. The repurchase agreement specifies a one-year availability period, during which new advances can be made and which availability period is renewable at the discretion of Wells Fargo. Maturity dates for individual advances are tied to their respective collateral loan maturity dates subject to annual renewal at our

## Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

discretion. Borrowings under the facility are subject to the initial approval of eligible collateral loans by the lender and the maximum advance rate and pricing rate of individual advances are determined with reference to the attributes of the respective collateral loan. The weighted-average pricing rate of the \$139.3 million of borrowings outstanding as of March 31, 2014 was LIBOR plus 2.07% and the weighted-average maximum advance rate was 77.8%. We guarantee 25% of the advances under this facility. Otherwise, obligations under this master repurchase agreement are not recourse to us.

On March 3, 2014, we entered into a £250.0 million, or \$412.6 million, master repurchase agreement with Morgan Stanley. Advances under this facility can be made at any time prior to its maturity date of March 3, 2017. Borrowings under the facility are subject to the initial approval of eligible collateral loans by the lender and the

---

**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

maximum advance rate and pricing rate of individual advances are determined with reference to the attributes of the respective collateral loan. The weighted-average pricing rate of the \$66.0 million of borrowings outstanding as of March 31, 2014 was three-month LIBOR plus 2.38% and the weighted-average maximum advance rate was 80.0%. We guarantee 25% of the advances under this facility. Otherwise, obligations under this master repurchase agreement are not recourse to us.

On June 28, 2013, we entered into a \$250.0 million master repurchase agreement with JP Morgan. The repurchase agreement specifies a one-year availability period, during which new advances can be made and which availability period is renewable at the discretion of JP Morgan. Maturity dates for individual advances are tied to their respective collateral loan maturity dates subject to annual renewal at our discretion. In the event that the availability period is not renewed, it is followed by a two-year stabilization period and then a term out period, during which all collateral interest and principal proceeds would be required to repay existing advances, subject to certain provisions for REIT income distribution requirements. Borrowings under the facility are subject to the initial approval of eligible collateral loans by the lender and the maximum advance rate and pricing rate of individual advances are determined with reference to the attributes of the respective collateral loan. On September 30, 2013, we entered into an agreement with JP Morgan to advance \$112.0 million under the facility related to a specific asset and to increase the maximum facility size by the amount of that advance, which matures in June 2014. As a result of collateral asset repayments, the maximum facility size of this incremental advance was reduced to \$71.6 million as of March 31, 2014.

On December 20, 2013, we entered into a second master repurchase agreement with JP Morgan which provides for an additional £153.0 million, or \$252.5 million, tranche of potential advances and is linked to the original agreement through cross-collateralization and cross-default provisions. Individual advances can be made at any time prior to the maturity date of December 20, 2016. Borrowings under the facility are subject to the initial approval of eligible collateral loans by the lender and the maximum advance rate and pricing rate of individual advances are determined with reference to the attributes of the respective collateral loan. The weighted-average pricing rate of the \$430.0 million of borrowings outstanding under these facilities as of March 31, 2014 was LIBOR plus 2.04% and the weighted average maximum advance rate was 77.1%. We guarantee 25% of the advances related to senior mortgage collateral and 100% of the advances related to mezzanine and junior mortgage collateral under these facilities. Otherwise, obligations under these master repurchase agreements are not recourse to us.

On June 12, 2013, we entered into a \$250.0 million master repurchase agreement with Citibank. The initial facility expiration date is June 12, 2016, which may be extended annually by us. If upon the initial facility expiration date, Citibank does not extend the facility availability period, in its sole discretion, then no new advances may be drawn and all collateral interest and principal proceeds would be required to repay existing advances, subject to certain provisions for REIT income distribution requirements. In either case, individual advances mature upon the maturity date of the respective collateral maturity dates. Borrowings under the facility are subject to the initial approval of eligible collateral loans by the lender and the maximum advance rate and pricing rate of individual advances are determined with reference to the attributes of the respective collateral loan. The weighted-average pricing rate of the \$307.2 million of borrowings outstanding as of March 31, 2014 was LIBOR plus 2.07% and the weighted-average maximum advance rate was 74.7%. We guarantee 25% of the advances under this facility. Otherwise, obligations under this master repurchase agreement are not recourse to us. On July 26, 2013, we amended our master repurchase agreement with Citibank to provide for a second \$250.0 million tranche of potential advances. The second tranche is subject to a one-year availability period, during which new financing transactions can be initiated. All other terms, including maturity dates, for the second tranche advances are the same as the original \$250.0 million tranche.

On May 21, 2013, we entered into a \$250.0 million master repurchase agreement with Bank of America. The initial maturity date of the facility is May 21, 2016, subject to two one-year extension options, each of which may be exercised by us. Borrowings under the facility are subject to the initial approval of eligible collateral loans by the lender and the maximum advance rate and pricing rate of individual advances are determined with reference to the attributes of the respective collateral loan. The weighted-average pricing rate of the \$364.8 million of borrowings outstanding as of March 31, 2014 was LIBOR plus 1.80% and the weighted-average maximum advance rate was 79.1%. We guarantee 50% of the advances related to senior collateral and 100% of the advances related to

---

**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

mezzanine and junior mortgage collateral under this facility. Otherwise, obligations under this repurchase agreement are not recourse to us. On September 23, 2013, we amended our master repurchase agreement with Bank of America to provide for an additional \$250.0 million of potential advances. All of the terms of the additional potential advances, including maturity dates, are the same as the original \$250.0 million.

Each of the guarantees related to our master repurchase agreements contain the following uniform financial covenants: (i) our ratio of earnings before interest, taxes, depreciation, and amortization, or EBITDA, to fixed charges shall be not less than 1.40 to 1.0; (ii) our tangible net worth, as defined in the agreements, shall not be less than \$717.1 million plus 75% of the net cash proceeds of future equity issuances; (iii) cash liquidity shall not be less than the greater of (x) \$10.0 million or (y) 5% of our recourse indebtedness; and (iv) our indebtedness shall not exceed 83.33% of our total assets. As of March 31, 2014, we were in compliance with these covenants.

*Asset-specific Repurchase Agreements*

On July 30, 2013, we entered into a \$59.8 million, asset-specific, repurchase agreement with Wells Fargo. Advances under the repurchase agreement accrue interest at a per annum pricing rate equal to LIBOR plus a margin of 2.25%. The initial maturity date of the facility is August 8, 2015, which may be extended pursuant to three one-year extension options, each of which may be exercised by us. We do not guarantee the obligations under this repurchase agreement other than in the case of customary bad-boy events.

On July 8, 2013, we entered into a \$32.0 million, asset-specific, repurchase agreement with Wells Fargo. Advances under the repurchase agreement accrue interest at a per annum pricing rate equal to LIBOR plus a margin of 4.00%. The maturity date of the facility is August 9, 2014, which may be extended pursuant to a six-month extension option, which may be exercised by us. We do not guarantee the obligations under this repurchase agreement other than in the case of customary bad-boy events.

On June 7, 2013, we entered into a \$250.0 million, asset-specific, repurchase agreement with Wells Fargo. Advances under the repurchase agreement accrue interest at a per annum pricing rate equal to LIBOR plus a margin of 2.50%. The initial maturity date of the facility is June 7, 2016, which may be extended pursuant to (i) two one-year extension options, each of which may be exercised by us, and (ii) an additional one-year extension option, contingent upon notice regarding the failure of the collateral mortgage loan to be repaid at its final maturity. We do not guarantee the obligations under this repurchase agreement other than in the case of customary bad-boy events.

*Convertible Notes, Net*

In November 2013, we issued \$172.5 million of 5.25% convertible senior notes due on December 1, 2018, or Convertible Notes. The Convertible Notes issuance costs are amortized through interest expense over the life of the Convertible Notes using the effective interest method. Including this amortization, our all-in cost of the Convertible Notes is 5.87% per annum.

The Convertible Notes are convertible, at the holders' option, into shares of our class A common stock at any time prior to the close of business on the business day immediately preceding September 1, 2018, subject to certain limitations, at the applicable conversion rate in effect on the conversion date. Thereafter, the Convertible Notes are convertible at the option of the holder at any time until the second scheduled trading day immediately preceding the maturity date. The conversion rate is initially set to equal 34.8943 shares of class A common stock per \$1,000 principal amount of Convertible Notes, which is equivalent to an initial conversion price of \$28.66 per share of class A common stock, subject to adjustment upon the occurrence of certain events. We may not redeem the Convertible Notes prior to maturity.

We recorded a \$9.1 million discount upon issuance of the Convertible Notes based on the implied value of the conversion option and an effective interest rate of 6.50%. Including the amortization of this discount and the issuance costs, our total cost of the Convertible Notes is 7.16% per annum. Refer to Note 2 for additional discussion of our accounting policies for the Convertible Notes.

*Securitized Debt Obligations*

Our consolidated securitization vehicle, CT CDO I, had outstanding securitized debt obligations of \$39.4 million and \$40.2 million as of March 31, 2014 and December 31, 2013, respectively. As of March 31, 2014, CT CDO I had a weighted-average coupon and all-in effective



cost of LIBOR plus 2.40% and a contractual maturity of July 2039.

**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

However, repayment of securitized debt is a function of collateral cash flows, which are disbursed in accordance with the contractual provisions of the vehicle, and is generally expected to occur prior to the maturity date.

CT CDO I is subject to interest coverage and overcollateralization tests which, when breached, provide for hyper-amortization of the senior notes by a redirection of cash flow that would otherwise have been paid to the subordinate classes, some of which are owned by us. Furthermore, CT CDO I provides for the reclassification of interest proceeds from impaired collateral as principal proceeds, which also serve to hyper-amortize the senior notes sold. As a result of collateral asset impairments and the related breaches of these interest coverage and overcollateralization tests, we currently do not receive any cash payments from CT CDO I.

**7. PARTICIPATIONS SOLD**

Participations sold represent interests in certain loans that we originated and subsequently sold. In certain instances, we present these participations sold as both assets and non-recourse liabilities because these arrangements do not qualify as sales under GAAP. As of March 31, 2014 and December 31, 2013, we had one such participation sold with a book balance of \$90.0 million at a cash coupon of LIBOR plus 5.12% and a weighted-average yield of LIBOR plus 5.26%. The income earned on this loan is recorded as interest income and an identical amount is recorded as interest expense on our consolidated statements of operations.

**8. EQUITY**

Total equity increased \$251.7 million during the three months ended March 31, 2014 to \$1.0 billion. This increase was primarily driven by the issuance of additional shares of our class A common stock in January 2014. See below for further discussion of the share issuance.

**Share and Share Equivalents**

*Authorized Capital*

We have the authority to issue up to 200,000,000 shares of stock, consisting of 100,000,000 shares of class A common stock and 100,000,000 shares of preferred stock. Subject to applicable NYSE listing requirements, our board of directors is authorized to cause us to issue additional shares of authorized stock without stockholder approval. In addition, to the extent not issued, currently authorized stock may be reclassified between class A common stock and preferred stock.

*Class A Common Stock and Deferred Stock Units*

Holders of shares of our class A common stock are entitled to vote on all matters submitted to a vote of stockholders, subject to the voting rights of any outstanding shares of preferred stock. Holders of record of shares of our class A common stock on the record date fixed by our board of directors are entitled to receive such dividends as may be authorized by our board of directors and declared by us, subject to the rights of the holders of any shares of outstanding preferred stock. On January 14, 2014, we issued 9,775,000 shares of class A common stock in a public offering at a price to the underwriters of \$26.25 per share. We generated net proceeds from the issuance of \$256.1 million after underwriting discounts and other offering expenses.

In addition to our class A common stock, we also issue deferred stock units to certain members of our board of directors in lieu of cash compensation for services rendered. These deferred stock units are non-voting, but carry the right to receive dividends in the form of additional deferred stock units in an amount equivalent to the cash dividends paid to holders of shares of class A common stock.

# Blackstone Mortgage Trust, Inc.

## Notes to Consolidated Financial Statements (continued)

(Unaudited)

The following table details the movement in our outstanding shares of class A common stock, restricted class A common stock, and deferred stock units:

| Common Stock Outstanding <sup>(1)</sup> | Three Months Ended March 31, |           |
|---|------------------------------|-----------|
|   | 2014                         | 2013      |
| Beginning balance                       | 29,602,884                   | 3,016,405 |
| Issuance of class A common stock        | 9,775,000                    |           |
| Issuance of deferred stock units        | 4,955                        | 1,612     |
| Ending balance                          | 39,382,839                   | 3,018,017 |

(1) Deferred stock units held by members of our board of directors totalled 106,188 and 91,366 as of March 31, 2014 and 2013, respectively.  
*Preferred Stock*

We do not have any shares of preferred stock issued and outstanding as of March 31, 2014.

## Dividends

We generally intend to distribute each year substantially all of our taxable income, which does not necessarily equal net income as calculated in accordance with GAAP, to our stockholders to comply with the REIT provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code.

Our dividend policy remains subject to revision at the discretion of our board of directors. All distributions will be made at the discretion of our board of directors and will depend upon our taxable income, our financial condition, our maintenance of REIT status, applicable law, and other factors as our board of directors deems relevant.

On March 14, 2014, we declared a dividend of \$0.48 per share, or \$18.9 million, which was paid on April 15, 2014 to stockholders of record as of March 31, 2014. No dividends were declared during the three months ended March 31, 2013.

## Dividend Reinvestment and Direct Stock Purchase Plan

On March 25, 2014, we adopted a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of this plan, our class A common stockholders can designate all or a portion of their cash dividends to be reinvested in additional shares of class A common stock. The direct stock purchase component allows stockholders and new investors, subject to our approval, to purchase shares of class A common stock directly from us.

## Earnings Per Share

We calculate our basic and diluted earnings per share using the two-class method for all periods presented as the unvested shares of our restricted class A common stock qualify as participating securities, as defined by GAAP. These restricted shares have the same rights as our other shares of class A common stock, including participating in any gains and losses, and therefore have been included in our basic and diluted net income per share calculation.

## Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

The following table sets forth the calculation of basic and diluted earnings per share based on the weighted-average of our shares of class A common stock, restricted class A common stock, and deferred stock units outstanding (\$ in thousands, except per share data):

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2014</b>                         | <b>2013</b> |
| Net income (loss)                                      | \$ 13,065                           | \$ (3,115)  |
| Weighted-average shares outstanding, basic and diluted | 37,967,365                          | 3,016,425   |
| Per share amount, basic and diluted                    | \$ 0.34                             | \$ (1.03)   |

Refer to Note 14 for the allocation of our results of operations to each of our operating segments.

## Blackstone Mortgage Trust, Inc.

## Notes to Consolidated Financial Statements (continued)

(Unaudited)

**Other Balance Sheet Items***Accumulated Other Comprehensive Income*

As of March 31, 2014, total accumulated other comprehensive income was \$834,000, representing the currency translation adjustment on assets and liabilities denominated in a foreign currency. Of the total accumulated other comprehensive income, \$36,000 represents the currency translation adjustment for the three months ended March 31, 2014. We did not have any accumulated other comprehensive income or loss as of, or for the three months ending, March 31, 2013.

*Non-controlling Interests*

The non-controlling interests included on our consolidated balance sheets represent the equity interests in CT Legacy Partners that are not owned by us. CT Legacy Partners' outstanding equity includes class A-1 common shares, class A-2 common shares, and subordinate class B common shares. A portion of CT Legacy Partners' consolidated equity and results of operations are allocated to these non-controlling interests based on their pro rata ownership of CT Legacy Partners.

The following table details the components of non-controlling interests in CT Legacy Partners (\$ in thousands):

|   | March 31, 2014 |
|---|----------------|
| Restricted cash   | \$ 10,677      |
| Accrued interest receivable, prepaid expenses, and other assets | 55,176         |
| Accounts payable, accrued expenses, and other liabilities       | (249)          |
| CT Legacy Partners equity                                       | \$ 65,604      |
| Equity interests owned by Blackstone Mortgage Trust, Inc.       | (27,287)       |
| Non-controlling interests in CT Legacy Partners                 | \$ 38,317      |

**9. OTHER EXPENSES**

Our other expenses consist of the management fees we pay to our Manager and our general and administrative expenses.

*Management Fees*

Pursuant to our management agreement, our Manager earns a base management fee in an amount equal to the greater of (i) \$250,000 per annum and (ii) 1.50% per annum multiplied by our outstanding Equity balance, as defined in the management agreement. In addition, our Manager is entitled to an incentive fee in an amount equal to the product of (i) 20% and (ii) the excess of (a) our Core Earnings (as defined in the management agreement) for the previous 12-month period (or the period since January 1, 2013, whichever is shorter) over (b) an amount equal to 7.00% per annum multiplied by our outstanding Equity, provided that our Core Earnings over the prior three-year period (or the period since the date of the first offering of our class A common stock following December 19, 2012, whichever is shorter) is greater than zero. Core Earnings is generally equal to our net income (loss) prepared in accordance with GAAP, excluding (i) certain non-cash items, including the amortization of the deemed discount on our convertible notes resulting from the conversion option value accounting under GAAP and (ii) the net income (loss) related to our legacy portfolio.

## Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

During the three months ended March 31, 2014, we incurred \$3.4 million of management fees payable to our Manager. We incurred \$63,000 of management fees payable to our Manager during the three months ended March 31, 2013. We did not incur any incentive fees payable to our Manager during the three months ended March 31, 2014 and 2013.

## Blackstone Mortgage Trust, Inc.

## Notes to Consolidated Financial Statements (continued)

(Unaudited)

*General and Administrative Expenses*

General and administrative expenses consisted of the following (\$ in thousands):

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2014                         | 2013     |
| Professional services  | \$ 525                       | \$ 421   |
| Operating and other costs  | 570                          | 398      |
|  | 1,095                        | 819      |
| <u>Non-cash compensation expenses</u>                                |                              |          |
| Management incentive awards plan - CT Legacy Partners <sup>(1)</sup> | 136                          | 963      |
| Director stock-based compensation                                    | 94                           | 38       |
| Restricted class A common stock earned                               | 1,740                        |          |
|  | 1,970                        | 1,001    |
| Expenses of consolidated securitization vehicles                     | 134                          | 155      |
|  | \$ 3,199                     | \$ 1,975 |

(1) Represents the accrual of amounts payable under the CT Legacy Partners management incentive awards during the period. See below for discussion of the CT Legacy Partners management incentive awards plan.

*CT Legacy Partners Management Incentive Awards Plan*

In conjunction with our March 2011 Restructuring, we created an employee pool for up to 6.75% of the distributions paid to the common equity holders of CT Legacy Partners (subject to certain caps and priority distributions). As of March 31, 2014, incentive awards for 94% of the pool have been granted, and the remainder was unallocated. If any awards remain unallocated at the time distributions are paid, any amounts otherwise payable to the unallocated awards will be distributed pro rata to the plan participants then employed by an affiliate of our Manager.

Approximately 53% of these grants have the following vesting schedule: (i) 25% on the date of grant; (ii) 25% in March 2013; (iii) 25% in March 2014; and (iv) the remainder is contingent on continued employment with an affiliate of our Manager and our receipt of distributions from CT Legacy Partners. Of the remaining 47% of these grants, 29% are fully vested as a result of an acceleration event, and 18% vest only upon our receipt of distributions from CT Legacy Partners.

We accrue a liability for the amounts due under these grants based on the value of CT Legacy Partners and the periodic vesting of the awards granted. Accrued payables for these awards were \$2.9 million and \$2.8 million as of March 31, 2014 and December 31, 2013, respectively.

**10. INCOME TAXES**

We elected to be taxed as a REIT, effective January 1, 2003, under the Internal Revenue Code for U.S. federal income tax purposes. We generally must distribute annually at least 90% of our net taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal income tax not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but

## Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

distribute less than 100% of our net taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws.

Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Internal Revenue Code, which relate to organizational structure, diversity of stock ownership, and certain restrictions with regard to the nature of our assets and the sources of our income. Even if we qualify as a REIT, we may be subject to certain U.S. federal income and excise taxes and state and local taxes on our income and assets. If we fail to maintain our qualification as a REIT for any taxable year, we may be subject to material penalties as well as federal, state, and local income tax on our taxable income at regular corporate rates and we would not be able to qualify as a REIT for the subsequent four full taxable years. As of March 31, 2014 and December 31, 2013, we were in compliance with all REIT requirements.



**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

During the three months ended March 31, 2014, we recorded a current income tax provision of \$531,000 comprised of (i) \$342,000 related to activities of our taxable REIT subsidiaries, (ii) a \$124,000 provision reflecting our estimated risk of loss related to an uncertain tax position taken during the period, and (iii) \$65,000 related to other items. During the three months ended March 31, 2013, we recorded a current income tax provision of \$38,000. We did not have any deferred tax assets or liabilities as of March 31, 2014 or December 31, 2013.

As a result of our issuance of 25,875,000 shares of class A common stock in May 2013, the availability of our net operating losses, or NOLs, and net capital losses, or NCLs, is generally limited to \$2.0 million per annum by change of control provisions promulgated by the Internal Revenue Service with respect to the ownership of Blackstone Mortgage Trust. As of December 31, 2013, we had NOLs of \$157.8 million and NCLs of \$42.6 million available to be carried forward and utilized in current or future periods. If we are unable to utilize our NOLs, they will expire in 2029. If we are unable to utilize our NCLs, \$10.6 million will expire in 2014, \$31.4 million will expire in 2015, and \$602,000 will expire in 2017.

As of March 31, 2014, tax years 2010 through 2013 remain subject to examination by taxing authorities.

**11. STOCK-BASED INCENTIVE PLANS**

We do not have any employees as we are externally managed by our Manager. However, as of March 31, 2014, our Manager, certain individuals employed by an affiliate of our Manager, and certain members of our board of directors are compensated, in part, through the issuance of stock-based instruments. In addition, certain of our former employees continue to participate in the CTOPI incentive management fee grants and the CT Legacy Partners management incentive awards plan.

We had stock-based incentive awards outstanding under five benefit plans as of March 31, 2014: (i) our amended and restated 1997 non-employee director stock plan, or 1997 Plan; (ii) our 2007 long-term incentive plan, or 2007 Plan; (iii) our 2011 long-term incentive plan, or 2011 Plan; (iv) our 2013 stock incentive plan, or 2013 Plan; and (v) our 2013 manager incentive plan, or 2013 Manager Plan. We refer to our 1997 Plan, our 2007 Plan, and our 2011 Plan collectively as our Expired Plans and we refer to our 2013 Plan and 2013 Manager Plan collectively as our Current Plans.

Our Expired Plans have expired and no new awards may be issued under them. Under our Current Plans, a maximum of 2,160,106 shares of our class A common stock may be issued to our Manager, our directors and officers, and certain employees of affiliates of our Manager. As of March 31, 2014, there were 1,445,282 shares available under the Current Plans.

During 2013, we issued 700,000 shares of restricted class A common stock under our Current Plans. These shares generally vest in quarterly installments over a three-year period, pursuant to the terms of the respective award agreements and the terms of the Current Plans. Of the 621,571 shares of restricted class A common stock outstanding as of March 31, 2014, 194,080 shares will vest in 2014, 233,284 shares will vest in 2015, and 194,207 will vest in 2016.

The following table details the movement in our outstanding shares of restricted class A common stock and the weighted-average grant date fair value per share:

|                                 | <b>Restricted Class A<br/>Common Stock</b> | <b>Weighted-Average<br/>Grant Date<br/>Fair<br/>Value Per<br/>Share</b> |
|---------------------------------|--|---|
| Balance as of December 31, 2013 | 700,000                                    | \$ 25.69  |
| Vested                          | (78,429)                                   | 24.98   |

Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

|                              |         |    |       |
|------------------------------|---------|----|-------|
| Balance as of March 31, 2014 | 621,571 | \$ | 25.78 |
|------------------------------|---------|----|-------|

## Blackstone Mortgage Trust, Inc.

## Notes to Consolidated Financial Statements (continued)

(Unaudited)

## 12. FAIR VALUES

## Assets Recorded at Fair Value

The following table summarizes our assets measured at fair value on a recurring basis (\$ in thousands):

|  | Level 1 | Level 2  | Level 3   | Fair Value <sup>(1)</sup> |
|--|---------|----------|-----------|---------------------------|
| <u>March 31, 2014</u>                      |         |          |           |                           |
| Other assets, at fair value <sup>(2)</sup> | \$      | \$ 1,836 | \$ 53,017 | \$ 54,853                 |
| <u>December 31, 2013</u>                   |         |          |           |                           |
| Other assets, at fair value <sup>(2)</sup> | \$      | \$ 1,944 | \$ 54,461 | \$ 56,405                 |

(1) CT CDO I had one impaired loan with a principal balance of \$10.5 million measured on a non-recurring basis that had a 100% loan loss reserve as of both March 31, 2014 and December 31, 2013.

(2) Other assets include loans, securities, equity investments, and other receivables carried at fair value.

The following table reconciles the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs (\$ in thousands):

|   | Other Assets,<br>at Fair<br>Value |
|---|-----------------------------------|
| December 31, 2013                                     | \$ 54,461                         |
| Proceeds from investments                             | (113)                             |
| <u>Adjustments to fair value included in earnings</u> |                                   |
| Loss on investments at fair value                     | (1,331)                           |
| March 31, 2014  | \$ 53,017                         |

Our other assets include loans, securities, equity investments, and other receivables that are carried at fair value. The following describes the key assumptions used in arriving at the fair value of each of these assets as of March 31, 2014 and December 31, 2013.

*Loans* - The following table lists the range of key assumptions for each type of loans receivable as of March 31, 2014 (\$ in millions):

| Collateral Type | Assumption Ranges for Significant<br>Unobservable Inputs (Level 3) <sup>(1)</sup> |                                       | Book<br>Value | Book Value<br>Sensitivity to a<br>100 bp Discount<br>Rate<br>Increase |
|-----------------|---|---------------------------------------|---------------|---|
|                 | Discount Rate   | Recovery<br>Percentage <sup>(2)</sup> |               |   |
| Hotel           | 7%  | 100%                                  | \$ 15.0       | (0.6%)  |
| Office          | 6% - 15%  | 100%                                  | 23.5          | (0.4%)  |
|                 |   |                                       | \$ 38.5       |   |

- (1) Excludes loans for which there is no expectation of future cash flows.
- (2) Represents the proportion of the principal expected to be collected relative to the loan balances as of March 31, 2014.

## Blackstone Mortgage Trust, Inc.

## Notes to Consolidated Financial Statements (continued)

(Unaudited)

The following table lists the range of key assumptions for each type of loans receivable as of December 31, 2013 (\$ in millions):

| Collateral Type | Assumption Ranges for Significant Unobservable Inputs (Level 3) <sup>(1)</sup> |                                    | Book Value | Book Value Sensitivity to a 100 bp Discount Rate Increase |
|-----------------|--|------------------------------------|------------|---|
|                 | Discount Rate  | Recovery Percentage <sup>(2)</sup> |            |   |
| Hotel           | 7%   | 100%                               | \$ 15.0    | (1.4%)  |
| Office          | 6% - 15%   | 100%                               | 25.7       | (0.3%)  |
|                 |  |                                    | \$ 40.7    |   |

(1) Excludes loans for which there is no expectation of future cash flows.

(2) Represents the proportion of the principal expected to be collected relative to the loan balances as of December 31, 2013.

*Securities* As of March 31, 2014, all securities were valued by obtaining assessments from third-party dealers.

*Equity investments and other receivables* Equity investments and other receivables are generally valued by discounting expected cash flows and assumptions regarding the collection of principal on the underlying loans and investments.

There were no liabilities recorded at fair value as of March 31, 2014 or December 31, 2013. Refer to Note 2 for further discussion regarding fair value measurement.

**Fair Value of Financial Instruments**

As discussed in Note 2, GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial position, for which it is practicable to estimate that value. The following table details the carrying amount, face amount, and fair value of the financial instruments described in Note 2 (\$ in thousands):

|                              | March 31, 2014  |             |            | December 31, 2013 |             |            |
|------------------------------|-----------------|-------------|------------|-------------------|-------------|------------|
|                              | Carrying Amount | Face Amount | Fair Value | Carrying Amount   | Face Amount | Fair Value |
| <b>Financial assets</b>      |                 |             |            |                   |             |            |
| Cash and cash equivalents    | \$ 70,834       | \$ 70,834   | \$ 70,834  | \$ 52,342         | \$ 52,342   | \$ 52,342  |
| Restricted cash              | 10,677          | 10,677      | 10,677     | 10,096            | 10,096      | 10,096     |
| Loans receivable, net        | 2,710,159       | 2,743,797   | 2,723,534  | 2,047,223         | 2,076,411   | 2,058,699  |
| <b>Financial liabilities</b> |                 |             |            |                   |             |            |
| Repurchase obligations       | 1,529,788       | 1,529,788   | 1,529,788  | 1,109,353         | 1,109,353   | 1,109,353  |
| Convertible notes, net       | 160,094         | 172,500     | 189,578    | 159,524           | 172,500     | 181,772    |
| Securitized debt obligations | 39,394          | 39,394      | 26,471     | 40,181            | 40,181      | 25,696     |
| Participations sold          | 90,000          | 90,000      | 90,303     | 90,000            | 90,000      | 90,304     |

Estimates of fair value for cash, cash equivalents and convertible notes are measured using observable, quoted market prices, or Level 1 inputs. All other fair value significant estimates are measured using unobservable inputs, or Level 3 inputs. See Note 2 for further discussion regarding fair value measurement of certain of our assets and liabilities.

**13. TRANSACTIONS WITH RELATED PARTIES**

As of March 31, 2014, our consolidated balance sheet included \$3.4 million of accrued management fees payable to our Manager. During the three months ended March 31, 2014, we paid \$2.5 million of management fees to our Manager and reimbursed our Manager for \$90,000 of expenses incurred on our behalf. In addition, as of March 31, 2014, our consolidated balance sheet included \$192,000 of preferred distributions payable by CT Legacy Partners to an affiliate of our Manager. During the three months ended March 31, 2014, CT Legacy Partners made aggregate preferred distributions of \$576,000 to such affiliate.

## Blackstone Mortgage Trust, Inc.

## Notes to Consolidated Financial Statements (continued)

(Unaudited)

On October 3, 2013, we issued 339,431 shares of restricted class A common stock with a grant date fair value of \$8.5 million to our Manager under the 2013 Manager Plan. The shares of restricted class A common stock vest ratably in quarterly installments over three years from the date of issuance. We recorded a non-cash expense related to these shares of \$859,000 during the three months ended March 31, 2014. Refer to Note 11 for further discussion of our restricted class A common stock.

During the three months ended March 31, 2014, CT CDO I, which is consolidated by us, paid \$132,000 of special servicing fees to an affiliate of our Manager.

There may be conflicts between us and our Manager with respect to certain of the investments in the CT Legacy Partners and CTOPI portfolios where an affiliate of our Manager holds a related investment that is senior, junior, or *pari passu* to the investments held by these portfolios. In addition, the Management Agreement with our Manager excludes from the management fee calculation our interests in CT Legacy Partners, CTOPI, and CT CDO I, which may result in further conflicts between the economic interests of us and our Manager. Refer to Note 9 for further discussion of the Management Agreement with our Manager.

**14. SEGMENT REPORTING**

We operate our real estate finance business through a Loan Origination segment and a CT Legacy Portfolio segment. The Loan Origination segment includes our activities associated with the origination and acquisition of mortgage loans, the capitalization of our loan portfolio, and the costs associated with operating our business generally. The CT Legacy Portfolio segment includes our activities specifically related to CT Legacy Partners, CT CDO I, and our equity investment in CTOPI. Our Manager identifies, makes operating decisions, and assesses the performance of each of our business segments based on financial and operating data and metrics generated from our internal information systems.

There were no transactions between our operating segments during the three months ended March 31, 2014 and 2013. Substantially all of our revenues for the three months ended March 31, 2014 and 2013 were generated from domestic sources.

The following table presents our consolidated statement of operations for each segment for the three months ended March 31, 2014 (\$ in thousands):

|   | Loan<br>Origination | CT Legacy<br>Portfolio | Total     |
|---|---------------------|------------------------|-----------|
| <b>Income from loans and other investments</b>      |                     |                        |           |
| Interest and related income                         | \$ 32,035           | \$ 1,621               | \$ 33,656 |
| Less: Interest and related expenses                 | 11,626              | 448                    | 12,074    |
| <b>Income from loans and other investments, net</b> | 20,409              | 1,173                  | 21,582    |
| <b>Other expenses</b>                               |                     |                        |           |
| Management fees                                     | 3,397               |                        | 3,397     |
| General and administrative expenses                 | 2,846               | 353                    | 3,199     |
| <b>Total other expenses</b>                         | 6,243               | 353                    | 6,596     |
| Loss on investments at fair value                   |                     | (1,339)                | (1,339)   |
| Income (loss) before income taxes                   | 14,166              | (519)                  | 13,647    |
| Income tax provision                                | 131                 | 400                    | 531       |
| <b>Net income (loss)</b>                            | 14,035              | (919)                  | 13,116    |

Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

|  |           |          |           |
|--|-----------|----------|-----------|
| <b>Net income attributable to non-controlling interests</b>              |           | (51)     | (51)      |
| <b>Net income (loss) attributable to Blackstone Mortgage Trust, Inc.</b> | \$ 14,035 | \$ (970) | \$ 13,065 |



## Blackstone Mortgage Trust, Inc.

## Notes to Consolidated Financial Statements (continued)

(Unaudited)

The following table presents our consolidated balance sheet for each segment as of March 31, 2014 (\$ in thousands):

|   | Loan<br>Origination | CT Legacy<br>Portfolio | Total               |
|---|---------------------|------------------------|---------------------|
| <b>Assets</b>   |                     |                        |                     |
| Cash and cash equivalents                                       | \$ 70,834           | \$                     | \$ 70,834           |
| Restricted cash   |                     | 10,677                 | 10,677              |
| Loans receivable, net   | 2,663,159           | 47,000                 | 2,710,159           |
| Equity investments in unconsolidated subsidiaries               |                     | 23,394                 | 23,394              |
| Accrued interest receivable, prepaid expenses, and other assets | 22,163              | 57,160                 | 79,323              |
| <b>Total assets</b>   | <b>\$ 2,756,156</b> | <b>\$ 138,231</b>      | <b>\$ 2,894,387</b> |
| <b>Liabilities and Equity</b>                                   |                     |                        |                     |
| Accounts payable, accrued expenses, and other liabilities       | \$ 29,922           | \$ 36,789              | \$ 66,711           |
| Repurchase obligations  | 1,529,788           |                        | 1,529,788           |
| Convertible notes, net  | 160,094             |                        | 160,094             |
| Securitized debt obligations                                    |                     | 39,394                 | 39,394              |
| Participations sold   | 90,000              |                        | 90,000              |
| <b>Total liabilities</b>  | <b>1,809,804</b>    | <b>76,183</b>          | <b>1,885,987</b>    |
| <b>Equity</b>   |                     |                        |                     |
| Total Blackstone Mortgage Trust, Inc. stockholders' equity      | 946,352             | 23,731                 | 970,083             |
| Non-controlling interests                                       |                     | 38,317                 | 38,317              |
| <b>Total equity</b>   | <b>946,352</b>      | <b>62,048</b>          | <b>1,008,400</b>    |
| <b>Total liabilities and equity</b>                             | <b>\$ 2,756,156</b> | <b>\$ 138,231</b>      | <b>\$ 2,894,387</b> |

The following table presents our consolidated statement of operations for each segment for the three months ended March 31, 2013 (\$ in thousands):

|   | Loan<br>Origination | CT Legacy<br>Portfolio | Total        |
|---|---------------------|------------------------|--------------|
| <b>Income from loans and other investments</b>      |                     |                        |              |
| Interest and related income                         | \$                  | \$ 1,456               | \$ 1,456     |
| Less: Interest and related expenses                 |                     | 777                    | 777          |
| <b>Income from loans and other investments, net</b> |                     | <b>679</b>             | <b>679</b>   |
| <b>Other expenses</b>                               |                     |                        |              |
| Management fees                                     |                     | 63                     | 63           |
| General and administrative expenses                 |                     | 1,975                  | 1,975        |
| <b>Total other expenses</b>                         |                     | <b>2,038</b>           | <b>2,038</b> |
| Valuation allowance on loans held-for-sale          |                     | (200)                  | (200)        |

Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

|   |                   |                   |
|---|-------------------|-------------------|
| Loss before income taxes  | (1,559)           | (1,559)           |
| Income tax provision  | 38                | 38                |
| <b>Net loss</b>   | <b>(1,597)</b>    | <b>(1,597)</b>    |
| <b>Net income attributable to non-controlling interests</b>     | <b>(1,518)</b>    | <b>(1,518)</b>    |
| <b>Net loss attributable to Blackstone Mortgage Trust, Inc.</b> | <b>\$ (3,115)</b> | <b>\$ (3,115)</b> |

## Blackstone Mortgage Trust, Inc.

## Notes to Consolidated Financial Statements (continued)

(Unaudited)

The following table presents our consolidated balance sheet for each segment as of December 31, 2013 (\$ in thousands):

|   | Loan<br>Origination | CT Legacy<br>Portfolio | Total               |
|---|---------------------|------------------------|---------------------|
| <b>Assets</b>   |                     |                        |                     |
| Cash and cash equivalents                                       | \$ 52,342           | \$                     | \$ 52,342           |
| Restricted cash   |                     | 10,096                 | 10,096              |
| Loans receivable, net   | 2,000,223           | 47,000                 | 2,047,223           |
| Equity investments in unconsolidated subsidiaries               |                     | 22,480                 | 22,480              |
| Accrued interest receivable, prepaid expenses, and other assets | 21,020              | 59,619                 | 80,639              |
| <b>Total assets</b>   | <b>\$ 2,073,585</b> | <b>\$ 139,195</b>      | <b>\$ 2,212,780</b> |
| <b>Liabilities and Equity</b>                                   |                     |                        |                     |
| Accounts payable, accrued expenses, and other liabilities       | \$ 21,104           | \$ 35,868              | \$ 56,972           |
| Repurchase obligations  | 1,109,353           |                        | 1,109,353           |
| Convertible notes, net  | 159,524             |                        | 159,524             |
| Securitized debt obligations                                    |                     | 40,181                 | 40,181              |
| Participations sold   | 90,000              |                        | 90,000              |
| <b>Total liabilities</b>  | <b>1,379,981</b>    | <b>76,049</b>          | <b>1,456,030</b>    |
| <b>Equity</b>   |                     |                        |                     |
| Total Blackstone Mortgage Trust, Inc. stockholders' equity      | 693,604             | 24,305                 | 717,909             |
| Non-controlling interests                                       |                     | 38,841                 | 38,841              |
| <b>Total equity</b>   | <b>693,604</b>      | <b>63,146</b>          | <b>756,750</b>      |
| <b>Total liabilities and equity</b>                             | <b>\$ 2,073,585</b> | <b>\$ 139,195</b>      | <b>\$ 2,212,780</b> |

## 15. SUBSEQUENT EVENTS

On April 7, 2014, we issued 9,200,000 shares of class A common stock in a public offering at a price to the underwriters of \$27.72 per share. We generated net proceeds from the issuance of \$254.6 million after underwriting discounts and other estimated offering expenses.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References herein to *Blackstone Mortgage Trust*, *Company*, *we*, *us*, or *our* refer to *Blackstone Mortgage Trust, Inc.* and its subsidiaries unless the context specifically requires otherwise.

*The following discussion should be read in conjunction with the unaudited consolidated financial statements and notes thereto appearing elsewhere in this quarterly report on Form 10-Q. In addition to historical data, this discussion contains forward-looking statements about our business, operations and financial performance based on current expectations that involve risks, uncertainties and assumptions. Our actual results may differ materially from those in this discussion as a result of various factors, including but not limited to those discussed in Item 1A. Risk Factors in our annual report on Form 10-K for the year ended December 31, 2013 and elsewhere in this quarterly report on Form 10-Q.*

### Introduction

Blackstone Mortgage Trust is a real estate finance company that primarily originates and purchases senior mortgage loans collateralized by properties in the United States and Europe. We are externally managed by BXMT Advisors L.L.C., or our Manager, a subsidiary of The Blackstone Group L.P., or Blackstone, and are a real estate investment trust, or REIT, traded on the NYSE under the symbol BXMT.

We conduct our operations as a REIT for U.S. federal income tax purposes. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute all of our net taxable income to stockholders and maintain our qualification as a REIT. We also operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the Investment Company Act. We are organized as a holding company and conduct our business primarily through our various subsidiaries.

We operate our real estate finance business through a Loan Origination segment and a CT Legacy Portfolio segment. The Loan Origination segment includes our activities associated with the origination and acquisition of mortgage loans, the capitalization of our loan portfolio, and the costs associated with operating our business generally. The CT Legacy Portfolio segment includes the activities specifically related to our legacy investments which preceded the re-launch of our originations business in May 2013.

### I. Key Financial Measures and Indicators

As a real estate finance company, we believe the key financial measures and indicators for our business are earnings per share, dividends declared, Core Earnings, and book value per share. For the three months ended March 31, 2014 we recorded earnings per share of \$0.34, declared a dividend of \$0.48 per share, and reported \$0.43 per share of Core Earnings. In addition, our book value per share as of March 31, 2014 was \$24.63. As further described below, Core Earnings is a measure that is not prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. We use Core Earnings to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that are not necessarily indicative of our current loan origination portfolio and operations.

### Earnings Per Share

The following table sets forth the calculation of basic and diluted net income per share based on the weighted-average of our shares of class A common stock, restricted class A common stock, and deferred stock units outstanding (\$ in thousands, except per share data):

|  | Three Months Ended |                   |
|--|--------------------|-------------------|
|  | March 31, 2014     | December 31, 2013 |
| Net income   | \$ 13,065          | \$ 7,079          |
| Weighted-average shares outstanding, basic and diluted | 37,967,365         | 29,364,448        |
| Net income per share, basic and diluted                | \$ 0.34            | \$ 0.24           |

The \$0.10 per share increase in net income during the first quarter of 2014 was due to (i) continued growth in our Loan Origination segment, and (ii) a reduction of CT Legacy Portfolio segment expenses related to the equity distributions made in the fourth quarter of 2013. This was in part offset by (i) an increase in the total number of shares outstanding as a result of our class A common stock offering in January 2014, and (ii) net losses on investments carried at fair value in the CT Legacy Portfolio. The following table allocates our net income per share between our two reportable segments (\$ in thousands, except per share data):

|  | Three Months Ended March 31, 2014 |                     |            |
|--|-----------------------------------|---------------------|------------|
|  | Loan Origination                  | CT Legacy Portfolio | Total      |
| Net income (loss)                                      | \$ 14,035                         | \$ (970)            | \$ 13,065  |
| Weighted-average shares outstanding, basic and diluted | 37,967,365                        | 37,967,365          | 37,967,365 |
| Net income (loss) per share, basic and diluted         | \$ 0.37                           | \$ (0.03)           | \$ 0.34    |

The following table compares our operating results for the three months ended March 31, 2014 and December 31, 2013 (\$ in thousands, except per share data):

|   | Q1 2014     | Q4 2013     | \$ Change   | % Change |
|---|-------------|-------------|-------------|----------|
| <b>Income from loans and other investments</b>                    |             |             |             |          |
| Interest and related income                                       | \$ 33,656   | \$ 26,837   | \$ 6,819    | 25.4%    |
| Less: Interest and related expenses                               | 12,074      | 11,525      | 549         | 4.8%     |
| <b>Income from loans and other investments, net</b>               | 21,582      | 15,312      | 6,270       | 40.9%    |
| Other operating expenses  | 6,596       | 7,929       | (1,333)     | 16.8%    |
| Other (loss) income   | (1,339)     | 3,012       | (4,351)     | 144.5%   |
| <b>Income before income taxes</b>                                 | 13,647      | 10,395      | 3,252       | 31.3%    |
| <b>Income tax provision</b>                                       | 531         | 667         | (136)       | 20.4%    |
| <b>Net income</b>   | 13,116      | 9,728       | 3,388       | 34.8%    |
| <b>Net income attributable to non-controlling interests</b>       | (51)        | (2,649)     | 2,598       | 98.1%    |
| <b>Net income attributable to Blackstone Mortgage Trust, Inc.</b> | \$ 13,065   | \$ 7,079    | \$ 5,986    | 84.6%    |
| <br><b>Dividends per share</b>                                    | <br>\$ 0.48 | <br>\$ 0.45 | <br>\$ 0.03 | <br>6.7% |

#### *Income from loans and other investments, net*

Income from loans and other investments increased \$6.3 million, or 40.9%, on a net basis during the first quarter of 2014 compared to the fourth quarter of 2013. The increase was primarily due to (i) earning a full quarter of interest on the loans originated during the fourth quarter of 2013, (ii) additional interest earned on the \$740.2 million of loans funded during the first quarter of 2014, and (iii) a one-time charge of \$2.0 million taken in the fourth quarter of 2013 associated with the full repayment of the secured notes in our CT Legacy Portfolio segment. This was partially offset by additional interest expense incurred on our repurchase agreements, convertible notes, and senior loan participation sold.

#### *Other operating expenses*

Other operating expenses are comprised of management fees paid to our Manager and general and administrative expenses. Other operating expenses decreased by \$1.3 million during the first quarter of 2014 compared to the fourth quarter of 2013 due to a \$3.0 million reduction in expenses related to the CT Legacy Partners incentive plan, which included a \$2.0 million expense in the fourth quarter of 2013 related to the accelerated vesting of certain awards under the plan. This was offset by (i) \$876,000 of additional management fees payable to our Manager, and (ii) a \$677,000 increase in non-cash restricted stock amortization related to shares awarded during the fourth quarter of 2014 under our stock-based compensation plans.



### Other income (loss)

During the first quarter of 2014, we recognized \$1.3 million of net losses on investments carried at fair value in the CT Legacy Portfolio. During the fourth quarter of 2013, we recognized \$3.0 million of net unrealized gains on investments carried at fair value in the CT Legacy Portfolio.

### Dividends Per Share

On March 14, 2014, we declared a dividend of \$0.48 per share, or \$18.9 million, which was paid on April 15, 2014 to common stockholders of record as of March 31, 2014. On December 16, 2013, we declared a dividend of \$0.45 per share, or \$13.0 million, which was paid on January 15, 2014 to class A common stockholders of record as of December 31, 2013.

As a REIT, we generally must distribute substantially all of our net taxable income to stockholders in the form of dividends to comply with the REIT provisions of the Internal Revenue Code. Our taxable income does not necessarily equal our net income as calculated in accordance with GAAP, or our Core Earnings as described below.

### Core Earnings

Core Earnings is a non-GAAP measure, which we defined as GAAP net income (loss), including realized losses not otherwise included in GAAP net income (loss), and excluding (i) net income (loss) attributable to our CT Legacy Portfolio segment, (ii) non-cash equity compensation expense, (iii) incentive management fees, (iv) depreciation and amortization, (v) unrealized gains (losses), and (vi) certain non-cash items, including the amortization of the deemed discount on our convertible notes resulting from the conversion option value accounting under GAAP. Core Earnings may also be adjusted from time to time to exclude one-time events pursuant to changes in GAAP and certain other non-cash charges as determined by our Manager, subject to approval by a majority of our independent directors.

We believe that Core Earnings provides meaningful information to consider in addition to our net income and cash flow from operating activities determined in accordance with GAAP. This adjusted measure helps us to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that we believe are not necessarily indicative of our current loan origination portfolio and operations. We also use Core Earnings to calculate the incentive and base management fees due to our Manager under our management agreement and, as such, we believe that the disclosure of Core Earnings is useful to our investors.

Core Earnings does not represent net income or cash generated from operating activities and should not be considered as an alternative to GAAP net income, or an indication of our cash flow from GAAP operating activities, a measure of our liquidity, or an indication of funds available for our cash needs. In addition, our methodology for calculating Core Earnings may differ from the methodologies employed by other companies to calculate the same or similar supplemental performance measures, and accordingly, our reported Core Earnings may not be comparable to the Core Earnings reported by other companies.

The following table provides a reconciliation of Core Earnings to GAAP net income (\$ in thousands, except per share data):

|  | Three Months Ended |                   |
|--|--------------------|-------------------|
|  | March 31, 2014     | December 31, 2013 |
| Net income   | \$ 13,065          | \$ 7,079          |
| CT Legacy Portfolio segment net loss                     | 970                | 3,670             |
| Amortization of discount on convertible notes            | 391                | 130               |
| Unrealized loss (gain) on foreign currency remeasurement | 32                 | (23)              |
| Non-cash compensation expense                            | 1,834              | 1,158             |
| Core earnings  | \$ 16,292          | \$ 12,014         |
| Weighted-average shares outstanding, basic and diluted   | 37,967,365         | 29,364,448        |
| Core earnings per share, basic and diluted               | \$ 0.43            | \$ 0.41           |

## Book Value Per Share

The following table calculates our book value per share (\$ in thousands, except per share data):

|                                 | March 31, 2014 | December 31, 2013 |
|---------------------------------|----------------|-------------------|
| Equity                          | \$ 970,083     | \$ 717,909        |
| Shares                          |                |                   |
| Class A common stock            | 38,655,080     | 28,801,651        |
| Restricted class A common stock | 621,571        | 700,000           |
| Stock units                     | 106,188        | 101,233           |
|                                 | 39,382,839     | 29,602,884        |
| Book value per share            | \$ 24.63       | \$ 24.25          |

On a consolidated basis, our book value per share as of March 31, 2014 increased by \$0.38 from December 31, 2013. The increase was due to the issuance of 9,775,000 shares of class A common stock at a public offering price of \$26.75 per share, partially offset by the excess of dividends declared over GAAP net income during the quarter. The following table allocates book value per share between our two reportable segments (\$ in thousands, except per share data):

|                                 | Loan Origination | March 31, 2014<br>CT Legacy Portfolio | Total      |
|---------------------------------|------------------|---------------------------------------|------------|
| Equity                          | \$ 946,352       | \$ 23,731                             | \$ 970,083 |
| Shares                          |                  |                                       |            |
| Class A common stock            | 38,655,080       | 38,655,080                            | 38,655,080 |
| Restricted class A common stock | 621,571          | 621,571                               | 621,571    |
| Stock units                     | 106,188          | 106,188                               | 106,188    |
|                                 | 39,382,839       | 39,382,839                            | 39,382,839 |
| Book value per share            | \$ 24.03         | \$ 0.60                               | \$ 24.63   |

## II. Loan Origination Portfolio

During the quarter ended March 31, 2014, our Loan Origination segment originated \$892.0 million of new loan commitments, funded \$740.2 million under new and existing loans, and generated interest income of \$32.0 million. These loan originations were primarily financed with \$421.4 million of additional borrowings under our repurchase facilities, \$256.1 million of net proceeds from the sale of our class A common stock, and partial loan repayments of \$72.8 million. We incurred interest expense of \$11.6 million during the quarter, which resulted in \$20.4 million of net interest income during the quarter.

### Portfolio Overview

The following table details our loan originations activity during the quarter ended March 31, 2014 (\$ in thousands):

|                                      | Loans<br>Originated | Loan<br>Commitments | Loan<br>Fundings <sup>(2)</sup> |
|--------------------------------------|---------------------|---------------------|---------------------------------|
| Senior mortgage loans <sup>(1)</sup> | 10                  | \$ 891,993          | \$ 740,176                      |
| Subordinate loans                    |                     |                     | 59                              |



Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

|       |    |            |            |
|-------|----|------------|------------|
| Total | 10 | \$ 891,993 | \$ 740,235 |
|-------|----|------------|------------|

(1) Includes senior mortgage loans, related contiguous subordinate loans with total commitments of \$16.0 million, and pari passu participations in mortgages.

(2) Includes additional fundings of \$18.8 million under existing loan commitments.

As of March 31, 2014, the majority of loans in the Loan Origination segment were senior mortgage loans or, in certain cases, loans structured as mezzanine loans that have risk exposure substantially similar to senior mortgage loans.

The following table details overall statistics for our loans receivable portfolio within the Loan Origination segment (\$ in thousands):

|  | March 31, 2014 |
|--|----------------|
| Number of loans  | 38             |
| Principal balance  | \$ 2,686,249   |
| Net book value   | \$ 2,663,159   |
| Weighted-average cash coupon <sup>(1)</sup>              | L+4.59%        |
| Weighted-average all-in yield <sup>(1)</sup>             | L+5.16%        |
| Weighted-average maximum maturity (years) <sup>(2)</sup> | 4.0            |

(1) As of March 31, 2014, 95% of our loans are indexed to one-month LIBOR and 5% are indexed to three-month LIBOR. In addition, 26% of our loans have LIBOR floors, with an average floor of 0.35%, as of March 31, 2014.

(2) Maximum maturity assumes all extension options are exercised, however our loans may be repaid prior to such date.

The charts below detail the geographic distribution and types of properties securing these loans, as of March 31, 2014 (net book value, \$ in millions):

Refer to section V of this Management's Discussion and Analysis of Financial Condition and Results of Operations for details of our loan portfolio, on a loan-by-loan basis.

#### *Asset Management and Performance*

We actively manage the investments in our Loan Origination portfolio and exercise the rights afforded to us as a lender, including collateral level budget approvals, lease approvals, loan covenant enforcement, escrow/reserve management/collection, collateral release approvals and other rights that we may negotiate.

As discussed in Note 2 to our consolidated financial statements, our Manager performs a quarterly review of our loan portfolio, assesses the performance of each loan, and assigns it a risk rating between 1 (less risk) to 8 (greater risk). Loans that pose a higher risk of non-performance and/or loss are placed on our watch list. Watch list loans are those with an internal risk rating of 4 or higher.

As of March 31, 2014, all of the investments in the Loan Origination segment are performing as expected and the weighted-average risk rating of our loan portfolio is 2.7. As of December 31, 2013, the weighted-average risk rating of our loan portfolio was 2.8.

#### *Repurchase Facilities and Loan Participations*

During the first quarter of 2014, we entered into two revolving repurchase facilities, providing an aggregate \$912.6 million of credit. As of March 31, 2014, we had aggregate borrowings of \$1.5 billion outstanding under repurchase facilities, with a weighted-average cash coupon of LIBOR plus 2.09% per annum and a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.36% per annum. As of March 31, 2014, outstanding borrowings under these facilities had a weighted-average maturity, excluding extension options and term-out provisions, of 2.3 years.

# Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

The following table details our repurchase borrowings outstanding (\$ in thousands):

|                                      |                                      |                       | March 31, 2014                       |              |            |  | Dec. 31, 2013 |
|--------------------------------------|--------------------------------------|-----------------------|--------------------------------------|--------------|------------|--|---------------|
|                                      | Maximum Facility Size <sup>(1)</sup> | Collateral            | Repurchase Borrowings <sup>(3)</sup> |              |            |  | Borrowings    |
| Lender                               |                                      | Assets <sup>(2)</sup> | Potential                            | Outstanding  | Available  |  | Outstanding   |
| Revolving Repurchase Facilities      |                                      |                       |                                      |              |            |  |               |
| Bank of America                      | \$ 500,000                           | \$ 461,041            | \$ 364,813                           | \$ 364,813   | \$         |  | \$ 271,320    |
| Citibank                             | 500,000                              | 654,924               | 489,340                              | 307,175      | 182,165    |  | 334,692       |
| JP Morgan <sup>(4)</sup>             | 574,130                              | 567,368               | 437,867                              | 429,978      | 7,889      |  | 257,610       |
| Wells Fargo                          | 500,000                              | 218,650               | 170,200                              | 139,325      | 30,875     |  |               |
| Morgan Stanley <sup>(5)</sup>        | 412,600                              | 83,335                | 66,016                               | 66,016       |            |  |               |
| Subtotal                             | 2,486,730                            | 1,985,318             | 1,528,236                            | 1,307,307    | 220,929    |  | 863,622       |
| Asset-Specific Repurchase Agreements |                                      |                       |                                      |              |            |  |               |
| Wells Fargo <sup>(6)</sup>           | 253,479                              | 303,857               | 222,481                              | 222,481      |            |  | 245,731       |
| Total                                | \$ 2,740,209                         | \$ 2,289,175          | \$ 1,750,717                         | \$ 1,529,788 | \$ 220,929 |  | \$ 1,109,353  |

- (1) Maximum facility size represents the total amount of borrowings provided for in each repurchase agreement, however these borrowings are only available to us once sufficient collateral assets have been pledged under each facility.
- (2) Represents the principal balance of the collateral assets.
- (3) Potential borrowings represent the total amount we could draw under each facility based on collateral already approved and pledged. When undrawn, these amounts are immediately available to us at our sole discretion under the terms of each revolving credit facility.
- (4) The JP Morgan maximum facility size is composed of a \$250.0 million facility, a £153.0 million (\$252.5 million) facility, and \$71.6 million related solely to a specific asset with a repurchase date of June 27, 2014.
- (5) The Morgan Stanley maximum facility size represents a £250.0 million (\$412.6 million) facility.
- (6) Represents an aggregate of three asset-specific repurchase agreements with Wells Fargo.

As of March 31, 2014, we also had one loan participation sold outstanding with a book balance of \$90.0 million, a cash coupon of LIBOR plus 5.12%, and an all-in cost of LIBOR plus 5.26%. Refer to Notes 6 and 7 to our consolidated financial statements for additional terms and details of our repurchase facilities and participations sold, including certain financial covenants.

## Floating Rate Portfolio

Our Loan Origination portfolio as of March 31, 2014 was comprised of floating rate loans financed by floating rate secured debt, which results in a return on equity that is correlated to LIBOR. Generally, our business model is such that rising interest rates will increase our net income, while declining interest rates will decrease net income. For instance, all other things being equal, as of March 31, 2014, a 100 basis point increase in LIBOR would have increased our net income by \$9.6 million per annum. The following table details our Loan Origination segment's sensitivity to interest rates (\$ in thousands):

|   | March 31, 2014 |
|---|----------------|
| Floating rate loans <sup>(1)</sup>                              | \$ 2,686,249   |
| Floating rate debt <sup>(1)(2)</sup>                            | (1,619,788)    |
| Net floating rate exposure                                      | \$ 1,066,461   |
| Net income impact from 100 bps increase in LIBOR <sup>(3)</sup> | \$ 9,580       |

Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

- (1) Our floating rate loans and debt are indexed to LIBOR as of March 31, 2014.
- (2) Includes borrowings under repurchase facilities and loan participations sold.
- (3) Excludes the impact of LIBOR floors for our loan receivable investments where such floors are paying relative to LIBOR of 0.15% as of March 31, 2014.

## Convertible Notes

In November 2013, we issued \$172.5 million aggregate principal amount of 5.25% convertible senior notes due on December 1, 2018, or the Convertible Notes. The Convertible Notes issuance costs, including underwriter discounts, are amortized through interest expense over the life of the Convertible Notes using the effective interest method. Including this amortization, our all-in cash cost of the Convertible Notes is 5.87%.

Refer to Notes 2 and 6 to our consolidated financial statements for additional discussion of our Convertible Notes.

## III. CT Legacy Portfolio

Our CT Legacy Portfolio consists of: (i) our interests in CT Legacy Partners; (ii) our carried interest in CTOPI, a private investment fund that was previously under our management and is now managed by an affiliate of our Manager; and (iii) our subordinate interests in CT CDO I, a consolidated securitization vehicle.

During the three months ended March 31, 2014, our CT Legacy Portfolio segment recorded a net loss of \$970,000 driven primarily by net losses on investments carried at fair value in CT Legacy Partners. In addition, our net investment in the CTOPI carried interest as of March 31, 2014 increased by \$914,000 from December 31, 2013.

### CT Legacy Partners

#### Portfolio Overview

Our investment in CT Legacy Partners represents our 52% equity interest in a vehicle we formed to own and finance certain assets that we retained in connection with a comprehensive debt restructuring in 2011. As of March 31, 2014, the CT Legacy Partners portfolio consisted of cash, loans, securities, and other assets.

The following table details the components of our gross investment in CT Legacy Partners included in our consolidated balance sheet, as well as our net investment in CT Legacy Partners after future payments under the management incentive awards plan as of March 31, 2014 (\$ in thousands):

|   | March 31, 2014 |
|---|----------------|
| Restricted cash   | \$ 10,677      |
| Accrued interest receivable, prepaid expenses, and other assets | 55,176         |
| Accounts payable, accrued expenses and other liabilities        | (249)          |
| Non-controlling interests                                       | (38,317)       |
|   | \$ 27,287      |
| Management incentive awards plan, fully vested <sup>(1)</sup>   | (3,787)        |
| Net investment in CT Legacy Partners                            | \$ 23,500      |

- (1) Assumes full payment of the management incentive awards plan, as described below, based on the hypothetical GAAP liquidation value of CT Legacy Partners as of March 31, 2014. We periodically accrue a payable for the management incentive awards plan based on the vesting schedule for the awards and continued employment with an affiliate of our Manager of the award recipients. As of March 31, 2014, our balance sheet includes \$2.9 million in accounts payable and accrued expenses for the management incentive awards plan. Refer to Note 9 to our consolidated financial statements for further details.

#### CT Legacy Partners Background

## Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

CT Legacy Partners is a subsidiary that holds certain of our legacy assets and is beneficially owned 52% by us and 48% by other third-party investors. In addition to its common equity, CT Legacy Partners has also issued class B common shares, a subordinate class of equity which entitles its holders to receive approximately 25% of the dividends that would otherwise be payable to us on our equity interest in CT Legacy Partners. Further, CT Legacy Partners has issued class A preferred shares which entitle their holder, an affiliate of our Manager, to cumulative preferred distributions in an amount generally equal to the greater of (i) 2.5% of certain of CT Legacy Partners' assets, and (ii) \$1.0 million per annum.

### **Carried Interest in CTOPI**

CTOPI is a private equity real estate fund that we sponsored and formed in 2007. The fund invested \$491.6 million in 39 transactions between 2007 and the end of its investment period in 2012. To date, \$426.2 million of these investments have been realized and \$65.4 million remain outstanding (carried at \$121.7 million or 1.9x cost) as of March 31, 2014. In 2012, we transferred our management of CTOPI and sold our 4.6% co-investment to Blackstone. However, we retained our carried interest in CTOPI following the sale.

Our carried interest in CTOPI entitles us to earn incentive compensation in an amount equal to 17.7% of the fund's profits, after a 9% preferred return and 100% return of capital to the CTOPI partners. We own a net 55% of the carried interest of CTOPI's general partner; the remaining 45% is payable under previously issued incentive awards.

As of March 31, 2014, we had been allocated \$18.5 million of incentive compensation from CTOPI based on a hypothetical liquidation of the fund at its net asset value, and after payment of the related incentive awards. The CTOPI partnership agreement provides for advance distributions in respect of our incentive compensation to allow us to pay any income taxes owed on phantom taxable income allocated to us from the partnership. We refer to these distributions as CTOPI Tax Advances. As of March 31, 2014, we have received \$10.2 million of aggregate CTOPI Tax Advances, resulting in an asset value of our investment in CTOPI of \$8.3 million. In the event the performance of CTOPI does not ultimately result in a sufficient allocation of incentive compensation to us, we would be required to return these CTOPI Tax Advances to the fund.

We have elected to defer the recognition of income on our carried interest in CTOPI until cash is collected or appropriate contingencies have been eliminated. As a result, our net investment in the CTOPI carried interest has a book value of negative \$10.2 million, the amount of cumulative CTOPI Tax Advances received as of March 31, 2014.

Refer to Note 5 of our consolidated financial statements for additional discussion of the CTOPI incentive management fee awards to our former employees.

## **CT CDO I**

### *Portfolio Overview*

As of March 31, 2014, our consolidated balance sheet included an aggregate \$49.0 million of assets and \$39.4 million of liabilities related to CT CDO I, a highly-levered securitization vehicle that we formed in 2004.

Specifically, we own the subordinate debt and equity positions of CT CDO I. As a result of consolidation, our subordinate debt and equity ownership interests in CT CDO I are not included on our balance sheet, which instead reflects both the assets held and debt issued by CT CDO I to third parties. Similarly, our operating results and cash flows include the gross amounts related to the assets and liabilities of CT CDO I, as opposed to our net economic interests in this entity.

Our economic interest in the loans receivable assets held by CT CDO I, which is consolidated on our balance sheet, is restricted by the structural provisions of CT CDO I, and our recovery of these assets will be limited by its distribution provisions. The liabilities of CT CDO I, which are also consolidated on our balance sheet, are non-recourse to us, and can only be satisfied by proceeds from its collateral asset pool. We are not obligated to provide, nor have we provided, any financial support to CT CDO I.

**IV. Our Results of Operations and Liquidity****Results of Operations**

The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the three months ended March 31, 2014 and 2013 (\$ in thousands, except per share data):

|  | 2014      | 2013       | \$        | %      |
|--|-----------|------------|-----------|--------|
| <b>Income from loans and other investments</b>                           |           |            |           |        |
| Interest and related income  | \$ 33,656 | \$ 1,456   | \$ 32,200 | N/M    |
| Less: Interest and related expenses                                      | 12,074    | 777        | 11,297    | N/M    |
| Income from loans and other investments, net                             | 21,582    | 679        | 20,903    | N/M    |
| <b>Other expenses</b>  |           |            |           |        |
| Management fees  | 3,397     | 63         | 3,334     | N/M    |
| General and administrative expenses                                      | 3,199     | 1,975      | 1,224     | 62.0%  |
| Total other expenses   | 6,596     | 2,038      | 4,558     | 223.7% |
| Impairments, provisions, and valuation adjustments                       | (1,339)   | (200)      | (1,139)   | 569.5% |
| <b>Income (loss) before provision for taxes</b>                          | 13,647    | (1,559)    | 15,206    | N/M    |
| <b>Income tax provision</b>  | 531       | 38         | 493       | N/M    |
| <b>Net income (loss)</b>   | \$ 13,116 | \$ (1,597) | \$ 14,713 | N/M    |
| <b>Net income attributable to non-controlling interests</b>              | (51)      | (1,518)    | 1,467     | N/M    |
| <b>Net income (loss) attributable to Blackstone Mortgage Trust, Inc.</b> | \$ 13,065 | \$ (3,115) | \$ 16,180 | N/M    |
| <b>Net income (loss) per share - basic and diluted</b>                   | \$ 0.34   | \$ (1.03)  |           |        |
| <b>Dividends per share</b>   | \$ 0.48   | \$         |           |        |

*Income from loans and other investments, net*

Income from loans and other investments, net was \$21.6 million for the three months ended March 31, 2014, representing an increase of \$20.9 million compared to the three months ended March 31, 2013. This increase is a result of the re-launch of our originations business in May 2013.

*Other expenses*

Other expenses includes management fees paid to our Manager and general and administrative expenses. Other expenses increased by \$4.6 million during the three months ended March 31, 2014 compared to the three months ended March 31, 2013 primarily due to (i) an increase of \$3.3 million of management fees payable to our Manager, (ii) \$1.7 million of non-cash restricted stock amortization related to shares awarded under our stock compensation plans, and (iii) \$311,000 of additional professional fees, operating costs, and other expenses. This was offset by a decrease of \$827,000 of non-cash compensation expenses associated with our CT Legacy Partners incentive plan.

*Impairments, provisions, and valuation adjustments*

During the three months ended March 31, 2014, we recognized \$1.3 million of net losses on investments owned by CT Legacy Partners. During the three months ended March 31, 2013, we recognized a \$200,000 valuation allowance on a loan owned by CT CDO I that was held-for-sale.

*Other significant items*

During the three months ended March 31, 2014, we recorded an income tax provision of \$531,000 primarily related to income generated by investments held by our taxable REIT subsidiaries. During the first quarter of 2013, we recorded an income tax provision of \$38,000 that was



similarly related to our taxable REIT subsidiaries.

*Dividends per share*

During the first quarter of 2014, we declared a dividend of \$0.48 per share, or \$18.9 million, which was paid on April 15, 2014 to common stockholders of record as of March 31, 2014. We did not declare any dividends during the three months ended March 31, 2013.

## Liquidity and Capital Resources

### Capitalization

On January 14, 2014, we issued 9,775,000 shares of class A common stock in a public offering at a price to the underwriters of \$26.25 per share. We generated net proceeds from the issuance of \$256.1 million after underwriting discounts and other offering expenses. On April 7, 2014, we issued 9,200,000 shares of class A common stock in a public offering at a price to the underwriters of \$27.72 per share. We generated net proceeds from the issuance of \$254.6 million after underwriting discounts and other estimated offering expenses.

During the first quarter of 2014, we entered into two revolving repurchase facilities, providing an aggregate \$912.6 million of credit. As of March 31, 2014, we had aggregate borrowings of \$1.5 million outstanding under repurchase facilities, with a weighted-average cash coupon of LIBOR plus 2.09% per annum and a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.36% per annum. As of March 31, 2014, these facilities had a weighted-average initial maturity, excluding extension options and term-out provisions, of 2.3 years.

As of March 31, 2014, we also had \$172.5 million aggregate principal amount of convertible notes outstanding with a net book value of \$163.9 million, which carry a cash coupon of LIBOR plus 5.25% and an all-in cost of 5.87%. These notes mature in December 2018.

Our consolidated balance sheet also included the non-recourse securitized debt obligations of CT CDO I. See above discussion of CT CDO I for further information.

### Sources of Liquidity

Our primary sources of liquidity include cash and cash equivalents and available borrowings under our repurchase facilities, which are set forth in the following table (\$ in thousands):

|  | March 31, 2014 | December 31, 2013 |
|--|----------------|-------------------|
| Cash and cash equivalents                        | \$ 70,834      | \$ 52,342         |
| Available borrowings under repurchase facilities | 220,929        | 218,555           |
|  | \$ 291,763     | \$ 270,897        |

See Note 6 to our consolidated financial statements for additional terms and details of our repurchase facilities.

In addition to our current sources of liquidity, we have access to liquidity through public offerings of debt and equity securities. To facilitate such offerings, in July 2013, we filed a shelf registration statement with the SEC that is effective for a term of three years and will expire in July 2016. The amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed and there is no specific dollar limit on the amount of securities we may issue.

### Liquidity Needs

In addition to our ongoing loan origination activity, our primary liquidity needs include interest and principal payments under our \$1.7 billion of outstanding repurchase facilities and convertible notes, our \$316.4 million of unfunded loan commitments, dividend distributions to our stockholders, and operating expenses.

We have no obligations to provide financial support to CT Legacy Partners, CTOPI, or CT CDO I, and all debt obligations of such entities, some of which are consolidated onto our financial statements, are non-recourse to us.

We are also required to pay our Manager a base management fee, an incentive fee, and reimbursements for certain expenses pursuant to our management agreement. Refer to Note 9 to our consolidated financial statements for additional terms and details of the fees payable under our management agreement.

As a REIT, we generally must distribute substantially all of our net taxable income to shareholders in the form of dividends to comply with the REIT provisions of the Internal Revenue Code. Our taxable income does not necessarily equal our net income as calculated in accordance with GAAP, or our Core Earnings as described above.



## Cash Flows

The following table provides a breakdown of the net change in our cash and cash equivalents (\$ in thousands):

|  | For the three months ended March 31, |         |
|--|--------------------------------------|---------|
|  | 2014                                 | 2013    |
| Cash flows from operating activities                 | \$ 15,038                            | \$ 756  |
| Cash flows from investing activities                 | (657,134)                            | 2,662   |
| Cash flows from financing activities                 | 660,588                              | (3,480) |
| Net increase (decrease) in cash and cash equivalents | \$ 18,492                            | \$ (62) |

We experienced a net increase in cash of \$18.5 million for the three months ended March 31, 2014, compared to a net decrease of \$62,000 for the three months ended March 31, 2013. The increase was primarily due to the receipt of cash interest on loans in our Loan Origination segment and other operating activities.

During the first quarter of 2014, we (i) had net borrowings of \$421.4 million under our repurchase facilities, (ii) generated \$256.1 million of net proceeds from the sale of our class A common stock, and (iii) received \$72.8 million of principal collections on loans. We used the proceeds from our debt and equity financing activities to originate a net \$740.2 million of new loans during the three months ended March 31, 2014.

Our consolidated statements of cash flows also include the cash inflows and outflows of consolidated securitization vehicles. While this does not impact our net cash flow, it does increase certain gross cash flow disclosures. As discussed above, other than to the extent we receive cash distributions from the entities in our CT Legacy Portfolio, we generally do not have access to their liquidity.

## Income Taxes

We elected to be taxed as a REIT, effective January 1, 2003, under the Internal Revenue Code for U.S. federal income tax purposes. We generally must distribute annually at least 90% of our net taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal income tax not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our net taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws.

Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Internal Revenue Code, which relate to organizational structure, diversity of stock ownership, and certain restrictions with regard to the nature of our assets and the sources of our income. Even if we qualify as a REIT, we may be subject to certain U.S. federal income and excise taxes and state and local taxes on our income and assets. If we fail to maintain our qualification as a REIT for any taxable year, we may be subject to material penalties as well as federal, state and local income tax on our taxable income at regular corporate rates and we would not be able to qualify as a REIT for the subsequent four full taxable years. As of March 31, 2014 and December 31, 2013, we were in compliance with all REIT requirements.

During the three months ended March 31, 2014, we recorded a current income tax provision of \$531,000 comprised of (i) \$342,000 related to activities our taxable REIT subsidiaries, (ii) a \$124,000 provision reflecting our estimated risk of loss related to an uncertain tax position taken during the period, and (iii) \$65,000 related to other items. During the three months ended March 31, 2013, we recorded a current income tax provision of \$38,000. We did not have any deferred tax assets or liabilities as of March 31, 2014 or December 31, 2013.

As a result of our issuance of 25,875,000 shares of class A common stock in May 2013, the availability of our net operating losses, or NOLs, and net capital losses, or NCLs, is generally limited to \$2.0 million per annum by change of control provisions promulgated by the Internal Revenue Service with respect to the ownership of Blackstone Mortgage Trust. As of December 31, 2013, we had NOLs of \$157.8 million and NCLs of \$42.6 million available to be carried forward and utilized in current or future periods. If we are unable to utilize our NOLs, they will expire in 2029. If we are unable to utilize our NCLs, \$10.6 million will expire in 2014, \$31.4 million will expire in 2015, and \$602,000 will expire in 2017.

As of March 31, 2014, our tax years 2010 through 2013 remain subject to examination by taxing authorities.



**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires our Manager to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from these estimates. There have been no material changes to our Critical Accounting Policies described in our annual report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2014.

**V. Loan Portfolio Details**

The following table provides details of the Loan Origination segment's portfolio, on a loan-by-loan basis, as of March 31, 2014 (\$ in millions):

| Loan Type <sup>(1)</sup> | Principal Balance | Book Balance | Cash Coupon <sup>(2)</sup> | All-in Yield <sup>(2)</sup> | Maximum Maturity <sup>(3)</sup> | Geographic Location | Property Type | Origination LTV | Risk Rating as of |                   |
|--------------------------|-------------------|--------------|----------------------------|-----------------------------|---------------------------------|---------------------|---------------|-----------------|-------------------|-------------------|
|                          |                   |              |                            |                             |                                 |                     |               |                 | March 31, 2014    | December 31, 2013 |
| 1 Senior mortgage loan   | \$ 194.0          | \$ 193.3     | L + 3.80%                  | L + 3.97%                   | 6/15/2018                       | CA                  | Office        | 51%             | 1                 | 2                 |
| 2 Senior mortgage loan   | 181.0             | 179.4        | L + 4.50%                  | L + 4.86%                   | 11/9/2018                       | NY                  | Multifamily   | 68%             | 3                 | 3                 |
| 3 Sub. mortgage part.    | 173.8             | 167.6        | L + 5.66%                  | L + 9.25%                   | 4/9/2015                        | WA                  | Office        | 67%             | 3                 | 3                 |
| 4 Senior mortgage loan   | 140.0             | 138.8        | L + 4.75%                  | L + 5.27%                   | 1/9/2019                        | NY                  | Office        | 70%             | 3                 | 3                 |
| 5 Senior mortgage loan   | 125.0             | 124.3        | L + 4.30%                  | L + 4.63%                   | 12/1/2017                       | NY                  | Hotel         | 38%             | 3                 | N/A               |
| 6 Senior mortgage loan   | 101.0             | 99.5         | L + 4.40%                  | L + 4.81%                   | 3/9/2019                        | Diversified         | Hotel         | 49%             | 3                 | N/A               |
| 7 Senior mortgage loan   | 93.2              | 92.8         | L + 4.40%                  | L + 4.59%                   | 3/9/2019                        | NY                  | Office        | 68%             | 3                 | N/A               |
| 8 Senior mortgage loan   | 91.8              | 91.3         | L + 4.38%                  | L + 4.62%                   | 11/9/2018                       | CA                  | Hotel         | 71%             | 2                 | 2                 |
| 9 Senior mortgage loan   | 89.5              | 89.4         | L + 3.70%                  | L + 3.83%                   | 9/30/2020                       | NY                  | Multifamily   | 62%             | 3                 | 3                 |
| 10 Senior mortgage loan  | 86.0              | 85.5         | L + 4.25%                  | L + 4.64%                   | 8/10/2018                       | Diversified         | Diversified   | 60%             | 3                 | 3                 |
| 11 Senior mortgage loan  | 83.3              | 81.1         | L + 4.00%                  | L + 4.63%                   | 3/4/2018                        | UK                  | Office        | 50%             | 3                 | N/A               |
| 12 Senior mortgage loan  | 80.6              | 80.3         | L + 3.85%                  | L + 4.03%                   | 7/9/2018                        | GA                  | Multifamily   | 75%             | 3                 | 3                 |
| 13 Senior mortgage loan  | 78.2              | 77.5         | L + 5.00%                  | L + 5.38%                   | 9/14/2018                       | Diversified         | Other         | 64%             | 3                 | 3                 |
| 14 Senior mortgage loan  | 73.3              | 73.1         | L + 4.75%                  | L + 4.95%                   | 12/28/2016                      | NY                  | Multifamily   | 66%             | 3                 | N/A               |
| 15 Senior mortgage loan  | 73.0              | 72.9         | L + 3.95%                  | L + 3.89%                   | 6/9/2018                        | CA                  | Office        | 72%             | 2                 | 2                 |
| 16 Senior mortgage loan  | 68.0              | 67.8         | L + 4.00%                  | L + 4.23%                   | 6/10/2016                       | NY                  | Multifamily   | 68%             | 3                 | 3                 |
| 17 Senior mortgage loan  | 64.7              | 64.0         | L + 4.75%                  | L + 5.16%                   | 1/7/2019                        | Diversified         | Other         | 60%             | 3                 | N/A               |
| 18 Senior mortgage loan  | 64.0              | 64.6         | L + 8.00%                  | L + 9.26%                   | 2/9/2015                        | NY                  | Other         | 69%             | 3                 | 3                 |
| 19 Senior mortgage loan  | 60.5              | 59.9         | L + 4.35%                  | L + 4.71%                   | 1/9/2019                        | NY                  | Office        | 70%             | 3                 | N/A               |
| 20 Senior mortgage loan  | 57.7              | 57.2         | L + 3.85%                  | L + 4.24%                   | 10/10/2018                      | Diversified         | Multifamily   | 76%             | 3                 | 3                 |
| 21 Senior mortgage loan  | 55.3              | 54.7         | L + 4.50%                  | L + 4.92%                   | 4/9/2019                        | NY                  | Multifamily   | 65%             | 3                 | N/A               |
| 22 Senior mortgage loan  | 48.4              | 48.6         | L + 5.00%                  | L + 5.68%                   | 12/9/2016                       | IL                  | Hotel         | 53%             | 3                 | 3                 |
| 23 Senior mortgage loan  | 46.3              | 45.9         | L + 4.25%                  | L + 4.64%                   | 7/10/2018                       | CO                  | Hotel         | 69%             | 3                 | 3                 |
| 24 Senior mortgage loan  | 46.0              | 45.6         | L + 4.25%                  | L + 4.78%                   | 10/9/2018                       | CA                  | Hotel         | 51%             | 3                 | 3                 |

Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

|    |                      |      |      |           |           |           |             |             |     |   |   |
|----|----------------------|------|------|-----------|-----------|-----------|-------------|-------------|-----|---|---|
| 25 | Senior mortgage loan | 45.9 | 45.3 | L + 5.00% | L + 6.04% | 8/9/2018  | VA          | Office      | 72% | 3 | 3 |
| 26 | Senior mortgage loan | 43.5 | 43.2 | L + 4.50% | L + 5.11% | 7/16/2017 | NY          | Retail      | 69% | 3 | 3 |
| 27 | Senior mortgage loan | 43.4 | 42.9 | L + 4.50% | L + 4.94% | 1/9/2019  | AZ          | Office      | 67% | 3 | 3 |
| 28 | Senior mortgage loan | 43.3 | 42.9 | L + 3.85% | L + 4.26% | 9/10/2018 | Diversified | Multifamily | 77% | 3 | 3 |

continued



| Loan Type <sup>(1)</sup>         | Principal Balance | Book Balance | Cash Coupon <sup>(2)</sup> | All-in Yield <sup>(2)</sup> | Maximum Maturity <sup>(3)</sup> | Geographic Location | Property Type | Origination LTV | Risk Rating as of |                   |
|----------------------------------|-------------------|--------------|----------------------------|-----------------------------|---------------------------------|---------------------|---------------|-----------------|-------------------|-------------------|
|                                  |                   |              |                            |                             |                                 |                     |               |                 | March 2014        | December 31, 2013 |
| 29 Senior mortgage loan          | 42.3              | 42.0         | L + 5.00%                  | L + 5.30%                   | 11/6/2016                       | NY                  | Multifamily   | 44%             | 3                 | 3                 |
| 30 Senior mortgage loan          | 39.1              | 38.7         | L + 4.30%                  | L + 4.70%                   | 4/9/2019                        | CA                  | Office        | 71%             | 3                 | N/A               |
| 31 Senior mortgage loan          | 38.0              | 38.0         | L + 4.63%                  | L + 5.47%                   | 11/27/2018                      | UK                  | Office        | 68%             | 3                 | 3                 |
| 32 Senior mortgage loan          | 37.5              | 37.2         | L + 3.85%                  | L + 4.04%                   | 8/9/2018                        | IL                  | Office        | 68%             | 2                 | 2                 |
| 33 Mezzanine loan <sup>(4)</sup> | 33.6              | 33.7         | L + 12.56%                 | L + 12.35%                  | 12/13/2017                      | NY                  | Multifamily   | 78%             | 3                 | 3                 |
| 34 Senior mortgage loan          | 32.9              | 33.0         | L + 3.95%                  | L + 4.20%                   | 8/9/2017                        | CO                  | Hotel         | 64%             | 2                 | 2                 |
| 35 Senior mortgage loan          | 31.0              | 30.6         | L + 4.10%                  | L + 4.64%                   | 1/9/2019                        | CA                  | Office        | 43%             | 3                 | 3                 |
| 36 Senior mortgage loan          | 28.0              | 27.7         | L + 4.35%                  | L + 4.71%                   | 12/9/2018                       | CA                  | Hotel         | 55%             | 2                 | 3                 |
| 37 Senior mortgage loan          | 27.1              | 27.1         | L + 3.87%                  | L + 3.87%                   | 7/9/2017                        | NY                  | Hotel         | 32%             | 1                 | 1                 |
| 38 Senior mortgage loan          | 26.0              | 25.8         | L + 4.00%                  | L + 4.27%                   | 3/9/2019                        | AZ                  | Other         | 69%             | 2                 | N/A               |
|                                  | \$ 2,686.2        | \$ 2,663.2   | L + 4.59%                  | L + 5.16%                   | 4.0 years                       |                     |               | 63%             | 2.7               | 2.8               |

- (1) Includes senior mortgage loans, related contiguous subordinate loans with a net book value of \$53.7 million, and pari passu participations in mortgages.
- (2) As of March 31, 2014, 95% of our loans are indexed to one-month LIBOR and 5% are indexed to three-month LIBOR. In addition, 26% of our loans have LIBOR floors, with an average floor of 0.35%, as of March 31, 2014.
- (3) Maximum maturity assumes all extension options are exercised, however our loans may be repaid prior to such date.
- (4) We originated the loan directly senior to this subordinate loan, but sold the senior loan to finance our overall investment.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Interest Rate Risk**

Our business is exposed to the risks related to interest rate fluctuations. We generally originate floating rate assets and finance those assets with index-matched floating rate liabilities. As a result, we significantly reduce our exposure to changes in portfolio value and cash flow variability related to changes in interest rates.

*Loan Origination Portfolio segment*

Our Loan Origination investments are exposed to the risks related to interest rate fluctuations discussed above. The table below details our interest rate exposure to this portfolio (\$ in thousands):

|   | <b>March 31, 2014</b> |
|---|-----------------------|
| Floating rate loans <sup>(1)</sup>                                  | \$ 2,686,249          |
| Floating rate debt <sup>(1)(2)</sup>                                | (1,619,788)           |
| <b>Net floating rate exposure</b>                                   | <b>\$ 1,066,461</b>   |
| <br>Net income impact from 100 bps increase in LIBOR <sup>(3)</sup> | <br>\$ 9,580          |

(1) Amounts represent aggregate principal balances.

(2) Includes borrowings under repurchase facilities and loan participations sold.

(3) Excludes the impact of LIBOR floors for our loan receivable investments where such floors are paying relative to LIBOR of 0.15% as of March 31, 2014.

*CT Legacy Portfolio segment*

Our investments in CT Legacy Partners and CT CDO I are also exposed to the risks related to interest rate fluctuations discussed above, however as liquidating portfolios these investments are more sensitive to credit risk than interest rate risk.

Although our carried interest investment in CTOPI generally relates to a portfolio of interest earning assets, our economic interest in this portfolio relates primarily to the realization of investments purchased at a discount by CTOPI. Accordingly, our investment in this portfolio is not exposed to a significant degree of interest rate risk. Refer to Note 5 to our consolidated financial statements for additional discussion of CTOPI.

*Risk of Non-Performance*

In addition to the risks related to fluctuations in asset values and cash flows associated with movements in interest rates, there is also the risk of non-performance on floating rate assets. In the case of a significant increase in interest rates, the additional debt service payments due from our borrowers may strain the operating cash flows of the collateral real estate assets and, potentially, contribute to non-performance or, in severe cases, default.

**Credit Risks**

Our loans and investments are also subject to credit risk. The performance and value of our loans and investments depend upon the owners ability to operate the properties that serve as our collateral so that they produce cash flows adequate to pay interest and principal due to us. To monitor this risk, our Manager's asset management team reviews our investment portfolios and in certain instances is in regular contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary.

In addition, we are exposed to the risks generally associated with the commercial real estate market, including variances in occupancy rates, capitalization rates, absorption rates, and other macroeconomic factors beyond our control. We seek to manage these risks through our underwriting and asset management processes.

**Capital Market Risks**

## Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

We are exposed to risks related to the equity capital markets, and our related ability to raise capital through the issuance of our class A common stock or other equity instruments. We are also exposed to risks related to the debt capital markets, and our related ability to finance our business through borrowings under credit facilities or other debt instruments. As a REIT, we are required to distribute a significant portion of our taxable income annually, which constrains our ability to accumulate operating cash flow and therefore requires us to utilize debt or equity capital to finance our business. We seek to mitigate these risks by monitoring the debt and equity capital markets to inform our decisions on the amount, timing, and terms of capital we raise.

## Counterparty Risk

The nature of our business requires us to hold our cash and cash equivalents and obtain financing from various financial institutions. This exposes us to the risk that these financial institutions may not fulfill their obligations to us under these various contractual arrangements. We mitigate this exposure by depositing our cash and cash equivalents and entering into financing agreements with high credit-quality institutions.

The nature of our loans and investments also exposes us to the risk that our counterparties do not make required interest and principal payments on scheduled due dates. We seek to manage this risk through a comprehensive credit analysis prior to making an investment and actively monitoring the asset portfolios that serve as our collateral.

## Currency Risk

Our loans and investments that are denominated in a foreign currency are also subject to risks related to fluctuations in currency rates. We mitigate this exposure by matching the currency of our foreign currency assets to the currency of the borrowings that finance those assets. As a result, we substantially reduce our exposure to changes in portfolio value related to changes in foreign currency rates.

The following table outlines our assets and liabilities that are denominated in a foreign currency (£ in thousands):

|  | March 31, 2014 |
|--|----------------|
| Foreign currency assets                    | £ 74,893       |
| Foreign currency liabilities               | (51,116)       |
| Net exposure to exchange rate fluctuations | £ 23,777       |

We estimate that a 10% decline in the rate of exchange between the British pound sterling and the U.S. dollar would result in a decline of \$3.9 million in our net assets denominated in foreign currencies, as of March 31, 2014.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this quarterly report on Form 10-Q was made under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (a) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by Securities and Exchange Commission rules and forms and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Controls over Financial Reporting

There have been no significant changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. As of March 31, 2014, we were not involved in any material legal proceedings.

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

|         |   |
|---------|---|
| 10.1    | Fourth Amendment to Master Repurchase Agreement, dated as of January 31, 2014, by and between Citibank, N.A. and Parlex 2 Finance, LLC                                      |
| 10.2    | Amendment No. 2 to Guarantee Agreement, dated as of February 21, 2014, made by Blackstone Mortgage Trust, Inc. in favor of Bank of America, N.A.                            |
| 10.3    | Second Amendment to Limited Guaranty, dated as of February 24, 2014, made by Blackstone Mortgage Trust, Inc. in favor of Citibank, N.A.                                     |
| 10.4    | Amendment No. 1 to Guarantee Agreement, dated as of March 3, 2014, made by Blackstone Mortgage Trust, Inc. in favor of JPMorgan Chase Bank, National Association            |
| 10.5    | Amendment No. 1 to Guarantee Agreement, dated as of March 3, 2014, made by Blackstone Mortgage Trust, Inc. in favor of JPMorgan Chase Bank, National Association            |
| 10.6    | Master Repurchase and Securities Contract Agreement, dated as of March 3, 2014, among Parlex 6 UK Finco, LLC, Blackstone Mortgage Trust, Inc. and Morgan Stanley Bank, N.A. |
| 10.7    | Parent Guaranty and Indemnity, dated as of March 3, 2014, made by Blackstone Mortgage Trust, Inc. in favor of Morgan Stanley Bank, N.A.                                     |
| 10.8    | Master Repurchase and Securities Contract, dated as of March 13, 2014, between Parlex 5 Finco, LLC and Wells Fargo Bank, National Association                               |
| 10.9    | Amendment No. 1 to Master Repurchase and Securities Contract, dated as of March 21, 2014, between Parlex 5 Finco, LLC and Wells Fargo Bank, National Association            |
| 10.10   | Guarantee Agreement, dated as of March 13, 2014, made by Blackstone Mortgage Trust, Inc. in favor of Wells Fargo Bank, N.A.   |
| 31.1    | Certification of Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2    | Certification of Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| +       | 32.1 Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                     |
| +       | 32.2 Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                     |
| 99.1    | Section 13(r) Disclosure  |
| 101.INS | XBRL Instance Document  |

|         |  |
|---------|--|
| 101.SCH | XBRL Taxonomy Extension Schema Document                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |

Filed herewith

+ This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act ) or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933, as amended (the Securities Act ), or the Exchange Act.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BLACKSTONE MORTGAGE TRUST, INC.

April 29, 2014  
Date

/s/ Stephen D. Plavin  
Stephen D. Plavin

Chief Executive Officer

(Principal Executive Officer)

April 29, 2014  
Date

/s/ Paul D. Quinlan  
Paul D. Quinlan

Chief Financial Officer (Principal Financial Officer)

April 29, 2014  
Date

/s/ Anthony F. Marone, Jr.  
Anthony F. Marone, Jr.

Principal Accounting Officer