BLACKSTONE MORTGAGE TRUST, INC.
Form 424B4
May 23, 2013

Filed Pursuant to Rule 424(b)(4)
Registration No. 333-187541

22,500,000 Shares

Blackstone Mortgage Trust, Inc.

Class A Common Stock

Blackstone Mortgage Trust, Inc., a Maryland corporation, is a real estate finance company that focuses primarily on loans and securities backed by commercial real estate assets. We are externally managed and advised by BXMT Advisors L.L.C., a Delaware limited liability company, or our Manager, an affiliate of The Blackstone Group L.P., which we refer to as Blackstone. We conduct our operations as a real estate investment trust, or REIT, for U.S. federal income tax purposes. To assist us in qualifying as a REIT, among other purposes, stockholders generally will be restricted from owning more than 9.9% in value or number of shares, whichever is more restrictive, of the outstanding shares of our stock or of our class A common stock. In addition, our charter contains various other restrictions on the ownership and transfer of our common stock. See Description of Capital Stock Certain Provisions of Our Charter and Bylaws and of Maryland Law.

We are offering 22,500,000 shares of our class A common stock pursuant to this prospectus. All of the shares of our class A common stock offered by this prospectus are being sold by us. Our class A common stock is traded on the New York Stock Exchange, or NYSE, under the symbol BXMT. On May 22, 2013, the last reported price of our class A common stock on the NYSE was $26.45 per share.

Blackstone Holdings III L.P., or Holdings III, an existing principal stockholder and an affiliate of Blackstone, has agreed to purchase from the underwriters an additional $50.0 million of shares of our class A common stock in this offering at the public offering price.

Investing in our class A common stock involves risks. See Risk Factors beginning on page 27 to read about factors you should consider before buying shares of our class A common stock.

None of the Securities and Exchange Commission, any state securities commission, or any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$ 25.5000	$ 573,750,000
Underwriting discounts and commissions (1)	$ 0.9175	$ 20,643,750
Proceeds, before expenses, to us (2)	$ 24.5825	$ 553,106,250

(1) Gives effect to the fact that no underwriting discounts and commissions will be paid with respect to the (i) $50.0 million of shares of class A common stock that Holdings III has agreed to purchase from the underwriters or (ii) the approximately $7.7 million of shares of class A common stock that have been reserved for sale under a directed share program. Underwriting discounts and commissions paid on all other shares offered hereby are equal to $1.02 per share.

(2) We have agreed to reimburse the underwriters for certain expenses in connection with this offering. See Underwriting.

The underwriters have the option to purchase up to an additional 3,375,000 shares of our class A common stock from us at the public offering price less the underwriting discount within 30 days after the date of this prospectus.

The underwriters expect to deliver the shares against payment in New York, New York on or about May 29, 2013.

Joint Book-Running Managers

Citigroup **BofA Merrill Lynch** **J.P. Morgan** **Deutsche Bank Securities** **Wells Fargo Securities** **UBS Investment Bank**

Co-Managers

Blackstone Capital Markets

Keefe, Bruyette & Woods

A Stifel Company

Evercore Partners

JMP Securities

Prospectus dated May 22, 2013.

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You should rely only on the information contained in this prospectus, or in any free writing prospectus prepared by us or information to which we have referred you, including any information incorporated by reference. We have not, and the underwriters have not, authorized any other person to provide you with additional information or information different from that contained in this prospectus. We are not, and the underwriters are not, making an offer to sell shares of class A common stock in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of our class A common stock.

You should assume that the information appearing in this prospectus and any free writing prospectus prepared by us is accurate only as of their respective dates or on the date or dates which are specified in these documents. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

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PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It does not contain all of the information that you should consider before investing in our class A common stock. You should read carefully the more detailed information set forth under Risk Factors and the other information included and incorporated by reference in this prospectus. Except where the context suggests otherwise, the terms company, we, us, our, and Blackstone Mortgage Trust refer to Blackstone Mortgage Trust, Inc., a Maryland corporation, formerly known as Capital Trust, Inc., and its subsidiaries; Manager refers to BXMT Advisors L.L.C., a Delaware limited liability company, formerly known as BREDS/CT Advisors L.L.C., our external manager; and Blackstone refers to The Blackstone Group L.P., a Delaware limited partnership, and its subsidiaries. Unless indicated otherwise, the information in this prospectus (1) reflects the $25.50 public offering price per share for shares of our class A common stock sold in this offering, (2) assumes the underwriters do not exercise their option to purchase up to an additional 3,375,000 shares of our class A common stock, (3) gives effect to the one-for-ten reverse stock split of our class A common stock which we effected on May 6, 2013 and (4) does not reflect the shares of class A common stock available for future issuance under our equity incentive plans.

Our Company

Blackstone Mortgage Trust, Inc. is a real estate finance company that focuses primarily on originating mortgage loans backed by commercial real estate assets. Our business plan is to create the premier global commercial real estate lending platform and to originate, acquire and manage commercial real estate loans and securities and other commercial real estate-related debt instruments. While the commercial real estate debt markets are complex and continually evolving, we believe they offer compelling opportunities when approached with the institutional capabilities and expertise of our Manager, an affiliate of Blackstone, one of the world s leading investment and advisory firms. Our investment objective is to preserve and protect our capital while producing attractive risk-adjusted returns primarily through dividends generated from current income on our portfolio.

Our Manager is a part of Blackstone s alternative asset management business, which includes the management of real estate funds, private equity funds, hedge fund solutions, credit-oriented funds and closed-end funds. Blackstone also provides various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory and fund placement services. Through its different businesses, Blackstone had total assets under management of approximately $218.2 billion as of March 31, 2013.

In connection with the performance of its duties, our Manager benefits from the resources, relationships and expertise of Blackstone s global real estate group, which is the largest private equity real estate manager in the world with $59.5 billion of investor capital under management as of March 31, 2013. Blackstone s real estate group consists primarily of Blackstone Real Estate Partners, or BREP, opportunistic real estate funds and Blackstone Real Estate Debt Strategies, or BREDS, debt real estate funds that make investments and loans across a variety of real estate sectors.

Blackstone s real estate group was co-founded in 1991 by John G. Schreiber, who currently serves as a member of our board of directors and is the chairman of our Manager s investment committee. Jonathan D. Gray, who serves as global head of Blackstone s real estate group, is a member of the board of directors of Blackstone and is a member of our Manager s investment committee. In addition to the 225 professionals who are part of the global Blackstone real estate platform as of March 31, 2013, our Manager benefits from Blackstone s global relationships with property owners, managers, lenders, brokers and advisors and the real-time knowledge derived from its broadly diversified real estate holdings.

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Within Blackstone s real estate group, our Manager forms part of BREDS, which was launched by Blackstone in 2008 to pursue opportunities relating to debt and preferred equity investments globally, with a focus on the United States and Europe. Michael B. Nash, the chief investment officer and co-founder of BREDS, serves as the executive chairman of our board of directors and is a member of our Manager s investment committee. As of April 30, 2013, 51 BREDS professionals managed approximately $8.9 billion of assets (including Blackstone Mortgage Trust and assets previously under Capital Trust, Inc. s management).

Our Manager is led by an experienced team of senior BREDS professionals, including Michael B. Nash, our executive chairman, Stephen D. Plavin, our chief executive officer, Geoffrey G. Jervis, our chief financial officer, and managing directors Randall S. Rothschild (legal and compliance, who also serves as the company s secretary) and Thomas C. Ruffing (asset management), each of whom have at least 15 years of real estate experience. The investment committee of our Manager, which includes Messrs. Schreiber (chairman of the committee), Gray, Nash, Plavin, Jervis and Rothschild as well as Robert G. Harper, the head of BREDS Europe, and Peter J. Sotoloff, managing director of BREDS U.S. Loan and Investment Origination, advises and consults with the Manager s senior management team with respect to our investment strategy, investment portfolio holdings, financing and investment guidelines, and approves our investments. See Management and Our Manager and the Management Agreement for biographical information regarding these individuals.

In addition to the new investment program that we expect to build using the proceeds of this offering, we had existing assets with a net book value of $76.1 million or $25.21 per share as of March 31, 2013. See Business Our History December 2012 Strategic Transaction for additional information on the assets we retained following our December 2012 strategic transaction.

Market Opportunities

Commercial real estate is a capital-intensive business that relies heavily on debt capital to develop, acquire, maintain and refinance commercial properties. We believe that demand for commercial real estate debt financing, together with decreases in the supply of traditional financing, present compelling opportunities to generate attractive risk-adjusted returns for lenders with access to capital and with broad institutional capabilities. We believe that our Manager has the expertise in place and superior capabilities that will allow us to capitalize on these opportunities.

In the United States alone, approximately $1.7 trillion of commercial real estate debt will mature between 2013 and 2017, with approximately $374 billion maturing in 2013 alone, based on estimates from Trepp, LLC. In addition, in Europe, where Blackstone has a dedicated real estate team in place and has been among the most active real estate debt and equity investors since the global financial crisis, approximately $1.0 trillion of commercial real estate debt will mature between 2013 and 2015, based on estimates from DTZ Research. Given our Manager s access to Blackstone s real estate platform, we believe that it is well positioned to value real estate collateral and evaluate market trends in order to help us identify value and generate attractive risk-adjusted returns in opportunities that competitors might reject.

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The improvement in general market conditions, the financial sector and real estate lead us to believe that the demand for commercial real estate capital, particularly debt capital such as the type that we can provide, will soon reach cyclical highs. In the face of this demand for financing, there have been reductions in the supply of traditional commercial real estate debt financing, as illustrated in the chart below describing U.S. commercial mortgage real estate fund flows.

One legacy of the credit boom that preceded the economic crisis in 2008 and 2009 is that many existing commercial real estate loans are scheduled to mature between now and 2017, with near-term maturities dominated by unsecuritized commercial real estate loans provided by portfolio lenders, primarily banks. The failures or retrenchment of many banks and financial institutions that historically satisfied much of the demand for debt financing, together with current lending practices that are more conservative than those prevailing prior to the economic crisis (despite the recovery in real estate fundamentals), have created a large scale opportunity to originate attractively structured and priced commercial real estate financing.

Although some traditional bank lenders and securitization programs have returned to the U.S. market, we believe that significant changes in the regulatory environment and institutional risk tolerance have reduced many lenders lending capacity and appetite for commercial real estate debt investments. On the international front, we see significant opportunity in Europe to generate compelling returns as many of the traditional providers of financing have exited or retrenched from the real estate financing market. Among the factors that we expect will continue to limit lending and increase debt costs for traditional financing sources are the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010, or Dodd-Frank Act, and Basel III with provisions for higher bank capital charges on certain types of real estate loans, and enhanced risk-retention requirements for commercial mortgage-backed securities, or CMBS, that may increase securitization costs and reduce competition from CMBS lenders.

During the period from 2005 to 2007 approximately $67.0 billion of floating rate CMBS, was issued in the United States, which represented approximately 11.3% of total CMBS issuance during that period, according to

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Commercial Mortgage Alert s CMBS Database. Recently, floating rate CMBS issuance has been more limited, with only $2.7 billion issued in the United States in 2011 and 2012, which represented approximately 3.4% of total CMBS issuance, according to Commercial Mortgage Alert s CMBS Database. We believe this provides an opportunity for lenders with resources, such as those available to our Manager, to originate attractive debt financing for borrowers that require floating rate loans that are unavailable through traditional sources. In particular, we believe we will benefit from Blackstone s expertise in sourcing, valuing and underwriting real estate assets.

Some of the loans and investments that we expect to focus on are those backed by transitional assets, such as properties that require renovation, rehabilitation or other value-added elements in order to maximize value. In particular, many commercial real estate debt obligations that are in special servicing involve transitional assets that require flexible financing. As of February 2013, approximately $67.2 billion of CMBS loans, representing 12.2% of all CMBS outstanding in the United States, were in special servicing, according to Commercial Mortgage Alert s CMBS Database. Loans in special servicing often require new equity and debt capital as part of the loan resolution process, and we expect to see significant opportunities for loan origination from such recapitalizations in circumstances where underlying collateral and sponsorship are sound. We expect these recapitalized loans will generally be more conservative and less leveraged than loans being paid off as these borrowers will generally be deleveraging legacy capital structures through the infusion of new equity and/or the forgiveness of old debt.

Given the high volume of existing loan maturities, together with the exit or retrenchment of many traditional providers of real estate financing and regulatory pressures that we expect will continue for the foreseeable future, we believe commercial real estate debt investments provide attractive relative yields, especially in today s low interest rate environment. Investors with institutional resources and experienced professional management teams in place will, we believe, be well positioned to analyze and profit from opportunities that require both localized market knowledge and an understanding of the issues presented by the complex global real estate capital markets.

Our Competitive Strengths

Affiliation with Blackstone Real Estate. Blackstone is a world leader in real estate investing with an assortment of real estate funds that are diversified geographically and invest across a variety of sectors, with $59.5 billion of investor capital under management as of March 31, 2013. With over $120 billion of real estate controlled by Blackstone as of March 31, 2013, the size and scale of Blackstone s real estate holdings make it one of the largest private owners of lodging, office, retail, industrial and residential real estate in the United States. Through March 31, 2013, BREP opportunistic real estate funds and BREDS debt real estate funds combined have invested approximately $44.5 billion in assets located in the U.S., Europe and Asia. BREP and BREDS funds have been among the most active real estate investors and lenders since the global financial crisis, investing or committing to invest over $22.8 billion between October 1, 2009 and March 31, 2013, including approximately $5.4 billion in equity and debt investments in Europe. Blackstone has the largest private equity real estate business in the world, based on capital raised.

We expect to benefit from Blackstone s real estate platform, including offices in five continents, and its global relationships with property owners, managers, lenders, brokers and advisors. In addition, our Manager s access to data on real estate markets in which Blackstone invests provides abundant, real-time information that we believe will enable us to capitalize on opportunities at a very early stage. Blackstone real estate funds have invested capital throughout economic cycles by focusing on opportunities that were often overlooked by or unavailable to other investors. This deep reservoir of real estate market knowledge will also inform the thorough underwriting analysis we expect our Manager will conduct on the loans and investments it considers for our portfolio and will aid in its ongoing management of our assets.

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Blackstone Real Estate Debt Investment Expertise. Blackstone s real estate debt business, known as BREDS, has an existing, dedicated team with the skillset and industry relationships that enable it to provide innovative financing solutions to the commercial real estate lending marketplace through its established sourcing, underwriting and structuring capabilities. Our Manager s senior personnel are part of the BREDS platform, which consisted of 51 professionals in New York and London as of March 31, 2013. The team includes senior personnel from Capital Trust, Inc. who joined Blackstone following our December 2012 strategic transaction and have extensive experience managing our company as a publicly-traded mortgage REIT.

BREDS has been among the most active real estate lenders and debt investors since the global financial crisis, originating or purchasing over 185 separate loans in the United States and Europe through March 31, 2013, representing approximately $5.0 billion of face value as of March 31, 2013. These loans are collateralized by lodging, office, retail and industrial properties and included:

- 60 loan originations with a face amount of approximately $1.6 billion; and
- 128 legacy loan purchases with a face amount of approximately $3.3 billion.

Superior Sourcing Capabilities. Through our Manager, we can draw on Blackstone s established sourcing capabilities. We expect the experience of Blackstone s real estate debt team in originating and managing loans and securities investments, combined with its extensive proprietary relationships in the real estate ownership, development, management, leasing and financing markets, will provide us with an ongoing source of attractive new investment opportunities, many of which we believe will not be available to our competitors. Blackstone s existing relationships in the real estate industry are complemented by its longstanding relationships with commercial banks, investment banks, insurance companies and other participants in the real estate industry that we believe value the market knowledge, thorough and sophisticated analysis, access to capital, speed and certainty of execution they associate with Blackstone.

Strong Underwriting and Structuring Capabilities. Blackstone s existing underwriting and structuring capabilities are strengthened by its global network and substantial real estate and other investment holdings, which provide it with proprietary data on a scale not available to many competitors. We expect that this information will help our Manager in evaluating prospective investments by applying its disciplined credit policies and procedures and a rigorous underwriting process from the earliest identification of a transaction opportunity through its closing.

Active Asset Management. Our Manager s senior personnel are highly experienced in loan and securities asset management and an affiliate of our Manager is a rated and approved commercial real estate loan special servicer. From the closing of a loan or investment through its final repayment, we expect our Manager s dedicated asset management team will be in regular contact with borrowers, servicers and local market experts monitoring performance of the collateral, anticipating property and market issues, and enforcing rights and remedies when appropriate. We believe our Manager s access to the Blackstone real estate platform, and the detailed market information it provides, will provide our Manager with an advantage in its active management of our loans and investments. In addition, an affiliate of our Manager is a rated and approved special servicer, and therefore it can directly work out securitized loans that it controls in its loan and securities portfolio.

Alignment of Blackstone s and Our Manager s Interests

Holdings III, an existing principal stockholder and an affiliate of Blackstone, currently owns 500,000 shares of our class A common stock, which represented approximately 17.1% of our outstanding class A common stock as of May 6, 2013. Holdings III has agreed to purchase from the underwriters an additional $50.0 million of shares of our class A common stock in this offering at the public offering price. Holdings III has agreed that,

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subject to certain exceptions, it will not for a period of 180 days after the date of this prospectus (as such period may be extended under certain circumstances), dispose of or hedge any shares of our class A common stock or any securities convertible into or exchangeable for our class A common stock. After this offering, assuming that Holdings III purchases all of the shares it has agreed to purchase from the underwriters and the underwriters do not exercise their option to purchase additional shares of our class A common stock, Holdings III will beneficially own shares representing approximately 9.7% of our outstanding class A common stock.

At our request, the underwriters have also reserved approximately $7.7 million of the class A common stock being offered by this prospectus for sale at the public offering price to our directors and officers and to other employees of Blackstone and its affiliates under a directed share program.

Our Investment Strategy

Our investment strategy is to originate loans and invest in debt and related instruments supported by institutional quality commercial real estate in attractive locations. Through our Manager, we can draw on Blackstone s extensive real estate debt investment platform and its established sourcing, underwriting and structuring capabilities in order to execute our investment strategy. In addition, we expect to benefit from our access to Blackstone s extensive network and substantial real estate and other investment holdings, which provide our Manager access to market data on a scale not available to many competitors. While the majority of our capital likely will be invested in the United States, we expect to benefit from Blackstone s global real estate debt platform, which includes a team of five investment professionals, based in London that focuses on commercial real estate debt investment opportunities throughout Europe.

We expect to benefit from Blackstone s real estate debt investment expertise in order to directly originate, co-originate and acquire debt instruments in conjunction with acquisitions, refinancings and recapitalizations of commercial real estate around the world. In the case of loans we acquire, we will focus on performing loans that are supported by well-capitalized properties and portfolios. We believe that the scale and flexibility of our capital, as well as our Manager s and its affiliates relationships, will enable us to target strong sponsors and invest in debt collateralized by large, high-quality assets and portfolios.

As market conditions evolve over time, we expect to adjust our investment strategy to adapt to such changes as appropriate. We believe there are significant opportunities among our target assets that currently present attractive risk-return profiles. However, to capitalize on the investment opportunities that may be present at various other points of an economic cycle, we may expand or change our investment strategy and target assets. We believe that the diversification of the portfolio of assets that we intend to acquire, our ability to aggressively manage our target assets and the flexibility of our strategy will position us to generate attractive long-term returns for our stockholders in a variety of market conditions.

Our Target Assets

The assets in which we intend to invest will include the following types of commercial real estate loans and other debt-oriented investments, focusing primarily on the lodging, office, retail, industrial, residential and healthcare real estate sectors in the United States and Europe, including, but not limited to:

Mortgage Loans. We intend to focus on originating mortgage loans that are backed by commercial real estate assets. These loans are secured by real estate and evidenced by a first priority mortgage. The loans may vary in duration, may bear interest at a fixed or floating rate, and may amortize and typically require a balloon payment of principal at maturity. These investments may encompass a whole loan or may also include *pari passu* participations within such a mortgage loan.

Other Loans and Investments. Although we expect that originating mortgage loans will be our primary area of focus, we also expect to originate and invest in other commercial real estate loans and other debt-oriented investments, including:

- *subordinate mortgage interests*: interests, often referred to as B Notes, in a junior portion of the mortgage loan. Subordinate mortgage interests have the same borrower and benefit from the same underlying secured obligation and collateral as the senior interest in a mortgage loan, but in the event of a default, are subordinated in repayment priority;

- *mezzanine loans:* loans made to the owners of a mortgage borrower and secured by a pledge of equity interests in the mortgage borrower. These loans are subordinate to a first mortgage loan but senior to the owner s equity;

- *preferred equity:* investments that are subordinate to any mortgage and mezzanine loans, but senior to the owner s common equity; and

- *real estate securities:* interests in real estate, which may take the form of CMBS or collateralized loan obligations, or CLOs, that are collateralized by pools of real estate debt instruments, often first mortgage loans.

The allocation of our capital among our target assets will depend on prevailing market conditions at the time we invest and may change over time in response to different prevailing market conditions, including with respect to interest rates and general economic and credit market conditions. In addition, in the future we may invest in assets other than our target assets, in each case subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our exclusion from regulation under the Investment Company Act of 1940, as amended, or the Investment Company Act.

Our Initial Portfolio

In addition to a senior mortgage loan we originated on May 21, 2013, we are currently negotiating to originate five other senior mortgage loans and to purchase two existing senior mortgage loans and two *pari passu* participations in existing senior mortgage loans, in each case secured by commercial real estate assets located in the United States. Although we have reached agreement on the basic terms of each of the loans and purchases in negotiation and expect to close and fund each of these loans and purchases within the next three months, we have not executed binding commitment letters or definitive documentation and each loan is still subject to satisfactory completion of our underwriting process. As a result, although we consider these originations and acquisitions to be probable, no assurance can be given that any of these transactions will close on the anticipated terms or at all. The table below sets forth an overview of our anticipated initial portfolio as of May 22, 2013.

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Initial Portfolio as of May 22, 2013 ($ in thousands)

Property Type	Location	Total Loan Amount(1)	Estimated Closing Date	Fully Extended Maturity	All-In Yield(2)	LTV(3)
First Mortgage Loan						
Office Portfolio (approximately 2,400,000 sq. ft.)	West Coast	$ 300,000	June 2013	July 2018	L+4.13%	63%
Multi-Family Tower (350 units)	Midwest	$ 83,900	July 2013	July 2018	L+4.08%	73%
Multi-Family Tower (324 units)	Southeast	$ 81,000	June 2013	June 2018	L+4.18%	75%
Office Park (approximately 428,000 sq. ft.)	West Coast	$ 76,850	(4)	June 2018	L+4.23%	71%
Full-Service Hotel (369 rooms)	Mountain States	$ 50,000	June 2013	June 2018	L+4.70%	67%
Urban Retail Portfolio (approximately 31,000 sq. ft.)	Northeast	$ 50,000	July 2013	August 2017	L+5.18%	70%
Full-Service Hotel (188 rooms)	Midwest	$ 48,375	June 2013	December 2016	L+6.31%	53%
Limited-Service Hotel Portfolio (778 rooms)	Mountain States	$ 42,250	June 2013	August 2017	L+4.21%	59%
Pari Passu Interest						
Urban Apartment Site(5)	Northeast	$ 64,000	June 2013	February 2015	L+9.28%	69%
Full-Service Hotel (598 rooms)(6)	Northeast	$ 27,188	June 2013	July 2017	L+4.13%	32%
Total Targeted Investment Portfolio/Weighted Average		$ 823,563			L+4.50%	64%

(1) Includes future funding, where applicable.

(2) All-in yield includes cash interest, origination fees, and extension fees assuming full extension of loan maturities and no defaults. All-in yield would differ if loans are repaid earlier.

(3) Loan to Value, or LTV, is calculated as the total loan amount divided by the valuation of the property underlying the loan based on either: (i) appraised value of the property, in the case of Midwest Multi-Family Tower, Southeast Multi-Family Tower, Midwest Full-Service Hotel, Mountain States Limited-Service Hotel Portfolio, Northeast Urban Apartment Site and Northeast Full-Service Hotel; (ii) purchase price of the property, in the case of West Coast Office Park and Northeast Urban Retail Portfolio; or (iii) our opinion of value based on current market conditions and other factors we deem relevant, in the case of West Coast Office Portfolio and Mountain States Full-Service Hotel.

(4) Closed on May 21, 2013.

(5) 50% participation interest.

(6) 27% participation interest.

Our Funding Sources

BXMT/Blackstone Joint Venture. On May 13, 2013, we formed a new joint venture, 42-16 Partners, LLC, a Delaware limited liability company, or the BXMT/Blackstone Joint Venture, with Blackstone Holdings Finance Co. L.L.C., or Holdings Finance, an affiliate of Blackstone, for the purpose of warehousing eligible assets in anticipation of closing this offering and entering into related financing arrangements. The BXMT/Blackstone Joint Venture originated the West Coast Office Park loan described in the table above on May 21, 2013.

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Blackstone Mortgage Trust owns 16.667% of the interests in the BXMT/Blackstone Joint Venture in the form of voting limited liability company units and Holdings Finance owns the remaining 83.333% in the form of non-voting limited liability company units. Subject to certain limitations set forth in the joint venture agreement, we, in our capacity as managing member of the BXMT/Blackstone Joint Venture, control and manage the activities of the BXMT/Blackstone Joint Venture.

Under the terms of the joint venture agreement, the members have agreed to make capital contributions in proportion to their respective percentage interests in the BXMT/Blackstone Joint Venture, provided that we are not required to make capital contributions in excess of $10.0 million and Holdings Finance is not required to make capital contributions in excess of $50.0 million. The requirement to make capital contributions will expire on September 30, 2013, or such later date as the members of the BXMT/Blackstone Joint Venture may agree. The net cash flow of the BXMT/Blackstone Joint Venture will be distributed to its members *pro rata* in proportion to their respective percentage interests each month.

Pursuant to the terms of a letter agreement dated May 13, 2013, or Letter Agreement, between us and Holdings Finance, we have agreed to purchase for cash Holdings Finance s interest in the BXMT/Blackstone Joint Venture, or Holdings Finance Interest, contemporaneously with the closing of this offering, such that we will own 100% of the BXMT/Blackstone Joint Venture. The purchase price for the Holdings Finance Interest will be equal to 83.333% of the difference between (x) the fair value of the BXMT/Blackstone Joint Venture s consolidated assets and (y) the consolidated liabilities of the BXMT/Blackstone Joint Venture as of the date of the closing of this offering.

***Master Repurchase Agreements*.** On May 21, 2013, a special-purpose wholly-owned subsidiary of the BXMT/Blackstone Joint Venture entered into a Master Repurchase Agreement, or BofA Repurchase Agreement, as seller with Bank of America, N.A. as buyer. The BofA Repurchase Agreement is designed to remain in place after our acquisition of the Holdings Finance Interest upon the closing of this offering, and was used to finance the origination of the West Coast Office Park loan. We expect the BofA Repurchase Agreement will also be used to finance the acquisition or origination of certain additional eligible loans following the closing of this offering. The BofA Repurchase Agreement provides for advances of up to $250.0 million in the aggregate. In connection with the BofA Repurchase Agreement we entered into a guarantee agreement in favor of the buyer, under which we will guarantee the obligations of the seller under the BofA Repurchase Agreement up to a maximum liability ranging from 50% to 100% of the then currently outstanding repurchase price of the eligible loan depending on the type of loan.

We are also in the process of negotiating additional master repurchase agreements with each of Citibank, N.A., Deutsche Bank AG, Cayman Islands and JPMorgan Chase Bank, N.A. with an aggregate maximum size, including the BofA Repurchase Agreement described above, of approximately $1.15 billion. In addition we are negotiating an asset specific repurchase agreement with Wells Fargo Bank, National Association that we plan to use to finance the West Coast Office Portfolio mortgage. We have not, however, executed binding commitment letters or definitive documentation with respect to any of these additional facilities and each facility is still subject to negotiation. As a result, no assurance can be given that these facilities will close on the anticipated terms or at all.

For further detail regarding the terms of our funding sources, see Business Funding Sources in this prospectus.

Financing Strategy and Financial Risk Management

Our funding sources will initially include the net proceeds of this offering and the BofA Repurchase Agreement. We anticipate using prudent levels of leverage as part of our financing strategy. In addition to the BofA Repurchase Agreement and a repurchase agreement in place at our subsidiary CT Legacy Asset, LLC, or

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CT Legacy Asset, that is not recourse to us, we are in discussions with a number of financial institutions that we expect in the near future will provide us with additional repurchase facilities as described under Our Funding Sources Master Repurchase Agreements above. Over time, in addition to these financings, we may use other forms of leverage, including secured and unsecured warehouse and other credit facilities, securitizations, resecuritizations, and public and private, secured and unsecured debt issuances by us or our subsidiaries.

Although we are not required to maintain any particular debt-to-equity leverage ratio, the amount of leverage we may employ for particular assets will depend upon our Manager s assessment of the credit, liquidity, price volatility and other risks of those assets and the financing counterparties, and availability of particular types of financing at the then-current time. Our decision to use leverage to finance our assets will be at the discretion of our Manager and will not be subject to the approval of our stockholders. Although we are not restricted by our governing documents in the amount of leverage that we may use, we plan to maintain appropriate controls to ensure prudent leverage levels appropriate to our specific portfolio. We currently expect that our initial leverage will not exceed, on a debt to equity basis, a ratio of 3-to-1. We will endeavor to match the terms and indices of our assets and liabilities, including in certain instances through the use of derivatives. We will also seek to minimize the risks associated with recourse borrowing. In addition, we may rely on short-term financing such as repurchase transactions under master repurchase agreements.

Subject to maintaining our qualification as a REIT, we may, from time to time, engage in a variety of hedging transactions that seek to mitigate the effects of fluctuations in interest rates or currencies and their effects on our cash flows. These hedging transactions could take a variety of forms, including interest rate or currency swaps or cap agreements, options, futures contracts, forward rate or currency agreements or similar financial instruments. We expect these instruments will allow us to minimize, but not eliminate, the risk that we have to refinance our liabilities before the maturities of our assets and to reduce the impact of changing interest rates or currency fluctuations on our earnings.

Investment Guidelines

Our board of directors has approved the following investment guidelines:

- no investment shall be made that would cause us to fail to qualify as a REIT under the Internal Revenue Code of 1986, as amended, or Internal Revenue Code;

- no investment shall be made that would cause us or any of our subsidiaries to be regulated as an investment company under the Investment Company Act;

- our Manager shall seek to invest our capital in a broad range of investments in or relating to public and/or private debt, non-controlling equity, loans and/or other interests (including mezzanine interests and/or options or derivatives related thereto) relating to real estate assets (including pools thereof), real estate companies and/or real estate-related holdings;

- prior to the deployment of capital into investments, our Manager may cause our capital to be invested in any short-term investments in money market funds, bank accounts, overnight repurchase agreements with primary federal reserve bank dealers collateralized by direct U.S. government obligations and other instruments or investments reasonably determined by our Manager to be of high quality;

- not more than 25% of our Equity (as defined in our amended and restated management agreement with our Manager) will be invested in any individual investment without the approval of a majority of the investment risk management committee of our board of directors (it being understood, however, that for purposes of the foregoing concentration limit, in the case of any investment that is comprised

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(whether through a structured investment vehicle or other arrangement) of securities, instruments or assets of multiple portfolio issuers, such investment for purposes of the foregoing limitation shall be deemed to be multiple investments in such underlying securities, instruments and assets and not such particular vehicle, product or other arrangement in which they are aggregated); and

any investment in excess of $150.0 million requires the approval of a majority of the investment risk management committee of our board of directors.

These investment guidelines may be amended, restated, modified, supplemented or waived pursuant to the approval of a majority of our board of directors (which must include a majority of the independent directors on our board of directors) from time to time, without the approval of our stockholders.

Operating and Regulatory Structure

REIT Qualification

We made a tax election to be treated as a REIT effective January 1, 2003 and expect to continue to operate so as to qualify as a REIT. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on net taxable income that we distribute annually to our stockholders. In order to qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the real estate qualification of sources of our income, the composition and values of our assets, the amounts we distribute to our stockholders and the diversity of ownership of our stock. In order to comply with REIT requirements, we may need to forego otherwise attractive opportunities and limit our expansion opportunities and limit the manner in which we conduct our operations.

See Risk Factors Risks Related to our REIT Status and Certain Other Tax Items.

Investment Company Act Exclusion

We intend to continue to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act. Complying with provisions that allow us to avoid the consequences of registration under the Investment Company Act may at times require us to forego otherwise attractive opportunities and limit the manner in which we conduct our operations.

Blackstone Mortgage Trust currently conducts its operations so that it is not an investment company as defined in Section 3(a)(1)(A) or Section 3(a)(1)(C) of the Investment Company Act. We believe we are not an investment company under Section 3(a)(1)(A) of the Investment Company Act because we do not engage primarily, or hold ourselves out as being engaged primarily, in the business of investing, reinvesting or trading in securities. Rather, through our wholly owned or majority-owned subsidiaries, we believe we are primarily engaged in the non-investment company business of purchasing or otherwise acquiring mortgages and other interests in real estate. To satisfy the requirements of Section 3(a)(1)(C), we must not be engaged in the business of investing, reinvesting, owning, holding, or trading securities and we must not own investment securities with a value that exceeds 40% of the value of our total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. Excluded from the term investment securities, among other things, are U.S. Government securities and securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exclusions from the definition of investment company for private investment companies set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

For purposes of the foregoing, we currently treat our interests in CT Legacy Partners, LLC, or CT Legacy Partners, our majority-owned subsidiary, as non-investment securities because CT Legacy Partners qualifies for the exclusion from regulation as an investment company afforded by Section 3(c)(5)(C) of the Investment

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Company Act. We also expect to rely on this exclusion with respect to our investment in majority-owned subsidiaries that will hold our initial portfolio and the future loans we originate or acquire. Under this exclusion, these majority-owned subsidiaries are required to maintain, on the basis of positions taken by the staff of the Securities and Exchange Commission, or SEC, in interpretive and no-action letters, a minimum of 55% of the value of the total assets of any such entity in mortgages and other liens on and interests in real estate, which we refer to as Qualifying Interests, and a minimum of 80% in Qualifying Interests and real estate-related assets.

See Risk Factors Risks Related to Our Company We must manage our portfolio so that we do not become an investment company that is subject to regulation under the Investment Company Act.

Summary Risk Factors

An investment in shares of our class A common stock involves a high degree of risk. You should consider carefully the risks discussed below and under Risk Factors before purchasing shares of our class A common stock. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our class A common stock could decline, and you may lose some or all of your investment.

- We have not yet executed binding commitment letters or definitive documentation with respect to our anticipated initial portfolio of loans that are currently in negotiation and, as a result, we cannot assure you that these transactions will close on the anticipated terms or at all.

- Your ability to evaluate the allocation of net proceeds from this offering or the economic merits of our future loans and investments prior to making an investment decision may be limited, particularly to the extent we do not close on all or a portion of our anticipated initial portfolio that is currently in negotiation.

- Our loans and investments expose us to risks associated with debt-oriented real estate investments generally.

- Commercial real estate-related investments that are secured, directly or indirectly, by real property are subject to delinquency, foreclosure and loss, which could result in losses to us.

- Interest rate fluctuations could reduce our ability to generate income on our investments, which could lead to a significant decrease in our results of operations, cash flows and the market value of our investments.

- We operate in a competitive market for lending and investment opportunities and competition may limit our ability to originate or acquire desirable loans and investments in our target assets and could also affect the yields of these assets.

- We may incur a significant amount of debt, which may subject us to increased risk of loss and could adversely affect our results of operations and financial condition.

- Lenders may require us to enter into restrictive covenants, which would restrict our flexibility to determine our operating policies and investment strategy.

- The BofA Repurchase Agreement and any bank credit facilities, repurchase agreements or other financing that we may use in the future to finance our assets may require us to provide additional collateral or pay down debt.

We depend on our Manager and its personnel for our success. We may not find a suitable replacement for our Manager if the Management Agreement is terminated, or if key personnel leave the employment of our Manager or Blackstone or otherwise become unavailable to us.

Our Manager manages our portfolio pursuant to very broad investment guidelines and is not required to seek the approval of our board of directors for each investment, financing, asset allocation or hedging decision made by it, which may result in our making riskier loans and investments and which could adversely affect our results of operations and financial condition.

Our Manager s fee structure may not create proper incentives or may induce our Manager and its affiliates to make certain investments, including speculative investments, which increase the risk of our investment portfolio.

We may compete with existing and future private and public investment vehicles established and/or managed by Blackstone or its affiliates, which may present various conflicts of interest that restrict our ability to pursue certain investment opportunities or take other actions that are beneficial to our business and result in decisions that are not in the best interests of our stockholders.

The historical returns attributable to funds managed by affiliates of our Manager should not be considered indicative of our future results or of any returns expected on an investment in shares of our class A common stock. Our investors are not acquiring an interest in any such funds.

We do not own the Blackstone name, but we may use it as part of our corporate name pursuant to a trademark license agreement with an affiliate of Blackstone. Use of the name by other parties or the termination of our trademark license agreement may harm our business.

Our investment strategy or guidelines, asset allocation or financing strategy may be changed without stockholder consent.

The assets and liabilities of CT Legacy Partners have been impacted by the recent market turmoil in commercial real estate. Our efforts to stabilize the CT Legacy Partners business with the restructuring of our debt obligations may not be successful as the CT Legacy Partners investment portfolio is subject to the risk of further deterioration in the financial markets.

We must manage our portfolio so that we do not become an investment company that is subject to regulation under the Investment Company Act.

If we do not maintain our qualification as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability. Our taxable REIT subsidiaries are subject to income tax.

REITs, in certain circumstances, may incur tax liabilities that would reduce our cash available for distribution to you.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities and limit our expansion opportunities.

The market price of our class A common stock may fluctuate significantly.

As a result of this offering, we expect to experience an ownership change for purposes of Section 382 of the Internal Revenue Code that will materially limit our ability to utilize our net operating losses, or NOLs, and net capital losses, or NCLs, against future taxable income.

The Blackstone Transactions

Our relationship with Blackstone commenced on December 19, 2012, when we closed a strategic transaction with affiliates of Blackstone in which we: (1) sold to Blackstone our investment management subsidiary, which employed all of our employees, and certain other assets; (2) entered into a management agreement with our Manager, which in the form it was amended and restated on March 26, 2013, we refer to as the Management Agreement, pursuant to which our Manager is responsible for administering our business and day-to-day operations and providing us with our management team and appropriate support personnel; and (3) issued and sold 500,000 shares of our class A common stock to an affiliate of Blackstone. We refer collectively to these as the Blackstone Transactions.

The assets we retained following the Blackstone Transactions consist primarily of: (1) cash and cash equivalents; (2) our interests in CT Legacy Partners, a vehicle we formed to own and finance certain legacy

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assets that we retained in connection with a comprehensive debt restructuring in 2011, including our investment in CT Legacy Asset; (3) our carried interest in CT Opportunity Partners I, L.P., or CTOPI, a private investment fund that was previously under our management and is now managed by an affiliate of our Manager; and (4) our subordinated interests in certain collateralized debt obligations, or CDOs.

Our Structure

The following chart summarizes our organizational structure and equity ownership after giving effect to this offering (assuming that Holdings III purchases all of the shares it has agreed to purchase from the underwriters, all shares reserved for purchase under a directed share program are purchased and the underwriters do not exercise their option to purchase additional shares of our class A common stock). This chart is provided for illustrative purposes only and does not show all of our legal entities or ownership percentages of such entities.

(1) Holdings III, an existing principal stockholder and an affiliate of Blackstone, has agreed to purchase from the underwriters an additional $50.0 million of shares of our class A common stock in this offering. In addition, information assumes that all of the approximately $7.7 million of shares of our class A common stock that have been reserved for sale under a directed share program are purchased by our directors and officers as well as employees of, and other persons having relationships with, Blackstone and its affiliates.

(2) Reflects our consolidated assets as of March 31, 2013. CT legacy assets include consolidated assets of wholly owned and non-wholly owned subsidiaries and securitization vehicles, including our interest in CT Legacy Partners.

(3) Reflects the total loan amount of our initial loan portfolio. Subsidiaries formed in connection with our new investment program are expected to be wholly owned. Upon the closing of this offering, we will acquire Holdings Finance s 83.333% interest in the BXMT/Blackstone Joint Venture which will then be wholly owned by us. There is no assurance that such investments will be closed at the terms outlined herein, if at all.

Management Agreement

Pursuant to the Management Agreement, our Manager manages our investments and our day-to-day business and affairs in conformity with our investment guidelines and other policies that are approved and monitored by our board of directors. Our Manager is responsible for, among other matters, (1) the selection, the origination or purchase and the sale of our portfolio investments, (2) our financing activities and (3) providing us with investment advisory services. Our Manager is also responsible for our day-to-day operations and performs (or causes to be performed) such services and activities relating to our investments and business and affairs as may be appropriate. In addition, our Manager has an investment committee that oversees our investment portfolio and its compliance with our investment guidelines.

The initial term of the Management Agreement expires on December 19, 2015 and will be automatically renewed for a one-year term each anniversary thereafter unless previously terminated as described below. Our independent directors will review our Manager s performance and the fees that may be payable to our Manager annually and, following the initial term, the Management Agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors, based upon (1) unsatisfactory performance by our Manager that is materially detrimental to us and our subsidiaries taken as a whole or (2) our determination that the management fee and incentive fee payable to our Manager are not fair, subject to our Manager s right to prevent any termination due to unfair fees by accepting a reduction of management and/or incentive fees agreed to by at least two-thirds of our independent directors. We must provide our Manager 180 days prior written notice of any termination. Unless terminated for cause, our Manager will be paid a termination fee equal to three times the sum of (x) the average annual management fee and (y) the average annual incentive fee earned by our Manager, in each case during the 24-month period immediately preceding the most recently completed calendar quarter prior to the date of termination.

We may also terminate the Management Agreement with at least 30 days prior written notice from us, without payment of a termination fee, upon the occurrence of a cause event as defined in the Management Agreement. Our Manager may terminate the Management Agreement if we become required to register as an investment company under the Investment Company Act, with such termination deemed to occur immediately before such event, in which case we would not be required to pay a termination fee. Our Manager may also decline to renew the Management Agreement by providing us with 180 days written notice, in which case we would not be required to pay a termination fee. In addition, if we breach the Management Agreement in any material respect or are otherwise unable to perform our obligations thereunder and the breach continues for a period of 30 days after written notice to us, our Manager may terminate the Management Agreement upon 60 days written notice. If the Management Agreement is terminated by our Manager upon our breach, we would be required to pay our Manager the termination fee described above.

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The following table summarizes the fees and expense reimbursements that we will pay to our Manager:

Type	Description
Management Fee	The greater of: (i) $250,000 per annum ($62,500 per quarter) and (ii) 1.50% per annum (0.375% per quarter) of our Equity. The management fee is payable in cash, quarterly in arrears with respect to each calendar quarter following December 19, 2012. For purposes of calculating the management fee, our Equity means: (a) the sum of (1) the net proceeds received by us in this offering and from all other issuances of our common stock from and after December 19, 2012, plus (2) our cumulative Core Earnings (as defined below) from and after December 19, 2012 to the end of the most recently completed calendar quarter, plus (3) cash retained on our balance sheet as of December 19, 2012 and cash retained upon realization of the CT Legacy Interests (as defined below), (b) less (1) any distributions to our stockholders, (2) any amount that we or any of our subsidiaries have paid to repurchase our common stock since December 19, 2012 and (3) any incentive compensation paid (as described below) following December 19, 2012. With respect to that portion of the period from and after December 19, 2012 that is used in any calculation of incentive compensation or the management fee, all items in the foregoing sentence (other than clause (a)(2)) are calculated on a daily weighted average basis.
	We expect the management fee to be paid to our Manager for the year ended December 31, 2013 to be approximately $5.1 million (or approximately $5.9 million if the underwriters exercise their option to purchase 3,375,000 additional shares of class A common stock in full), assuming: (i) estimated net proceeds in this offering of approximately $550.1 million, based on the public offering price of $25.50 per share and assumed offering expenses payable by us and the offering closes on or about May 29, 2013 and (ii) during such period (w) we do not effect any follow-on equity offerings, (x) there are no cumulative Core Earnings and no distributions to our stockholders are paid, (y) there is no cash retained from realization of any CT Legacy Interests and (z) no incentive compensation is paid.
Incentive Compensation	Our Manager is entitled to incentive compensation which is calculated and payable in cash with respect to each calendar quarter (or part thereof that the Management Agreement is in effect) in arrears in an amount, not less than zero, equal to: i. for the quarter ending March 31, 2013, the product of (a) 20% and (b) the difference between (i) our Core Earnings for such calendar quarter, and (ii) the product of (A) our Equity as of the end of such calendar quarter, and (B) 7% per annum;

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Type	Description
	ii. for each of the quarters ending June 30, 2013, September 30, 2013 and December 31, 2013, the difference between (1) the product of (a) 20% and (b) the difference between (i) our Core Earnings for the calendar quarter(s) following December 19, 2012, and (ii) the product of (A) our Equity in the calendar quarter(s) following December 19, 2012, and (B) 7% per annum, and (2) the sum of any incentive compensation paid to our Manager with respect to the prior calendar quarter(s) following December 19, 2012 (other than the most recent calendar quarter), as applicable; and iii. for the quarter ending March 31, 2014 and each calendar quarter thereafter, the difference between (1) the product of (a) 20% and (b) the difference between (i) our Core Earnings for the previous 12-month period, and (ii) the product of (A) our Equity in the previous 12-month period and (B) 7% per annum, and (2) the sum of any incentive compensation paid to our Manager with respect to the first three calendar quarters of such previous 12-month period; *provided, however*, that no incentive compensation shall be payable with respect to any calendar quarter unless Core Earnings for the 12 most recently completed calendar quarters (or such lesser number of completed calendar quarters from the date of this offering) is greater than zero. For purposes of calculating the incentive fee, our Core Earnings means: the net income (loss) attributable to our stockholders, computed in accordance with generally accepted accounting principles, or GAAP, including realized losses not otherwise included in GAAP net income (loss) and excluding (i) non-cash equity compensation expense, (ii) the incentive compensation described above, (iii) depreciation and amortization, (iv) any unrealized gains or losses or other similar non-cash items that are included in net income for the applicable reporting period, regardless of whether such items are included in other comprehensive income or loss, or in net income, (v) one-time events pursuant to changes in GAAP and certain material non-cash income or expense items, in each case after discussions between our Manager and the independent directors of our board of directors and approved by a majority of such independent directors, and (vi) net income (loss) related to the CT Legacy Interests. Pursuant to the terms of the Management Agreement, the exclusion of depreciation and amortization from the calculation of Core Earnings shall only apply to debt investments related to real estate to the extent that we foreclose upon the property or properties underlying such debt investments. For purposes of the terms Equity and Core Earnings, the CT Legacy Interests means our interests in (i) CT Legacy Partners, net of (a) secured notes issued by certain of our subsidiaries to former creditors in connection with our March 2011 restructuring, which are non-recourse obligations collateralized by certain of our equity interests in CT Legacy Partners, and (b) payments made by us pursuant to certain award agreements granted under our 2007 Long-Term Incentive Plan that relate to distributions made by CT Legacy Partners, (ii) our carried interest in CTOPI, net of payments

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Type	Description
	made by us pursuant to certain award agreements that relate to carried interest distributions made by CTOPI, and (iii) the subordinated interests in certain CDOs that we retained following the Blackstone Transactions.
Reimbursement of Expenses	We are required to reimburse our Manager for the documented costs and expenses incurred by it and its affiliates on our behalf except those specifically required to be borne by our Manager under the Management Agreement. Our reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed within 10 days following delivery of the expense statement by our Manager; *provided* that such payments may be offset by our Manager against amounts due to us from our Manager. In addition, we will not reimburse our Manager and its affiliates for the salaries and other compensation of its personnel or for allocations of occupancy costs.
Termination Fee	Termination fee equal to three times the sum of (i) the average annual management fee and (ii) the average annual incentive fee earned by our Manager, in each case during the 24-month period immediately preceding the most recently completed calendar quarter prior to the date of termination. The termination fee will be payable to our Manager upon termination of the Management Agreement: (i) by us without cause or (ii) by our Manager if we materially breach the management agreement.

Conflicts of Interest and Related Policies

Businesses or Services Provided by Our Manager to Others. The Management Agreement expressly provides that it does not (i) prevent our Manager or any of its affiliates, officers, directors or employees from engaging in other businesses or from rendering services of any kind to any other person or entity, whether or not the investment objectives or policies of any such other person or entity are similar to those of ours, including, without limitation, the sponsoring, closing and/or managing of any investment funds, vehicles, accounts, products and/or other similar arrangements sponsored, advised, and/or managed by Blackstone or its affiliates, whether currently in existence or subsequently established (in each case, including any related successor funds, alternative vehicles, supplemental capital vehicles, co-investment vehicles and other entities formed in connection with Blackstone or its affiliates side-by-side or additional general partner investments with respect thereto), which we refer to as the Blackstone Funds, that employ investment objectives or strategies that overlap, in whole or in part, with our investment guidelines, (ii) in any way bind or restrict our Manager or any of its affiliates, officers, directors or employees from buying, selling or trading any securities or commodities for their own accounts or for the account of others for whom our Manager or any of its affiliates, officers, directors or employees may be acting or (iii) prevent our Manager or any of its affiliates from receiving fees or other compensation or profits from activities described in clauses (i) or (ii) above which shall be for our Manager s (and/or its affiliates) sole benefit.

Allocation of Future Investment Opportunities. The Management Agreement expressly acknowledges that, while information and recommendations supplied to us shall, in our Manager s reasonable and good faith judgment, be appropriate under the circumstances and in light of our investment objectives and policies, such information and recommendations may be different in certain material respects from the information and recommendations supplied by our Manager or any affiliate of our Manager to others (including, for greater certainty, the Blackstone Funds and their investors, as described below). In addition, as acknowledged in the Management Agreement, (i) affiliates of our Manager sponsor, advise and/or manage one or more Blackstone Funds and may in the future sponsor, advise and/or manage additional Blackstone Funds and (ii) our Manager will allocate investment opportunities that overlap with our investment guidelines and those of one or more of the Blackstone Funds in a manner that our Manager and applicable affiliates determine to be fair and reasonable in accordance with the investment allocation policy and procedures of our Manager and/or its affiliates with respect to the allocation of investment opportunities among us and one or more Blackstone Funds (as the same may be amended, updated or revised from time to time without prior notice from our Manager or our consent), which we refer to as the Allocation Policy.

Pursuant to the terms of the Management Agreement, we acknowledged and/or agreed that (i) as part of Blackstone s or its affiliates regular businesses, personnel of our Manager and its affiliates may from time to time work on other projects and matters (including with respect to one or more Blackstone Funds), and that conflicts may arise with respect to the allocation of personnel between us and one or more Blackstone Funds and/or our Manager and such other affiliates, (ii) there may be circumstances where investments that are consistent with our investment guidelines may be shared with or allocated to one or more Blackstone Funds (in lieu of us) in accordance with the Allocation Policy, (iii) Blackstone Funds may invest, from time to time, in investments in which we may also invest (including at a different level of an issuer s capital structure (*e.g.*, an investment by an Blackstone Fund in an equity or mezzanine interest with respect to the same portfolio entity in which we own a debt interest or vice versa) or in a different tranche of debt or equity with respect to an issuer in which we have an interest) and while Blackstone and its affiliates will seek to resolve any such conflicts in a fair and equitable manner in accordance with the Allocation Policy and its prevailing policies and procedures with respect to conflicts resolution among Blackstone Funds generally, such transactions are not required to be presented to our board of directors or any committee thereof for approval (unless otherwise required by our investment guidelines), and there can be no assurance that any conflicts will be resolved in our favor, (iv) our Manager and its affiliates may from time to time receive fees from portfolio entities or other issuers for the arranging, underwriting, syndication or refinancing of investments or other additional fees, including acquisition fees, loan servicing fees, special servicing fees, administrative fees or advisory or asset management fees, including with respect to Blackstone Funds and related portfolio entities, and while such fees may give rise to conflicts of interest we will not receive the benefit of any such fees, and (v) the terms and conditions of the governing agreements of such Blackstone Funds (including with respect to the economic, reporting, and other rights afforded to investors in such Blackstone Funds) are materially different from the terms and conditions applicable to us and our stockholders, and neither we nor any of our stockholders (in such capacity) shall have the right to receive the benefit of any such different terms applicable to investors in such Blackstone Funds as a result of an investment in us or otherwise. In addition, pursuant to the terms of the Management Agreement, our Manager is required to keep our board of directors reasonably informed on a periodic basis in connection with the foregoing. With regard to transactions that present conflicts contemplated by clause (iii) above, our Manager is required to provide our board of directors with quarterly updates in respect of such matters.

Transactions with any Blackstone Fund or Affiliate. Pursuant to the terms of the Management Agreement, and subject to applicable law, our Manager is not permitted to consummate on our behalf any transaction that involves (i) the sale of any investment to or (ii) the acquisition of any investment from Blackstone, any Blackstone Fund or any of their affiliates unless such transaction (A) is on terms no less favorable to us than could have been obtained on an arm s-length basis from an unrelated third party and (B) has been approved in advance by a majority of our independent directors. In addition, pursuant to the terms of the Management Agreement, it is agreed that our Manager will seek to resolve any conflicts of interest in a fair and equitable manner in accordance with the Allocation Policy and its prevailing policies and procedures with respect to conflicts resolution among Blackstone Funds generally, but only those transactions set forth in this paragraph will be expressly required to be presented for approval to the independent directors of our board of directors or any committee thereof (unless otherwise required by our investment guidelines).

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Corporate Opportunities. Our charter includes a provision that provides, among other things, subject to certain exceptions, that none of Blackstone or its affiliates, our directors or any person our directors control will have any duty to refrain directly or indirectly from engaging in any business opportunities, including any business opportunities in the same or similar business activities or lines of business in which we or any of our affiliates may from time to time be engaged or propose to engage, or from competing with us.

Restrictions on Ownership of Our Common Stock

Charter Prohibitions on Concentration of Ownership

To assist us in complying with the limitations on the concentration of ownership of a REIT imposed by the Internal Revenue Code, among other purposes, our charter prohibits, with certain exceptions, any individuals (including certain entities treated as individuals for this purpose) from beneficially or constructively owning, applying certain attribution rules under the Internal Revenue Code, more than 9.9% by value or number of shares, whichever is more restrictive, of the outstanding shares of our common stock, or 9.9% by value or number of shares, whichever is more restrictive, of the outstanding shares of our capital stock. Our board of directors may, in its sole discretion, subject to such conditions as it may determine and the receipt of certain representations and undertakings, waive the 9.9% ownership limits with respect to a particular stockholder if such ownership will not jeopardize our qualification as a REIT.

Our charter also prohibits any person from, among other things:

- owning shares of our capital stock that would result in our being closely held under Section 856(h) of the Internal Revenue Code or otherwise cause us to fail to qualify as a REIT (taking into account certain constructive ownership rules); and

- transferring shares of our capital stock if such transfer would result in our capital stock being owned by fewer than 100 persons (taking into account certain constructive ownership rules).

Any attempted transfer of our stock which, if effective, would result in violation of the above limitations (except for a transfer which results in shares being owned by fewer than 100 persons, in which case such transfer will be void and of no force and effect and the intended transferee shall acquire no rights in such shares) will cause the number of shares causing the violation, rounded to the nearest whole share, to be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries designated by us and the intended transferee will not acquire any rights in the shares.

Termination of Our Tax Benefits Preservation Rights Agreement

We currently have a tax benefit preservation rights agreement that acts as a deterrent to any person or entity seeking to acquire 4.9% or more of our outstanding class A common stock without the prior approval of our board of directors. Upon consummation of this offering, we expect to experience an ownership change for purposes of Section 382 of the Internal Revenue Code, which we expect to materially limit our ability to use our substantial net operating and net capital loss carry forwards to offset our taxable income and thereby reduce our tax liability and/or our distribution requirements. As a result, we intend to terminate the tax benefit preservation rights agreement immediately prior to the consummation of this offering.

As of December 31, 2012 we had NOLs of approximately $161.5 million and NCLs of approximately $121.4 million. Although we intend to utilize a portion of our NOLs and NCLs in connection with certain transactions we expect to undertake prior to the consummation of this offering, there is no assurance that we will be successful in doing so and we expect to be materially limited in our use of any remaining NOLs and NCLs. See Risk Factors Risks Related to Our Class A Common Stock and this Offering As a result of this offering,

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we expect to experience an ownership change for purposes of Section 382 of the Internal Revenue Code that will materially limit our ability to utilize our NOLs and NCLs against future taxable income and Description of Capital Stock Tax Benefits Preservation Rights Agreement.

Corporate Information

Blackstone Mortgage Trust, Inc. was incorporated in Maryland in 1998, under the name Capital Trust, Inc., when we reorganized from a California common law business trust into a Maryland corporation. On May 6, 2013, we changed our name to Blackstone Mortgage Trust, Inc. Our principal executive offices are located at 345 Park Avenue, 42nd Floor, New York, New York 10154, and our telephone number is (212) 655-0220. Our web address is *www.blackstonemortgagetrust.com*. The information on, or otherwise accessible through, our website does not constitute a part of this prospectus.

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The Offering

Class A common stock offered by us	22,500,000 shares (plus up to an additional 3,375,000 shares of our class A common stock that we may issue and sell upon the exercise of the underwriters option to purchase additional shares of class A common stock).
Class A common stock outstanding after giving effect to this offering	25,426,651 shares (or 28,801,651 shares, if the underwriters exercise their option to purchase 3,375,000 additional shares of class A common stock in full).
Use of proceeds	We estimate that the net proceeds we will receive from this offering will be approximately $550.1 million, after deducting underwriting discounts and commissions of approximately $20.6 million and estimated offering expenses of approximately $3.0 million (or, if the underwriters exercise their option to purchase 3,375,000 additional shares of class A common stock in full, approximately $632.7 million, after deducting underwriting discounts and commissions of approximately $24.1 million and estimated offering expenses of approximately $3.0 million). We plan to use substantially all of the net proceeds from this offering to acquire the remaining 83.333% of the BXMT/Blackstone Joint Venture, to originate and purchase the loans in our initial portfolio and our target assets in a manner consistent with our investment strategies and investment guidelines described in this prospectus and for working capital and general corporate purposes. We focus primarily on originating mortgage loans backed by commercial real estate assets. We also have originated or acquired and may continue to originate or acquire other real estate and real estate-related debt assets. We may use the net proceeds from this offering to invest in assets other than our target assets subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our exclusion from regulation under the Investment Company Act.
	Until appropriate investments can be identified, our Manager may invest the net proceeds from this offering in money market funds, bank accounts, overnight repurchase agreements with primary federal reserve bank dealers collateralized by direct U.S. government obligations and other instruments or investments reasonably determined by our Manager to be of high quality and that are consistent with our intention to qualify as a REIT and maintain our exclusion from regulation under the Investment Company Act. These investments are expected to provide a lower net return than we seek to achieve from our target assets. See Use of Proceeds.
Dividend policy	We intend to make regular quarterly distributions to holders of our class A common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income (which does not equal net income as calculated in accordance with GAAP), determined without regard to the deduction for

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	dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its REIT taxable income. We generally intend over time to pay quarterly distributions in an amount at least equal to our taxable income.
	Any distributions we make to our stockholders will be at the discretion of our board of directors and will depend upon, among other things, our actual results of operations and liquidity. These results and our ability to pay distributions will be affected by various factors, including our taxable income, our financial condition, our maintenance of REIT status, applicable law and other factors as our board of directors deems relevant. For more information, see Price Range of Class A Common Stock and Dividend Policy.
NYSE Symbol	BXMT
Risk factors	You should carefully read and consider the information set forth under the heading Risk Factors beginning on page 27 of this prospectus and all other information in this prospectus before investing in our class A common stock.

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Summary Historical and Pro Forma Financial Data

The following table sets forth, for the periods and as of the dates indicated, our summary consolidated financial data and summary consolidated pro forma financial data. The summary consolidated financial data as of December 31, 2010, 2011 and 2012 and for the years ended December 31, 2010, 2011 and 2012, respectively, was derived from our historical audited consolidated financial statements which are incorporated by reference into this prospectus. The summary consolidated financial data as of December 31, 2010 was derived from our historical audited consolidated financial statements which are not incorporated by reference in this prospectus. The following summary historical consolidated financial data as of and for each of the three month periods ended March 31, 2012 and 2013 were derived from our unaudited consolidated financial statements which are incorporated by reference into this prospectus, which, in the opinion of our management, have been prepared on the same basis as our audited consolidated financial statements and reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our results of operations and financial position for such periods. Results for the three month periods ended March 31, 2012 and 2013 are not necessarily indicative of results that may be expected for the entire year.

The unaudited summary consolidated pro forma statements of operations data for the year ended December 31, 2012 and the three months ended March 31, 2013 gives pro forma effect to: (1) the sale of our investment management and servicing business and certain other assets to an affiliate of Blackstone on December 19, 2012, including the de-consolidation of certain CDOs which are no longer consolidated as a result thereof; (2) our entry into the Management Agreement with our Manager; and (3) the offering and the use of proceeds thereof, together with the proceeds of related repurchase financing, in originating and purchasing the loans in our initial portfolio, as if they each occurred on January 1, 2012. The unaudited pro forma statement of operations has been adjusted to reflect the one-for-ten reverse stock split that we effected prior to the consummation of this offering. The following unaudited pro forma balance sheet as of March 31, 2013 has been prepared to give pro forma effect to the offering and use of proceeds thereof, together with the proceeds of related repurchase financing, in originating and purchasing the loans in our initial portfolio, in each case as if they occurred on March 31, 2013. The following unaudited summary consolidated pro forma statement of operations and balance sheet data is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the relevant transactions had been consummated on the date indicated, nor is it indicative of future operating results.

You should read the following information together with the information contained under the captions Risk Factors, Pro Forma Financial Information and Selected Financial Information, and our Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited and unaudited consolidated financial statements and the notes thereto incorporated by reference into this prospectus.

	Years Ended December 31,				Three Months Ended March 31,		
	2010	2011	2012	Pro Forma Year Ended December 31, 2012 (1)	2012	2013	Pro Forma Three Months Ended March 31, 2013 (1)
	(in thousands, except for per share data)						
STATEMENT OF OPERATIONS DATA:							
Revenues:							
Interest and related income	$ 158,792	$ 117,161	$ 34,939	$ 51,359	$ 14,716	$ 1,456	$ 10,925
Total revenues	158,792	117,161	34,939	51,359	14,716	1,456	10,925
Operating expenses:							
Interest expense	123,963	96,974	38,138	28,744	23,342	777	2,862
General and administrative expenses	6,035	8,982	10,369	19,036	756	2,038	4,178
Impairments	72,366	49,121	160		160		
Provision for (recovery of) loan losses	146,478	(19,326)	(36,147)	(36,139)	(8)		
Valuation allowance on loans held-for-sale	2,119	1,456				200	200
Total operating expenses	350,961	137,207	12,520	11,641	24,250	3,015	7,240
Gain on extinguishment of debt	3,134	271,031					

Fair value adjustment on investment in CT Legacy Asset	51,904	51,904	3,954
Gain on deconsolidation of subsidiaries	200,283	200,283	146,380

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	Years Ended December 31,				Three Months Ended March 31,		
	2010	2011	2012	Pro Forma Year Ended December 31, 2012 (1)	2012	2013	Pro Forma Three Months Ended March 31, 2013 (1)
	(in thousands, except for per share data)						
Gain on sale of investments	$	$	$ 6,000	$ 6,000	$	$	$
Income from equity investments in unconsolidated subsidiaries	3,608	3,649	1,781		696		
(Loss) income before income taxes	(185,427)	254,634	282,387	297,905	141,496	(1,559)	3,685
Income tax provision	14	1,425	174	174	301	38	38
Net (loss) income from continuing operations	$ (185,441)	$ 253,209	$ 282,213	$ 297,731	$ 141,195	$ (1,597)	$ 3,647
Income (loss) from discontinued operations, net of tax	97	(890)	(2,138)		(573)		
Loss on sale of discontinued operations			(271)				
Net (loss) income	$ (185,344)	$ 252,319	$ 279,804	$ 297,731	$ 140,622	$ (1,597)	$ 3,647
Net loss (income) attributable to noncontrolling interest		5,823	(98,780)	(98,222)	(74,069)	(1,518)	(1,518)
Net (loss) income attributable to Blackstone Mortgage Trust, Inc.	$ (185,344)	$ 258,142	$ 181,024	$ 199,509	$ 66,553	$ (3,115)	$ 2,129
PER SHARE INFORMATION (2):							
Net (loss) income from continuing operations per share of common stock:							
Basic	$ (82.89)	$ 114.31	$ 78.19	$ 8.03	$ 29.39	$ (1.03)	$ 0.08
Diluted	$ (82.89)	$ 108.17	$ 74.16	$ 7.99	$ 27.64	$ (1.03)	$ 0.08
Net (loss) income from discontinued operations per share of common stock:							
Basic	$ 0.04	$ (0.39)	$ (1.03)	n/a	$ (0.25)	$	n/a
Diluted	$ 0.04	$ (0.39)	$ (1.03)	n/a	$ (0.25)	$	n/a
Net (loss) income per share of common stock:							
Basic	$ (82.85)	$ 113.92	$ 77.16	n/a	$ 29.14	$ (1.03)	n/a
Diluted	$ (82.85)	$ 107.78	$ 73.13	n/a	$ 27.39	$ (1.03)	n/a
Dividends declared per share of common stock	$	$	$ 20.00	n/a	$	$	$
Weighted average shares of common stock outstanding:							
Basic	2,237	2,266	2,346	24,846	2,284	3,016	25,516
Diluted	2,237	2,395	2,475	24,975	2,430	3,016	25,516

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	Years Ended December 31,				Three Months Ended March 31,		
	2010	2011	2012	Pro Forma Year Ended December 31, 2012 (1)	2012	2013	Pro Forma Three Months Ended March 31, 2013 (1)
	(in thousands, except for per share data)						
BALANCE SHEET DATA (at period end):							
Total assets	$ 4,120,690	$ 1,366,316	$ 322,343	n/a	$ 605,558	$ 365,153	$ 1,225,261
Total liabilities	4,531,877	1,495,255	168,890	n/a	588,560	202,708	512,708
Noncontrolling interest		(18,515)	80,009	n/a	55,564	86,350	86,350
Total (deficit) equity	(411,187)	(128,939)	153,453	n/a	16,998	162,445	712,553

(1) For further detail regarding the pro forma financial data, see Pro Forma Financial Information in this prospectus.
(2) Historical per share and share information has been adjusted for the one-for-ten reverse stock split that we effected on May 6, 2013.

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RISK FACTORS

An investment in our class A common stock involves various risks. You should carefully consider the following risk factors in conjunction with the other information contained and incorporated by reference into this prospectus before purchasing our class A common stock. If any of the risks discussed in this prospectus actually occur, our business, operating results, prospects and/or financial condition could be adversely impacted. This could cause the market price of our class A common stock to decline and could cause you to lose all or part of your investment.

In connection with the forward-looking statements that appear in this prospectus, you should also carefully review the cautionary statement referred to under Forward-Looking Statements.

Risks Related to Our Lending and Investment Activities

We have not yet executed binding commitment letters or definitive documentation with respect to our anticipated initial portfolio of loans that are currently in negotiation and, as a result, we cannot assure you that these transactions will close on the anticipated terms or at all.

In addition to a senior mortgage loan we originated on May 21, 2013, we are currently negotiating to originate five other senior mortgage loans and to purchase two existing senior mortgage loans and two *pari passu* participations in existing senior mortgage loans, in each case secured by commercial real estate assets located in the United States. Although we have reached agreement on the basic terms of each of the loans and purchases in negotiation and expect to close and fund each of these loans and purchases within the next three months, we have not executed binding commitment letters or definitive documentation and each loan is still subject to satisfactory completion of our underwriting process. As a result, although we consider these originations and acquisitions to be probable, no assurance can be given that these transactions will close on the anticipated terms or at all. In addition, the price of our class A common stock may decline to the extent that the market price reflects a market assumption that these transactions will close and that we will realize the benefits associated therewith.

Your ability to evaluate the allocation of net proceeds from this offering or the economic merits of our future loans and investments prior to making an investment decision may be limited, particularly to the extent we do not close on all or a portion of our anticipated initial portfolio that is currently in negotiation.

If we do not close any or a portion of the loans constituting our anticipated initial portfolio that are currently in negotiation, our Manager may invest the net proceeds of this offering (less the portion used to satisfy our obligation to purchase the Holdings Finance Interest in the BXMT/Blackstone Joint Venture upon closing this offering) in money market funds, bank accounts, overnight repurchase agreements with primary federal reserve bank dealers collateralized by direct U.S. government obligations and other instruments or investments reasonably determined by our Manager to be of high quality and that are consistent with our intention to continue to qualify as a REIT and maintain our exclusion from regulation under the Investment Company Act. These investments are expected to provide a lower net return than we will seek to achieve from investments in our target assets. Even if suitable investment opportunities are available, there can be no assurance that our Manager s due diligence processes will uncover all potential liabilities or weaknesses associated with any particular investment or that any such investment will be successful.

Furthermore, to the extent the proceeds of this offering are not used to invest in our anticipated initial portfolio you will be unable to evaluate the manner in which the net proceeds of this offering will be invested or the economic merit of our expected investments and, as a result, we may use the net proceeds from this offering to make investments with which you may not agree. Our failure to invest these proceeds effectively or find investments that meet our investment criteria in sufficient time or on acceptable terms could result in unfavorable returns, could cause a material adverse effect on our business, financial condition, liquidity, results of operations and ability to make distributions to our stockholders, and could adversely affect our results of operations and financial condition.

Our loans and investments expose us to risks associated with debt-oriented real estate investments generally.

We seek to invest primarily in debt in or relating to real estate-related businesses, assets or interests. Any deterioration of real estate fundamentals generally, and in the United States in particular, could negatively impact our performance by making it more difficult for entities in which we have an investment, or borrower entities, to satisfy their debt payment obligations, increasing the default risk applicable to borrower entities, and/or making it relatively more difficult for us to generate attractive risk-adjusted returns. Changes in general economic conditions will affect the creditworthiness of borrower entities and may include economic and/or market fluctuations, changes in environmental, zoning and other laws, casualty or condemnation losses, regulatory limitations on rents, decreases in property values, changes in the appeal of properties to tenants, changes in supply and demand, fluctuations in real estate fundamentals (including average occupancy and room rates for hotel properties), energy supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates and operating expenses, changes in interest rates, changes in the availability of debt financing and/or mortgage funds which may render the sale or refinancing of properties difficult or impracticable, increased mortgage defaults, increases in borrowing rates, negative developments in the economy that depress travel activity, demand and/or real estate values generally and other factors that are beyond our control. The value of securities of companies that service the real estate business sector may also be affected by such risks.

While real estate fundamentals appear to be improving, we cannot predict the degree to which economic conditions generally, and the conditions for real estate debt investing in particular, will continue to improve or whether they will deteriorate further. Continuing declines in the performance of the U.S. and global economies or in the real estate debt markets could have a material adverse effect on our business, financial condition and results from operations. In addition, while improved real estate fundamentals may result in increased investment opportunities for us, market conditions relating to real estate debt investments have evolved since the global financial crisis, which has resulted in a modification to certain loan structures and/or market terms. Any such changes in loan structures and/or market terms may make it relatively more difficult for us to monitor and evaluate our loans and investments.

Commercial real estate-related investments that are secured, directly or indirectly, by real property are subject to delinquency, foreclosure and loss, which could result in losses to us.

Commercial real estate debt instruments (e.g., mortgages, mezzanine loans and preferred equity) that are secured by commercial property are subject to risks of delinquency and foreclosure and risks of loss that are greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower s ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things:

- tenant mix and tenant bankruptcies;
- success of tenant businesses;
- property management decisions, including with respect to capital improvements, particularly in older building structures;
- property location and condition;
- competition from other properties offering the same or similar services;
- changes in laws that increase operating expenses or limit rents that may be charged;
- any need to address environmental contamination at the property;

changes in national, regional or local economic conditions and/or specific industry segments;

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- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- changes in interest rates and in the state of the debt and equity capital markets, including diminished availability or lack of debt financing for commercial real estate;
- changes in real estate tax rates and other operating expenses;
- changes in governmental rules, regulations and fiscal policies, including environmental legislation;
- acts of God, terrorism, social unrest and civil disturbances, which may decrease the availability of or increase the cost of insurance or result in uninsured losses; and
- adverse changes in zoning laws.

In addition, we are exposed to the risk of judicial proceedings with our borrowers and entities we invest in, including bankruptcy or other litigation, as a strategy to avoid foreclosure or enforcement of other rights by us as a lender or investor. In the event that any of the properties or entities underlying or collateralizing our loans or investments experiences any of the foregoing events or occurrences, the value of, and return on, such investments, and could adversely affect our results of operations and financial condition.

Interest rate fluctuations could reduce our ability to generate income on our investments, which could lead to a significant decrease in our results of operations, cash flows and the market value of our investments.

Our primary interest rate exposures will relate to the yield on our investments and the financing cost of our debt, as well as our interest rate swaps that we may utilize for hedging purposes. Changes in interest rates will affect our net income from loans and other investments, which is the difference between the interest and related income we earn on our interest-earning investments and the interest and related expense we incur in financing these investments. Interest rate fluctuations resulting in our interest and related expense exceeding interest and related income would result in operating losses for us. Changes in the level of interest rates also may affect our ability to make loans or investments, the value of our loans and investments and our ability to realize gains from the disposition of assets. Changes in interest rates may also affect borrower default rates.

Our operating results will depend, in part, on differences between the income earned on our investments, net of credit losses, and our financing costs. For any period during which our investments are not match-funded, the income earned on such investments may respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may immediately and significantly decrease our results of operations and cash flows and the market value of our investments.

Prepayment rates may adversely affect the value of our portfolio of assets.

The value of our assets may be affected by prepayment rates on loans. If we originate or acquire mortgage-related securities or a pool of mortgage securities, we anticipate that the underlying mortgages will prepay at a projected rate generating an expected yield. If we purchase assets at a premium to par value, when borrowers prepay their loans faster than expected, the corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because we will have to amortize the related premium on an accelerated basis. Conversely, if we purchase assets at a discount to par value, when borrowers prepay their loans slower than expected, the decrease in corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because we will not be able to accrete the related discount as quickly as originally anticipated. Prepayment rates on loans may be affected by a number of factors including, but not limited to, the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the loans, possible changes in tax laws, other opportunities for investment, and other economic, social, geographic, demographic and legal factors and other factors beyond our control. Consequently, such prepayment rates cannot be predicted with certainty and no strategy can completely insulate

us from prepayment or other such risks. In periods of declining interest rates, prepayment rates on loans generally increase. If general interest rates decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid. In addition, as a result of the risk of prepayment, the market value of the prepaid assets may benefit less than other fixed income securities from declining interest rates.

The lack of liquidity in certain of our target assets may adversely affect our business.

The illiquidity of certain of our target assets may make it difficult for us to sell such investments if the need or desire arises. Certain target assets such as mortgages, B Notes, mezzanine and other loans (including participations) and preferred equity, in particular, are relatively illiquid investments due to their short life, their potential unsuitability for securitization and the greater difficulty of recovery in the event of a borrower s default. In addition, certain of our investments may become less liquid after our investment as a result of periods of delinquencies or defaults or turbulent market conditions, which may make it more difficult for us to dispose of such assets at advantageous times or in a timely manner. Moreover, many of the loans and securities we invest in will not be registered under the relevant securities laws, resulting in prohibitions against their transfer, sale, pledge or their disposition except in transactions that are exempt from registration requirements or are otherwise accordance with such laws. As a result, we expect many of our investments will be illiquid, and if we are required to liquidate all or a portion of our portfolio quickly, for example as a result of margin calls, we may realize significantly less than the value at which we have previously recorded our investments. Further, we may face other restrictions on our ability to liquidate an investment to the extent that we or our Manager (and/or its affiliates) has or could be attributed as having material, non-public information regarding such business entity. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our results of operations and financial condition.

Any distressed loans or investments we make, or loans and investments that later become distressed, may subject us to losses and other risks relating to bankruptcy proceedings.

While it is generally anticipated that our future loans and investments will focus primarily on performing real estate related interests, our loans and investments may include making distressed investments from time to time (e.g., investments in defaulted, out-of-favor or distressed bank loans and debt securities) or may involve investments that become non-performing following our acquisition thereof. Certain of our investments may include properties that typically are highly leveraged, with significant burdens on cash flow and, therefore, involve a high degree of financial risk. During an economic downturn or recession, loans or securities of financially or operationally troubled borrowers or issuers are more likely to go into default than loans or securities of other borrowers or issuers. Loans or securities of financially or operationally troubled issuers are less liquid and more volatile than loans or securities of borrowers or issuers not experiencing such difficulties. The market prices of such securities are subject to erratic and abrupt market movements and the spread between bid and asked prices may be greater than normally expected. Investment in the loans or securities of financially or operationally troubled borrowers or issuers involves a high degree of credit and market risk.

In certain limited cases (e.g., in connection with a workout, restructuring and/or foreclosing proceedings involving one or more of our investments), the success of our investment strategy with respect thereto will depend, in part, on our ability to effectuate loan modifications and/or restructure and improve the operations of our borrower entities. The activity of identifying and implementing successful restructuring programs and operating improvements entails a high degree of uncertainty. There can be no assurance that we will be able to identify and implement successful restructuring programs and improvements with respect to any distressed loans or investments we may have from time to time.

These financial difficulties may never be overcome and may cause borrower entities to become subject to bankruptcy or other similar administrative proceedings. There is a possibility that we may incur substantial or total losses on our investments and in certain circumstances, become subject to certain additional potential

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liabilities that may exceed the value of our original investment therein. For example, under certain circumstances, a lender that has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In any reorganization or liquidation proceeding relating to our investments, we may lose our entire investment, may be required to accept cash or securities with a value less than our original investment and/or may be required to accept different terms, including payment over an extended period of time. In addition, under certain circumstances, payments to us may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment, or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, bankruptcy laws and similar laws applicable to administrative proceedings may delay our ability to realize on collateral for loan positions held by us, may adversely affect the economic terms and priority of such loans through doctrines such as equitable subordination or may result in a restructuring of the debt through principles such as the cramdown provisions of the bankruptcy laws.

We may not have control over certain of our loans and investments.

Our ability to manage our portfolio of loans and investments may be limited by the form in which they are made. In certain situations, we may:

- acquire investments subject to rights of senior classes and servicers under intercreditor or servicing agreements;
- acquire only a minority and/or a non-controlling participation in an underlying investment;
- co-invest with others through partnerships, joint ventures or other entities, thereby acquiring non-controlling interests; or
- rely on independent third party management or servicing with respect to the management of an asset.

Therefore, we may not be able to exercise control over all aspects of our loans or investments. Such financial assets may involve risks not present in investments where senior creditors, junior creditors, servicers or third parties controlling investors are not involved. Our rights to control the process following a borrower default may be subject to the rights of senior or junior creditors or servicers whose interests may not be aligned with ours. A partner or co-venturer may have financial difficulties resulting in a negative impact on such asset, may have economic or business interests or goals that are inconsistent with ours, or may be in a position to take action contrary to our investment objectives. In addition, we may, in certain circumstances, be liable for the actions of our partners or co-venturers.

B Notes, mezzanine loans and other investments that are subordinated or otherwise junior in an issuer s capital structure and that involve privately negotiated structures will expose us to greater risk of loss.

We may from time to time originate or acquire B Notes, mezzanine loans and other investments that are subordinated or otherwise junior in an issuer s capital structure (such as preferred equity) and that involve privately negotiated structures. To the extent we invest in subordinated debt or mezzanine tranches of an entity s capital structure, such investments and our remedies with respect thereto, including the ability to foreclose on any collateral securing such investments, will be subject to the rights of holders of more senior tranches in the issuer s capital structure and, to the extent applicable, contractual intercreditor and/or participation agreement provisions. Significant losses related to such loans or investments could adversely affect our results of operations and financial condition.

As the terms of such loans and investments are subject to contractual relationships among lenders, co-lending agents and others, they can vary significantly in their structural characteristics and other risks. For example, the rights of holders of B Notes to control the process following a borrower default may vary from transaction to transaction. Further, B Notes typically are secured by a single property and accordingly reflect the risks associated with significant concentration.

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Like B Notes, mezzanine loans are by their nature structurally subordinated to more senior property-level financings. If a borrower defaults on our mezzanine loan or on debt senior to our loan, or if the borrower is in bankruptcy, our mezzanine loan will be satisfied only after the property-level debt and other senior debt is paid in full. As a result, a partial loss in the value of the underlying collateral can result in a total loss of the value of the mezzanine loan. In addition, even if we are able to foreclose on the underlying collateral following a default on a mezzanine loan, we would be substituted for the defaulting borrower and, to the extent income generated on the underlying property is insufficient to meet outstanding debt obligations on the property, may need to commit substantial additional capital and/or deliver a replacement guarantee by a credit worthy entity, which could include us, to stabilize the property and prevent additional defaults to lenders with existing liens on the property.

Loans on properties in transition will involve a greater risk of loss than conventional mortgage loans.

We may invest in transitional loans to borrowers who are typically seeking short-term capital to be used in an acquisition or rehabilitation of a property. The typical borrower under a transitional loan has usually identified an undervalued asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to improve according to the borrower s projections, or if the borrower fails to improve the quality of the asset s management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the transitional loan, and we bear the risk that we may not recover some or all of our investment.

In addition, borrowers usually use the proceeds of a conventional mortgage to repay a transitional loan. Transitional loans therefore are subject to risks of a borrower s inability to obtain permanent financing to repay the transitional loan. In the event of any default under transitional loans that may be held by us, we bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest of the transitional loan. To the extent we suffer such losses with respect to these transitional loans, it could adversely affect our results of operations and financial condition.

Risks of cost overruns and noncompletion of renovations of properties in transition may result in significant losses.

The renovation, refurbishment or expansion of a property by a borrower involves risks of cost overruns and noncompletion. Estimates of the costs of improvements to bring an acquired property up to standards established for the market position intended for that property may prove inaccurate. Other risks may include rehabilitation costs exceeding original estimates, possibly making a project uneconomical, environmental risks, delays in legal and other approvals (e.g., for condominiums) and rehabilitation and subsequent leasing of the property not being completed on schedule. If such renovation is not completed in a timely manner, or if it costs more than expected, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments on our investment on a timely basis or at all, which could result in significant losses.

There are increased risks involved with construction lending activities.

We may invest in loans which fund the construction of commercial properties. Construction lending generally is considered to involve a higher degree of risk than other types of lending due to a variety of factors, including the difficulties in estimating construction costs and anticipating construction delays and, generally, the dependency on timely, successful completion and the lease-up and commencement of operations post-completion.

If a borrower fails to complete the construction of a project or experiences cost overruns, there could be adverse consequences associated with the loan, including a loss of the value of the property securing the loan, a borrower claim against us for failure to perform under the loan documents if we choose to stop funding, increased costs to the borrower that the borrower is unable to pay, a bankruptcy filing by the borrower, and abandonment by the borrower of the collateral for the loan.

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Loans or investments involving international real estate-related assets are subject to special risks that we may not manage effectively, which would have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

We intend to invest a material portion of our capital in assets outside the United States if our Manager deems such investments appropriate in its discretion. To the extent that we invest in non-domestic real estate-related assets, we may be subject to certain risks associated with international investments generally, including, among others:

- currency exchange matters, including fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another;
- less developed or efficient financial markets than in the United States, which may lead to potential price volatility and relative illiquidity;
- the burdens of complying with international regulatory requirements and prohibitions that differ between jurisdictions;
- changes in laws or clarifications to existing laws that could impact our tax treaty positions, which could adversely impact the returns on our investments;
- a less developed legal or regulatory environment, differences in the legal and regulatory environment or enhanced legal and regulatory compliance;
- political hostility to investments by foreign investors;
- higher rates of inflation;
- higher transaction costs;
- difficulty enforcing contractual obligations;
- fewer investor protections;
- certain economic and political risks, including potential exchange control regulations and restrictions on our non-U.S. investments and repatriation of profits on investments or of capital invested, the risks of political, economic or social instability, the possibility of expropriation or confiscatory taxation and adverse economic and political developments; and
- potentially adverse tax consequences.

If any of the foregoing risks were to materialize, they could adversely affect our results of operations and financial condition.

The ongoing Eurozone financial crisis may have an adverse effect on investments in Europe and the break up of the Eurozone, or the exit of any member state, would create uncertainty and could affect our investments directly.

We expect that a portion of our investments will consist of target assets secured by European collateral. The ongoing situation relating to the sovereign debt of several countries, including Greece, Ireland, Italy, Spain and Portugal, together with the risk of contagion to other, more financially stable countries, has exacerbated the difficult global financial situation. The situation has also raised a number of uncertainties regarding the stability and overall standing of the European Monetary Union. Any further deterioration in the global or Eurozone economy could have a significant adverse effect on our activities and the value of any European collateral.

In addition, if we hold any assets that are denominated in Euros or British pounds sterling (including loans secured on such assets), such as assets in continental Europe, further deterioration in the Eurozone economy could have a material adverse effect on the value of our investment in such assets and amplify the currency risks faced by us.

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If any country were to leave the Eurozone, or if the Eurozone were to break up entirely, the treatment of debt obligations previously denominated in Euros is uncertain. A number of issues would be raised, such as whether obligations that are expressed to be payable in Euros would be re-denominated into a new currency. The answer to this and other questions is uncertain and would depend on the way in which the break-up occurred and also on the nature of the transaction; the law governing it; which courts have jurisdiction in relation to it; the place of payment; and the place of incorporation of the payor. If we held any investments in Euros at the time of any Eurozone exits or break-up, this uncertainty and potential re-denomination could have a material adverse effect on the value of our investments and the income from them.

Our success depends on the availability of attractive investments and our Manager s ability to identify, structure, consummate, leverage, manage and realize returns on our investments.

Our operating results are dependent upon the availability of, as well as our Manager s ability to identify, structure, consummate, leverage, manage and realize returns on our investments. In general, the availability of favorable investment opportunities and, consequently, our returns, will be affected by the level and volatility of interest rates, conditions in the financial markets, general economic conditions, the demand for investment opportunities in our target assets and the supply of capital for such investment opportunities. We cannot make any assurances that our Manager will be successful in identifying and consummating investments that satisfy our rate of return objectives or that such investments, once made, will perform as anticipated.

Real estate valuation is inherently subjective and uncertain.

The valuation of real estate and therefore the valuation of any underlying security relating to loans made by us is inherently subjective due to, among other factors, the individual nature of each property, its location, the expected future rental revenues from that particular property and the valuation methodology adopted. In addition, where we invest in construction loans, initial valuations will assume completion of the project. As a result, the valuations of the real estate assets against which we will make loans are subject to a large degree of uncertainty and are made on the basis of assumptions and methodologies that may not prove to be accurate, particularly in periods of volatility, low transaction flow or restricted debt availability in the commercial or residential real estate markets.

We operate in a competitive market for lending and investment opportunities and competition may limit our ability to originate or acquire desirable loans and investments in our target assets and could also affect the yields of these assets.

A number of entities compete with us to make the types of loans and investments that we seek to originate or acquire. Our profitability depends, in large part, on our ability to originate or acquire our target assets on attractive terms. In originating or acquiring our target assets, we compete with a variety of institutional lenders and investors, including other REITs, specialty finance companies, public and private funds (including other funds managed by affiliates of Blackstone), commercial and investment banks, commercial finance and insurance companies and other financial institutions. Several other REITs have raised, or are expected to raise, significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for lending and investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that are not available to us, such as the U.S. Government. Many of our competitors are not subject to the operating constraints associated with REIT rule compliance or maintenance of an exclusion from regulation under the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, offer more attractive pricing or other terms and establish more relationships than us. Furthermore, competition for originations of and investments in our target assets may lead to the yields of such assets decreasing, which may further limit our ability to generate satisfactory returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable loans and investments in our target assets may be limited in the future and we may not be able to take advantage of attractive lending and investment opportunities from time to time, as we can provide no assurance that we will be able to identify and originate loans or make investments that are consistent with our investment objectives.

Our loans and investments may be concentrated in terms of geography, asset types and sponsors.

We are not required to observe specific diversification criteria, except as may be set forth in the investment guidelines adopted by our board of directors. Therefore, our investments in our target assets may at times be concentrated in certain property types that are subject to higher risk of default or foreclosure, or secured by properties concentrated in a limited number of geographic locations.

To the extent that our portfolio is concentrated in any one region or type of asset, downturns relating generally to such region or type of asset may result in defaults on a number of our investments within a short time period, it could adversely affect our results of operations and financial condition.

Transactions denominated in foreign currencies subject us to foreign currency risks.

We may acquire assets in transactions denominated in foreign currencies, including in Euros or British pounds sterling, which exposes us to foreign currency risk. As a result, a change in foreign currency exchange rates may have an adverse impact on the valuation of our assets, as well as our income and distributions. Any such changes in foreign currency exchange rates may impact the measurement of such assets or income for the purposes of our REIT tests.

The due diligence process that our Manager undertakes in regard to investment opportunities may not reveal all facts that may be relevant in connection with an investment and if our Manager incorrectly evaluates the risks of our investments, we may experience losses.

Before making investments for us, our Manager will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances relevant to each potential investment. When conducting due diligence, our Manager may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of potential investment. Relying on the resources available to it, our Manager will evaluate our potential investments based on criteria it deems appropriate for the relevant investment. Our Manager s loss estimates may not prove accurate, as actual results may vary from estimates. If our Manager underestimates the asset-level losses relative to the price we pay for a particular investment, we may experience losses with respect to such investment.

Insurance on loans and real estate securities collateral may not cover all losses.

There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war, which may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, including terrorism or acts of war, also might result in insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Under these circumstances, the insurance proceeds received with respect to a property relating one of our investments might not be adequate to restore our economic position with respect to our investment. Any uninsured loss could result in the corresponding nonperformance of or loss on our investment related to such property.

The impact of any future terrorist attacks and the availability of affordable terrorism insurance expose us to certain risks.

Terrorist attacks, the anticipation of any such attacks, and the consequences of any military or other response by the United States and its allies may have an adverse impact on the U.S. financial markets and the economy in general. We cannot predict the severity of the effect that any such future events would have on the

U.S. financial markets, the economy or our business. Any future terrorist attacks could adversely affect the credit quality of some of our loans and investments. Some of our loans and investments will be more susceptible to such adverse effects than others, particularly those secured by properties in major cities or properties that are prominent landmarks or public attractions. We may suffer losses as a result of the adverse impact of any future terrorist attacks and these losses may adversely impact our results of operations.

In addition, the enactment of the Terrorism Risk Insurance Act of 2002, or TRIA, and the subsequent enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2007, which extended TRIA through the end of 2014, requires insurers to make terrorism insurance available under their property and casualty insurance policies and provides federal compensation to insurers for insured losses. However, this legislation does not regulate the pricing of such insurance and there is no assurance that this legislation will be extended beyond 2014. The absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market s overall liquidity and may reduce the number of suitable investment opportunities available to us and the pace at which we are able to make investments. If the properties that we invest in are unable to obtain affordable insurance coverage, the value of those investments could decline and in the event of an uninsured loss, we could lose all or a portion of our investment.

We may need to foreclose on certain of the loans we originate or acquire, which could result in losses that harm our results of operations and financial condition.

We may find it necessary or desirable to foreclose on certain of the loans we originate or acquire, and the foreclosure process may be lengthy and expensive. Whether or not we have participated in the negotiation of the terms of any such loans, we cannot assure you as to the adequacy of the protection of the terms of the applicable loan, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, claims may be asserted by lenders or borrowers that might interfere with enforcement of our rights. Borrowers may resist foreclosure actions by asserting numerous claims, counterclaims and defenses against us, including, without limitation, lender liability claims and defenses, even when the assertions may have no basis in fact, in an effort to prolong the foreclosure action and seek to force the lender into a modification of the loan or a favorable buy-out of the borrower s position in the loan. In some states, foreclosure actions can take several years or more to litigate. At any time prior to or during the foreclosure proceedings, the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process and potentially results in a reduction or discharge of a borrower s debt. Foreclosure may create a negative public perception of the related property, resulting in a diminution of its value. Even if we are successful in foreclosing on a loan, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover our cost basis in the loan, resulting in a loss to us. Furthermore, any costs or delays involved in the foreclosure of the loan or a liquidation of the underlying property will further reduce the net proceeds and, thus, increase the loss.

Liability relating to environmental matters may impact the value of properties that we may acquire upon foreclosure of the properties underlying our investments.

To the extent we foreclose on properties with respect to which we have extended loans, we may be subject to environmental liabilities arising from such foreclosed properties. Under various U.S. federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances.

If we foreclose on any properties underlying our investments, the presence of hazardous substances on a property may adversely affect our ability to sell the property and we may incur substantial remediation costs, thus harming our financial condition. The discovery of material environmental liabilities attached to such properties could adversely affect our results of operations and financial condition.

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We may be subject to lender liability claims, and if we are held liable under such claims, we could be subject to losses.

In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed lender liability. Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or stockholders. We cannot assure prospective investors that such claims will not arise or that we will not be subject to significant liability if a claim of this type did arise.

Any investments we make in CMBS, CLOs, CDOs and other similar structured finance investments would pose additional risks, including the risks of the securitization process and the risk that any special servicer may take actions that could adversely affect our interests.

We may from time to time invest in CMBS, CLOs, CDOs and other similar securities, which are subordinated classes of securities in a structure of securities secured by a pool of mortgages or loans. Accordingly, such securities are the first or among the first to bear the loss upon a restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal. Thus, there is generally only a nominal amount of equity or other debt securities junior to such positions, if any, issued in such structures. The estimated fair values of such subordinated interests tend to be much more sensitive to adverse economic downturns and underlying borrower developments than more senior securities. A projection of an economic downturn, for example, could cause a decline in the price of lower credit quality CMBS, CLOs or CDOs because the ability of borrowers to make principal and interest payments on the mortgages or loans underlying such securities may be impaired, as has occurred throughout the recent economic recession and weak recovery.

Subordinate interests such as CLOs, CDOs and similar structured finance investments generally are not actively traded and are relatively illiquid investments and volatility in CLO and CDO trading markets may cause the value of these investments to decline. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral value is available to satisfy interest and principal payments and any other fees in connection with the trust or other conduit arrangement for such securities, we may incur significant losses.

With respect to the CMBS, CLOs and CDOs in which we may invest, control over the of the related underlying loans will be exercised through a special servicer or collateral manager designated by a directing certificateholder or a controlling class representative, or otherwise pursuant to the related securitization documents. We may acquire classes of CMBS, CLOs or CDOs, for which we may not have the right to appoint the directing certificateholder or otherwise direct the special servicing or collateral management. With respect to the management and servicing of those loans, the related special servicer or collateral manager may take actions that could adversely affect our interests.

Any credit ratings assigned to our investments will be subject to ongoing evaluations and revisions and we cannot assure you that those ratings will not be downgraded.

Some of our investments may be rated by rating agencies such as Moody s Investors Service, Fitch Ratings, Standard & Poor s, DBRS, Inc., Realpoint LLC or Kroll Bond Rating Agency. Any credit ratings on our investments are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If rating agencies assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of our investments in the future, the value and liquidity of our investments could significantly decline, which would adversely affect the value of our investment portfolio and could result in losses upon disposition or the failure of borrowers to satisfy their debt service obligations to us.

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Investments in non-conforming and non-investment grade rated loans or securities involve increased risk of loss.

Many of our future investments may not conform to conventional loan standards applied by traditional lenders and either will not be rated (as is typically the case for private loans) or will be rated as non-investment grade by the rating agencies. Private loans often are not rated by a credit rating agency. Non-investment grade ratings typically results from the overall leverage of the loans, the lack of a strong operating history for the properties underlying the loans, the borrowers credit history, the underlying properties cash flow or other factors. As a result, these investments should be expected to have a higher risk of default and loss than investment-grade rated assets. Any loss we incur may be significant and may adversely affect our results of operations and financial condition. There are no limits on the percentage of unrated or non-investment grade rated assets we may hold in our investment portfolio.

Some of our investments and investment opportunities may be in synthetic form.

Synthetic investments are contracts between parties whereby payments are exchanged based upon the performance of another security or asset, or reference asset. In addition to the risks associated with the performance of the reference asset, these synthetic interests carry the risk of the counterparty not performing its contractual obligations. Market standards, GAAP accounting methodology, regulatory oversight and compliance requirements, tax and other regulations related to these investments are evolving, and we cannot be certain that their evolution will not adversely impact the value or sustainability of these investments. Furthermore, our ability to invest in synthetic investments, other than through taxable REIT subsidiaries, may be severely limited by the REIT qualification requirements because synthetic investment contracts generally are not qualifying assets and do not produce qualifying income for purposes of the REIT asset and income tests.

We may invest in derivative instruments, which would subject us to increased risk of loss.

Subject to maintaining our qualification as a REIT, we may invest in derivative instruments. Derivative instruments, especially when purchased in large amounts, may not be liquid in all circumstances, so that in volatile markets we may not be able to close out a position without incurring a loss. The prices of derivative instruments, including swaps, futures, forwards and options, are highly volatile and such instruments may subject us to significant losses. The value of such derivatives also depends upon the price of the underlying instrument or commodity. Such derivatives and other customized instruments also are subject to the risk of non-performance by the relevant counterparty. In addition, actual or implied daily limits on price fluctuations and speculative position limits on the exchanges or over-the-counter markets in which we may conduct our transactions in derivative instruments may prevent prompt liquidation of positions, subjecting us to the potential of greater losses. Derivative instruments that may be purchased or sold by us may include instruments not traded on an exchange. The risk of nonperformance by the obligor on such an instrument may be greater and the ease with we can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. In addition, significant disparities may exist between bid and asked prices for derivative instruments that are traded over-the-counter and not on an exchange. Such over-the-counter derivatives are also typically not subject to the same type of investor protections or governmental regulation as exchange traded instruments.

In addition, we may invest in derivative instruments that are neither presently contemplated nor currently available, but which may be developed in the future, to the extent such opportunities are both consistent with our investment objectives and legally permissible. Any such investments may expose us to unique and presently indeterminate risks, the impact of which may not be capable of determination until such instruments are developed and/or we determine to make such an investment.

We may experience a decline in the fair value of our assets.

A decline in the fair value of our assets may require us to recognize an other-than-temporary impairment against such assets under GAAP if we were to determine that, with respect to any assets in unrealized loss positions, we do not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the original acquisition cost of such assets. If such a determination were to be made, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be other-than-temporarily impaired. Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale. If we experience a decline in the fair value of our assets, it could adversely affect our results of operations and financial condition.

Some of our portfolio investments may be recorded at fair value and, as a result, there will be uncertainty as to the value of these investments.

Some of our portfolio investments may be in the form of positions or securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We will value these investments quarterly at fair value, which may include unobservable inputs. Because such valuations are subjective, the fair value of certain of our assets may fluctuate over short periods of time and our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. The value of our class A common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

Additionally, our results of operations for a given period could be adversely affected if its determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal. The valuation process has been particularly challenging recently, as market events have made valuations of certain assets more difficult, unpredictable and volatile.

Risks Related to Our Financing and Hedging

We may incur a significant amount of debt, which may subject us to increased risk of loss and could adversely affect our results of operations and financial condition.

Subject to market conditions and availability, we may incur a significant amount of debt through bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements. We may also issue additional debt or equity securities to fund our growth. The percentage of leverage we employ will vary depending on our available capital, our ability to obtain and access financing arrangements with lenders, the type of asset we are funding, whether the financing is recourse or non-recourse, debt restrictions contained in those financing arrangements and the lenders and rating agencies estimate of the stability of our investment portfolio s cash flow. We may significantly increase the amount of leverage we utilize at any time without approval of our board of directors. In addition, we may leverage individual assets at substantially higher levels. Incurring substantial debt could subject us to many risks that, if realized, would materially and adversely affect us, including the risk that:

- our cash flow from operations may be insufficient to make required payments of principal of and interest on our debt, which is likely to result in (a) acceleration of such debt (and any other debt containing a cross-default or cross-acceleration provision), which we then may be unable to repay from internal funds or to refinance on favorable terms, or at all, (b) our inability to borrow undrawn amounts under our financing arrangements, even if we are current in payments on borrowings under those arrangements, which would result in a decrease in our liquidity, and/or (c) the loss of some or all of our collateral assets to foreclosure or sale;

- our debt may increase our vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase in an amount sufficient to offset the higher financing costs;

- we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, future business opportunities, stockholder distributions or other purposes; and

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- we may not be able to refinance any debt that matures prior to the maturity (or realization) of an underlying investment it was used to finance on favorable terms or at all.

There can be no assurance that a leveraging strategy will be successful and may subject us to increased risk of loss and could adversely affect our results of operations and financial condition.

Lenders may require us to enter into restrictive covenants, which would restrict our flexibility to determine our operating policies and investment strategy.

In connection with obtaining debt financing, lenders (especially in the case of credit facilities) may impose various restrictive covenants or require us to meet or maintain certain financial ratios or other requirements that may restrict our flexibility to determine our operating policies and investment strategy. In particular, the providers of bank credit facilities and repurchase agreement financing may require us to maintain a certain amount of cash or set aside assets sufficient to maintain a specified liquidity position that would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our assets as fully as we would otherwise choose, which could reduce our return on assets. If we are unable to meet these collateral obligations, our financial condition and prospects could deteriorate rapidly. In addition, lenders may require that our Manager or one or more of our Manager s executives continue to serve in such capacity. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights in our other debt facilities. Further, this could also make it difficult for us to satisfy the requirements necessary to maintain our qualification as a REIT for U.S. federal income tax purposes.

The BofA Repurchase Agreement and any bank credit facilities, repurchase agreements or other financing that we may use in the future to finance our assets, may require us to provide additional collateral or pay down debt.

We may borrow funds under our new BofA Repurchase Agreement, and the other master repurchase agreements and reverse repurchase facility that we are currently negotiating. We anticipate that we will also utilize bank credit facilities (including term loans and revolving facilities), repurchase agreements or other financing to finance our assets if they become available on acceptable terms. Such financing arrangements would involve the risk that the market value of the assets pledged or sold by us to the provider of the financing may decline in value, in which case the lender or counterparty may require us to provide additional collateral or lead to margin calls that may require us to repay all or a portion of the funds advanced. We may not have the funds available to repay our debt at that time, which would likely result in defaults unless we are able to raise the funds from alternative sources including by selling assets at a time when we might not otherwise choose to do so, which we may not be able to achieve on favorable terms or at all. Posting additional margin would reduce our cash available to make other, higher yielding investments (thereby decreasing our return on equity). If we cannot meet these requirements, the lender or counterparty could accelerate our indebtedness, increase the interest rate on advanced funds and terminate our ability to borrow funds from it, which could materially and adversely affect our financial condition and ability to implement our investment strategy. In the case of repurchase transactions, if the value of the underlying security has declined as of the end of that term, or if we default on our obligations under the repurchase agreement, we will likely incur a loss on our repurchase transactions. In addition, if a lender or counterparty files for bankruptcy or becomes insolvent, our loans may become subject to bankruptcy or insolvency proceedings, thus depriving us, at least temporarily, of the benefit of these assets. Such an event could restrict our access to financing and increase our cost of capital.

Our use of leverage may create a mismatch with the duration and index of the investments that we are financing.

We intend to structure our leverage such that we minimize the difference between the term of our investments and the leverage we use to finance such an investment. In the event that our leverage is for a shorter term than the financed investment, we may not be able to extend or find appropriate replacement leverage and

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that would have an adverse impact on our liquidity and our returns. In the event that our leverage is for a longer term than the financed investment, we may not be able to repay such leverage or replace the financed investment with an optimal substitute or at all, which will negatively impact our desired leveraged returns.

We attempt to structure our leverage such that we minimize the difference between the index of our investments and the index of our leverage financing floating rate investments with floating rate leverage and fixed rate investments with fixed rate leverage. If such a product is not available to us from our lenders on reasonable terms, we may use hedging instruments to effectively create such a match. For example, in the case of fixed rate investments, we may finance such an investment with floating rate leverage, but effectively convert all or a portion of the attendant leverage to fixed rate using hedging strategies.

Our attempts to mitigate such risk are subject to factors outside of our control, such as the availability to us of favorable financing and hedging options, which is subject to a variety of factors, of which duration and term matching are only two. The risks of a duration mismatch are magnified by the potential for the extension of loans in order to maximize the likelihood and magnitude of their recovery value in the event the loans experience credit or performance challenges. Employment of this asset management practice would effectively extend the duration of our investments, while our liabilities have set maturity dates.

Interest rate fluctuations could increase our financing costs, which could lead to a significant decrease in our results of operations, cash flows and the market value of our investments.

To the extent that our financing costs will be determined by reference to floating rates, such as LIBOR or a Treasury index, the amount of such costs will depend on the level and movement of interest rates. In a period of rising interest rates, our interest expense on floating rate debt would increase, while any additional interest income we earn on our floating rate investments may be subject to caps and may not compensate for such increase in interest expense. At the same time, the interest income we earn on our fixed rate investments would not change, the duration and weighted average life of our fixed rate investments would increase and the market value of our fixed rate investments would decrease. Similarly, in a period of declining interest rates, our interest income on floating rate investments would decrease, while any decrease in the interest we are charged on our floating rate debt may be subject to floors and may not compensate for such decrease in interest income and interest we are charged on our fixed rate debt would not change. Any such scenario could adversely affect our results of operations and financial condition.

Our loans and investments may be subject to fluctuations in interest rates that may not be adequately protected, or protected at all, by our hedging strategies.

Our investments include loans with both floating interest rates and fixed interest rates. Floating rate investments earn interest at rates that adjust from time to time (typically monthly) based upon an index (typically one-month LIBOR). These floating rate loans are insulated from changes in value specifically due to changes in interest rates; however, the coupons they earn fluctuate based upon interest rates (again, typically one-month LIBOR) and, in a declining and/or low interest rate environment, these loans will earn lower rates of interest and this will impact our operating performance. Fixed interest rate investments, however, do not have adjusting interest rates and the relative value of the fixed cash flows from these investments will decrease as prevailing interest rates rise or increase as prevailing interest rates fall, causing potentially significant changes in value. We may employ various hedging strategies to limit the effects of changes in interest rates (and in some cases credit spreads), including engaging in interest rate swaps, caps, floors and other interest rate derivative products. We believe that no strategy can completely insulate us from the risks associated with interest rate changes and there is a risk that they may provide no protection at all and potentially compound the impact of changes in interest rates. Hedging transactions involve certain additional risks such as counterparty risk, leverage risk, the legal enforceability of hedging contracts, the early repayment of hedged transactions and the risk that unanticipated and significant changes in interest rates may cause a significant loss of basis in the contract and a change in current period expense. We cannot make assurances that we will be able to enter into hedging transactions or that such hedging transactions will adequately protect us against the foregoing risks.

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Accounting for derivatives under GAAP is extremely complicated. Any failure by us to account for our derivatives properly in accordance with GAAP on our consolidated financial statements could adversely affect our earnings. In particular, cash flow hedges which are not perfectly correlated (and appropriately designated and/or documented as such) with variable rate financing will impact our reported income as gains and losses on the ineffective portion of such hedges.

We may depend on bank credit facilities, repurchase agreements, warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements and other sources of financing to execute our business plan, and our inability to access funding could have a material adverse effect on our results of operations, financial condition and business.

Our ability to fund our investments may be impacted by our ability to secure bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements and repurchase agreements on acceptable terms. We may also rely on short-term financing that would be especially exposed to changes in availability. In addition to the BofA Repurchase Agreement and a repurchase agreement in place at our subsidiary, CT Legacy Asset, that is not recourse to us, we are in discussions with a number of financial institutions that we expect in the near future will provide us with additional repurchase facilities as described under Business Our Funding Sources Master Repurchase Agreements. Our access to sources of financing will depend upon a number of factors, over which we have little or no control, including:

- general economic or market conditions;
- the market s view of the quality of our assets;
- the market s perception of our growth potential;
- our current and potential future earnings and cash distributions; and
- the market price of the shares of our class A common stock.

We will need to periodically access the capital markets to raise cash to fund new investments. Unfavorable economic or capital market conditions, such as the severe dislocation in the capital and credit markets that began in 2008, may increase our funding costs, limit our access to the capital markets or could result in a decision by our potential lenders not to extend credit. An inability to successfully access the capital markets could limit our ability to grow our business and fully execute our business strategy and could decrease our earnings and liquidity. In addition, any dislocation or weakness in the capital and credit markets, such as the dislocation that occurred in 2008 and 2009, could adversely affect one or more lenders and could cause one or more of our lenders to be unwilling or unable to provide us with financing or to increase the costs of that financing. In addition, as regulatory capital requirements imposed on our lenders are increased, they may be required to limit, or increase the cost of, financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price. No assurance can be given that we will be able to obtain any such financing on favorable terms or at all.

Any warehouse facilities that we may obtain in the future may limit our ability to originate or acquire assets, and we may incur losses if the collateral is liquidated.

We may utilize, if available, warehouse facilities pursuant to which we would accumulate loans in anticipation of a securitization or other financing, which assets would be pledged as collateral for such facilities until the securitization or other transaction is consummated. In order to borrow funds to originate or acquire assets under any future warehouse facilities, we expect that our lenders thereunder would have the right to review the potential assets for which we are seeking financing. We may be unable to obtain the consent of a lender to

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originate or acquire assets that we believe would be beneficial to us and we may be unable to obtain alternate financing for such assets. In addition, no assurance can be given that a securitization or other financing would be consummated with respect to the assets being warehoused. If the securitization or other financing is not consummated, the lender could demand repayment of the facility, and in the event that we were unable to timely repay, could liquidate the warehoused collateral and we would then have to pay any amount by which the original purchase price of the collateral assets exceeds its sale price, subject to negotiated caps, if any, on our exposure. In addition, regardless of whether the securitization or other financing is consummated, if any of the warehoused collateral is sold before the completion, we would have to bear any resulting loss on the sale.

We may use securitizations to finance our loans and investments, which may expose us to risks that could result in losses.

We may, to the extent consistent with the REIT requirements, seek to securitize certain of our portfolio investments to generate cash for funding new investments. This would involve creating a special-purpose vehicle, contributing a pool of our assets to the entity, and selling interests in the entity on a non-recourse basis to purchasers (whom we would expect to be willing to accept a lower interest rate to invest in investment-grade loan pools). We would expect to retain all or a portion of the equity in the securitized pool of portfolio investments. We may use short-term facilities to finance the acquisition of securities until a sufficient quantity of securities had been accumulated, at which time we would refinance these facilities through a securitization, such as a CMBS, or issuance of CLOs, or the private placement of loan participations or other long-term financing. If we were to employ this strategy, we would be subject to the risk that we would not be able to acquire, during the period that our short-term facilities are available, a sufficient amount of eligible securities to maximize the efficiency of a CMBS, CLO or private placement issuance. We also would be subject to the risk that we would not be able to obtain short-term credit facilities or would not be able to renew any short-term credit facilities after they expire should we find it necessary to extend our short-term credit facilities to allow more time to seek and acquire the necessary eligible securities for a long-term financing. The inability to consummate securitizations of our portfolio to finance our investments on a long-term basis could require us to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could adversely affect our performance and our ability to grow our business. Additionally, the securitization of our portfolio might magnify our exposure to losses because any equity interest we retain in the issuing entity would be subordinate to the notes issued to investors and we would, therefore, absorb all of the losses sustained with respect to a securitized pool of assets before the owners of the notes experience any losses. The inability to securitize our portfolio may hurt our performance and our ability to grow our business. At the same time, the securitization of our portfolio investments might expose us to losses, as the residual portfolio investments in which we do not sell interests will tend to be riskier and more likely to generate losses.

We may be subject to losses arising from current and future guarantees of debt and contingent obligations of our subsidiaries or joint venture or co-investment partners.

We currently guarantee certain obligations of our subsidiaries under the BofA Repurchase Agreement and may in the future guarantee the performance of additional subsidiaries obligations, including, but not limited to, our repurchase agreements, derivative agreements and unsecured indebtedness. In the future we may also agree to guarantee indebtedness incurred by a joint venture or co-investment partner. Such a guarantee may be on a joint and several basis with such joint venture or co-investment partner, in which case we may be liable in the event such partner defaults on its guarantee obligation. The non-performance of such obligations may cause losses to us in excess of the capital we initially may have invested or committed under such obligations and there is no assurance that we will have sufficient capital to cover any such losses.

We are subject to counterparty risk associated with our debt obligations.

Our counterparties for critical financial relationships may include both domestic and international financial institutions. Many of them have been severely impacted by the credit market turmoil and have been experiencing financial pressures. In some cases, our counterparties have filed for bankruptcy, leading to financial losses for us.

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Hedging may adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.

Subject to maintaining our qualification as a REIT, we intend to pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates and fluctuations in currencies. Our hedging activity will vary in scope based on the level and volatility of interest rates, the type of assets held and other changing market conditions. Interest rate and currency hedging may fail to protect or could adversely affect us because, among other things:

- interest, currency and/or credit hedging can be expensive and may result in us receiving less interest income;
- available interest or currency rate hedges may not correspond directly with the interest rate or currency risk for which protection is sought;
- due to a credit loss, prepayment or asset sale, the duration of the hedge may not match the duration of the related asset or liability;
- the amount of income that a REIT may earn from hedging transactions (other than hedging transactions that satisfy certain requirements of the Internal Revenue Code or that are done through a taxable REIT subsidiary, or TRS) to offset interest rate losses is limited by U.S. federal income tax provisions governing REITs;
- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction;
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay;
- we may fail to recalculate, readjust and execute hedges in an efficient manner; and
- legal, tax and regulatory changes could occur and may adversely affect our ability to pursue our hedging strategies and/or increase the costs of implementing such strategies.

Any hedging activity in which we engage may materially and adversely affect our results of operations and cash flows. Therefore, while we may enter into such transactions seeking to reduce risks, unanticipated changes in interest rates, credit spreads or currencies may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions or liabilities being hedged may vary materially. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio positions or liabilities being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss.

In addition, some hedging instruments involve risk because they often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, we cannot assure you that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in significant losses. In addition, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions, and the business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in its default, which may result in the loss of unrealized profits and force us to cover our commitments, if any, at the then current market price.

We are subject to counterparty risk associated with our hedging activities.

We are subject to credit risk with respect to the counterparties to derivative contracts (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments). If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, we may experience significant delays in obtaining any recovery under the derivative contract in a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy, or other analogous proceeding. In addition, in the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. If we are owed this fair market value in the termination of the derivative transaction and its claim is unsecured, we will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying security. We may obtain only a limited recovery or may obtain no recovery in such circumstances. Counterparty risk with respect to certain exchange-traded and over-the-counter derivatives may be further complicated by recently enacted U.S. financial reform legislation.

We may enter into hedging transactions that could expose us to contingent liabilities in the future.

Subject to maintaining our qualification as a REIT, part of our investment strategy may involve entering into hedging transactions that could require us to fund cash payments in certain circumstances (such as the early termination of the hedging instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument). The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges. These economic losses will be reflected in our results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely affect our results of operations and financial condition.

We may fail to qualify for, or choose not to elect, hedge accounting treatment.

We intend to record derivative and hedging transactions in accordance with Financial Accounting Standards Board, or FASB, ASC 815, Derivatives and Hedging. Under these standards, we may fail to qualify for, or choose not to elect, hedge accounting treatment for a number of reasons, including if we use instruments that do not meet the FASB ASC 815 definition of a derivative (such as short sales), we fail to satisfy FASB ASC 815 hedge documentation and hedge effectiveness assessment requirements or our instruments are not highly effective. If we fail to qualify for, or choose not to elect, hedge accounting treatment, our operating results may suffer because losses on the derivatives that we enter into may not be offset by a change in the fair value of the related hedged transaction or item.

If we enter into certain hedging transactions or otherwise invest in certain derivative instruments, failure to obtain and maintain an exemption from being regulated as a commodity pool operator could subject us to additional regulation and compliance requirements which could materially adversely affect our business and financial condition.

Recently adopted rules under the Dodd-Frank Act establish a comprehensive new regulatory framework for derivative contracts commonly referred to as swaps. Under this regulatory framework, mortgage real estate investment trusts or mREITs that trade in commodity interest positions (including swaps) are considered commodity pools and the operators of such mREITs would be considered commodity pool operators or CPOs . Absent relief, a CPO must register with the U.S. Commodity Futures Trading Commission, or CFTC and become a member of the National Futures Association, or NFA, which requires compliance with NFA s rules and renders such CPO subject to regulation by the CFTC, including with respect to disclosure, reporting, recordkeeping and business conduct. We may from time to time, directly or indirectly, invest in instruments that meet the definition of swap under the new rules which may subject us to oversight by the CFTC. Our board of directors has appointed our Manager to act as our CPO in the event we are deemed a commodity pool.

In the event that we invest in commodity interests, absent relief, our Manager would be required to register as a CPO. Our Manager may therefore seek and rely on no-action relief from registration with the CFTC or claim an exemption from registration as a CPO with the CFTC, including pursuant to CFTC Rule 4.13(a)(3). CFTC

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Rule 4.13(a)(3) requires that, among other things, the pool s trading in commodity interest positions (including both hedging and speculative positions, and positions in security futures) is limited so that either (i) no more than 5% of the liquidation value of the pool s portfolio is used as initial margin, premiums and required minimum security deposits to establish such positions, or (ii) the aggregate net notional value of the pool s trading in such positions does not exceed 100% of the pool s liquidation value. Therefore, unlike a registered CPO, we will not be required to provide prospective investors with a CFTC compliant disclosure document, nor will we be required to provide investors with periodic account statements or certified annual reports that satisfy the requirements of CFTC rules applicable to registered CPOs, in connection with any offerings of shares.

As an alternative to the exemption from registration, our Manager may register as a CPO with the CFTC and avail itself of certain disclosure, reporting and record-keeping relief under CFTC Rule 4.7.

The CFTC has substantial enforcement power with respect to violations of the laws over which it has jurisdiction, including their anti-fraud and anti-manipulation provisions. Among other things, the CFTC may suspend or revoke the registration of a person who fails to comply, prohibit such a person from trading or doing business with registered entities, impose civil money penalties, require restitution and seek fines or imprisonment for criminal violations. Additionally, a private right of action exists against those who violate the laws over which the CFTC has jurisdiction or who willfully aid, abet, counsel, induce or procure a violation of those laws. In the event we fail to receive interpretive relief from the CFTC on this matter, are unable to claim an exemption from registration and fail to comply with the regulatory requirements of these new rules, we may be unable to use certain types of hedging instruments or me may be subject to significant fines, penalties and other civil or governmental actions or proceedings, any of which could adversely affect our results of operations and financial condition.

Risks Related to the Blackstone Transactions and Our Relationship with Our Manager

We depend on our Manager and its personnel for our success. We may not find a suitable replacement for our Manager if the Management Agreement is terminated, or if key personnel leave the employment of our Manager or Blackstone or otherwise become unavailable to us.

We are externally managed and advised by our Manager, an affiliate of Blackstone. We have no employees and all of our officers are employees of Blackstone or its affiliates. We are completely reliant on our Manager, which has significant discretion as to the implementation of our investment and operating policies and strategies.

Our success will depend to a significant extent upon the efforts, experience, diligence, skill and network of business contacts of the executive officers and key personnel of our Manager and its affiliates. Our Manager is managed by senior professionals of Blackstone. These individuals will evaluate, negotiate, execute and monitor our investments and advise us regarding maintenance of our REIT status and exemption from regulation under the Investment Company Act; therefore, our success will depend on their continued service with our Manager and its affiliates. The departure of one or more of the executive officers or key personnel from our Manager and its affiliates could have a material adverse effect on our performance.

In addition, we can offer no assurance that our Manager will remain our investment manager or that we will continue to have access to our Manager s officers and key personnel. The initial term of the Management Agreement only extends until December 19, 2015. Thereafter, the Management Agreement will be renewable for one-year terms; provided, however, that our Manager may terminate the Management Agreement annually upon 180 days prior notice. If the Management Agreement is terminated and no suitable replacement is found to manage us, we may not be able to execute our business plan. Furthermore, we may incur certain costs in connection with a termination of the Management Agreement.

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The personnel of our Manager, as our external manager, are not required to dedicate a specific portion of their time to the management of our business.

Neither our Manager nor any other Blackstone affiliate is obligated to dedicate any specific personnel exclusively to us, nor are they or their personnel obligated to dedicate any specific portion of their time to the management of our business. As a result, we cannot provide any assurances regarding the amount of time our Manager or its affiliates will dedicate to the management of our business and our Manager may have conflicts in allocating its time, resources and services among our business and any other investment vehicles and accounts our Manager (or its personnel) may manage. Each of our officers is also an employee of our Manager or another Blackstone affiliate, who has now or may be expected to have significant responsibilities for other investment vehicles currently managed by Blackstone and its affiliates. Consequently, we may not receive the level of support and assistance that we otherwise might receive if we were internally managed. Our Manager and its affiliates are not restricted from entering into other investment advisory relationships or from engaging in other business activities.

Our Manager manages our portfolio pursuant to very broad investment guidelines and is not required to seek the approval of our board of directors for each investment, financing, asset allocation or hedging decision made by it, which may result in our making riskier loans and investments and which could adversely affect our results of operations and financial condition.

Our Manager is authorized to follow very broad investment guidelines that provide it with broad discretion in investment, financing, asset allocation and hedging decisions. Our board of directors will periodically review our investment guidelines and our investment portfolio but will not, and will not be required to, review and approve in advance all of our proposed investments or the Manager s financing, asset allocation or hedging decisions. In addition, in conducting periodic reviews, our directors may rely primarily on information provided to them by our Manager or its affiliates. Subject to maintaining our REIT qualification and our exclusion from regulation under the Investment Company Act, our Manager has significant latitude within the broad investment guidelines in determining the types of investments it makes for us, and how such investments are financing or hedged, which could result in investment returns that are substantially below expectations or that result in losses, which could adversely affect our results of operations and financial condition.

Our Manager s fee structure may not create proper incentives or may induce our Manager and its affiliates to make certain investments, including speculative investments, which increase the risk of our investment portfolio.

We will pay our Manager base management fees regardless of the performance of our portfolio. Our Manager s entitlement to a base management fee, which is not based upon performance metrics or goals, might reduce its incentive to devote its time and effort to seeking investments that provide attractive risk-adjusted returns for our portfolio. Because the base management fees are also based in part on our outstanding equity, our Manager may also be incentivized to advance strategies that increase our equity, and there may be circumstances where increasing our equity will not optimize the returns for our stockholders. Consequently, we may be required to pay our Manager base management fees in a particular period despite experiencing a net loss or a decline in the value of our portfolio during that period.

In addition, our Manager has the ability to earn incentive fees each quarter based on our excess earnings, which may create an incentive for our Manager to invest in assets with higher yield potential, which are generally riskier or more speculative, or sell an asset prematurely for a gain, in an effort to increase our short-term net income and thereby increase the incentive fees to which it is entitled. If our interests and those of our Manager are not aligned, the execution of our business plan and our results of operations could be adversely affected, which could adversely affect our results of operations and financial condition.

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We may compete with existing and future private and public investment vehicles established and/or managed by Blackstone or its affiliates, which may present various conflicts of interest that restrict our ability to pursue certain investment opportunities or take other actions that are beneficial to our business and result in decisions that are not in the best interests of our stockholders.

We are subject to conflicts of interest arising out of our relationship with Blackstone, including our Manager and its affiliates. Blackstone has appointed two nominees to serve on our board of directors (one of whom serves as executive chairman of our board of directors), and Stephen D. Plavin, our chief executive officer and a member of our board, Geoffrey G. Jervis, our chief financial officer, Randall S. Rothschild, our secretary and managing director, legal and compliance and Thomas C. Ruffing, our managing director, asset management, are executives of Blackstone and/or one or more of its affiliates, and we are managed by our Manager, a Blackstone affiliate. There is no guarantee that the policies and procedures adopted by us, the terms and conditions of the Management Agreement or the policies and procedures adopted by our Manager, Blackstone and their affiliates, will enable us to identify, adequately address or mitigate these conflicts of interest.

Some examples of conflicts of interest that may arise by virtue of our relationship with our Manager and Blackstone include:

Broad and Wide-Ranging Activities. Our Manager, Blackstone and their affiliates engage in a broad spectrum of activities, including a broad range of activities relating to investments in the real estate industry and have invested or committed billions of dollars in capital through various investment funds, managed accounts and other vehicles affiliated with Blackstone. In the ordinary course of their business activities, our Manager, Blackstone and their affiliates may engage in activities where the interests of certain divisions of Blackstone and its affiliates, including our Manager, or the interests of their clients may conflict with the interests of our stockholders. Certain of these divisions and entities affiliated with our Manager have or may have an investment strategy similar to Blackstone Mortgage Trust s and therefore may engage in competing activities with Blackstone Mortgage Trust. In particular, BREDS, part of Blackstone s real estate investment business, seeks to invest in a broad range of real estate-related debt investments via several different investment funds, managed accounts and other vehicles. See Our Manager and the Management Agreement Historical Performance of Certain Real Estate Funds Managed by Blackstone for more information on the BREDS investment funds.

Blackstone s Policies and Procedures. Specified policies and procedures implemented by Blackstone and its affiliates, including our Manager, to mitigate potential conflicts of interest and address certain regulatory requirements and contractual restrictions may reduce the advantages across Blackstone s and its affiliates various businesses that Blackstone expects to draw on for purposes of pursuing attractive investment opportunities. Because Blackstone has many different asset management, advisory and other businesses, it is subject to a number of actual and potential conflicts of interest, greater regulatory oversight and more legal and contractual restrictions than that to which it would otherwise be subject if it had just one line of business. In addressing these conflicts and regulatory, legal and contractual requirements across its various businesses, Blackstone has implemented certain policies and procedures (*e.g.*, information walls) that may reduce the benefits that Blackstone expects to utilize for purposes of identifying and managing its investments. For example, Blackstone may come into possession of material non-public information with respect to companies in which our Manager may be considering making an investment in companies that are Blackstone s and its affiliates advisory clients. As a consequence, that information, which could be of benefit to our Manager, might become restricted to those other businesses and otherwise be unavailable to our Manager, and could also restrict our Manager s activities. Additionally, the terms of confidentiality or other agreements with or related to companies in which any investment vehicle of Blackstone has or has considered making an investment or which is otherwise an advisory client of Blackstone and its affiliates may restrict or otherwise limit the ability of Blackstone or its affiliates, including our Manager, to engage in businesses or activities competitive with such companies.

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Allocation of Investment Opportunities. Certain inherent conflicts of interest arise from the fact that Blackstone and its affiliates, including our Manager, will provide investment management and other services both to us and the Blackstone Funds. The respective investment guidelines and programs of our business and the Blackstone Funds may or may not overlap, in whole or in part, and if there is any such overlap investment opportunities will be allocated between us and the Blackstone Funds in a manner that may result in fewer investment opportunities being allocated to us than would have otherwise been the case in the absence of such Blackstone Funds. In particular, while the primary investment strategies of Blackstone Mortgage Trust and Blackstone s latest flagship successor real estate debt fund, Blackstone Real Estate Debt Strategies II, L.P., or BREDS II, are materially different in that Blackstone Mortgage Trust will generally seek to invest primarily in senior mortgage loans and other similar interests and whereas BREDS II will generally seek to invest primarily in junior mortgage debt (e.g., B Notes) and mezzanine debt, a significant portion of the capital of BREDS II may nonetheless be invested in investments that would also be appropriate for Blackstone Mortgage Trust. Our Manager, Blackstone or their affiliates may also give advice to the Blackstone Funds that may differ from advice given to us even though their investment objectives may be the same or similar to ours.

While our Manager will seek to manage potential conflicts of interest in a fair and equitable manner in accordance with the Allocation Policy, and as required pursuant to the Management Agreement, the portfolio strategies employed by our Manager, Blackstone or their affiliates in managing the Blackstone Funds could conflict with the strategies employed by our Manager in managing our business and may adversely affect the marketability, exit strategy, prices and availability of the securities and instruments in which we invest. Conversely, participation in specific investment opportunities may be appropriate, at times, for both us and the Blackstone Funds. Our Manager has an investment allocation policy in place which provides that investment opportunities falling within the shared investment objectives of our business and the Blackstone Funds will generally be allocated on a basis that our Manager and applicable Blackstone affiliates determine to be fair and reasonable in accordance with the Allocation Policy, subject to legal, tax, regulatory, accounting and other considerations and taking into account a variety of factors. Our Manager is entitled to amend the Allocation Policy at any time without prior notice or our consent. For additional information, see Our Manager and the Management Agreement Management Agreement Additional Activities of Our Manager; Allocation of Investment Opportunities; Conflicts of Interest.

Investments in Different Levels or Classes of an Issuer s Securities. From time to time, we and the Blackstone Funds may make investments at different levels of an issuer s or borrower s capital structure (*e.g*., an investment by a Blackstone Fund in an equity or mezzanine interest with respect to the same portfolio entity in which we own a debt interest or vice versa) or otherwise in different classes of the same issuer s securities. We may make investments that are senior or junior to, or have rights and interests different from or adverse to, the investments made by the Blackstone Funds. Such investments may conflict with the interests of such Blackstone Funds in related investments, and the potential for any such conflicts of interests may be heightened in the event of a default or restructuring of any such investments. Our Management Agreement requires our Manager to keep our board of directors reasonably informed on a periodic basis in connection with the foregoing, including with respect to transactions that involve investments at different levels of an issuer s or borrower s capital structure, as to which our Manager has agreed to provide our board of directors with quarterly updates. We, CT Legacy Partners and CTOPI currently hold mortgage and mezzanine loans and other investments in which Blackstone affiliates have interests in the collateral securing or backing such investments. While Blackstone will seek to resolve any such conflicts in a fair and equitable manner in accordance with the Allocation Policy and its prevailing policies and procedures with respect to conflicts resolution among the Blackstone Funds generally, such transactions are not required to be presented to our board of directors for approval, and there can be no assurance that any conflicts will be resolved in our favor.

Pursuit of Differing Strategies. At times, the investment professionals employed by our Manager or its affiliates and other investment vehicles affiliated with our Manager and/or Blackstone may determine that an investment opportunity may be appropriate for only some of the accounts, clients, entities, funds and/or investment companies for which he or she exercises investment responsibility, or may decide that certain of the accounts, clients, entities, funds and/or investment companies should take differing positions with respect to a particular security. In these cases, the investment professionals may place separate transactions for one or more accounts, clients, entities, funds and/or investment companies which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other accounts, clients, entities, funds and/or investment companies. For example, an investment professional may determine that it would be in the interest of another account to sell a security that we hold long, potentially resulting in a decrease in the market value of the security held by us.

Variation in Financial and Other Benefits. A conflict of interest arises where the financial or other benefits available to our Manager or its affiliates differ among the accounts, clients, entities, funds and/or investment companies that it manages. If the amount or structure of the base management fee, incentive fee and/or our Manager s compensation differs among accounts, clients, entities, funds and/or investment companies (such as where certain funds or accounts pay higher base management fees, incentive fees, performance-based management fees or other fees), our Manager might be motivated to help certain accounts, clients, entities, funds and/or investment companies over others. Similarly, the desire to maintain assets under management or to enhance our Manager s performance record or to derive other rewards, financial or otherwise, could influence our Manager in affording preferential treatment to those accounts, clients, entities, funds and/or investment companies that could most significantly benefit our Manager. Our Manager may, for example, have an incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor such accounts, clients, entities, funds and/or investment companies. Additionally, our Manager might be motivated to favor accounts, clients, entities, funds and/or investment companies in which it has an ownership interest or in which Blackstone and/or its affiliates have ownership interests. Conversely, if an investment professional at our Manager or its affiliates does not personally hold an investment in the fund but holds investments in other Blackstone affiliated vehicles, such investment professional s conflicts of interest with respect to us may be more acute.

Investment Banking, Underwriting Advisory and Other Relationships. As part of its regular business, Blackstone provides a broad range of investment banking, underwriting, advisory, and other services. In the regular course of its investment banking and advisory businesses, Blackstone represents potential purchasers, sellers and other involved parties, including corporations, financial buyers, management, stockholders and institutions, with respect to transactions that could give rise to investments that are suitable for us. Blackstone will be under no obligation to decline any such engagements in order to make an investment opportunity available to us. In connection with its investment banking, advisory and other businesses, Blackstone may come into possession of information that limits its ability to engage in potential transactions. Our activities may be constrained as a result of the inability of Blackstone personnel to use such information. For example, employees of Blackstone not serving as employees of our Manager or its affiliates may be prohibited by law or contract from sharing information with members of our Manager s investment team. Additionally, there may be circumstances in which one or more of certain individuals associated with Blackstone will be precluded from providing services to our Manager because of certain confidential information available to those individuals or to other parts of Blackstone. In certain sell-side assignments, the seller may permit Blackstone to act as a participant in such transaction, which would raise conflicts of interest inherent in such a situation. In addition, in connection with selling investments by way of a public offering, a Blackstone broker-dealer may act as the managing underwriter or a member of the underwriting syndicate on a firm commitment basis and purchase securities on that basis. Blackstone may retain any commissions, remuneration, or other profits and receive compensation from such underwriting activities, which have the potential to create conflicts of interest. Blackstone may also participate in underwriting syndicates from time to time with respect to us or portfolio companies of Blackstone Funds, or may otherwise be involved in the private placement of debt or equity securities issued by us or such portfolio companies, or otherwise in arranging financings with respect thereto. Subject to applicable law, Blackstone may receive underwriting fees, placement

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commissions, or other compensation with respect to such activities, which are not required to be shared with us or our stockholders. Where Blackstone serves as underwriter with respect to a portfolio company s securities, we or the applicable Blackstone fund holding such securities may be subject to a lock-up period following the offering under applicable regulations during which time our ability to sell any securities that we continue to hold is restricted. This may prejudice our ability to dispose of such securities at an opportune time.

Blackstone has long-term relationships with a significant number of corporations and their senior management. In determining whether to invest in a particular transaction on our behalf, our Manager may consider those relationships (subject to its obligations under the Management Agreement), which may result in certain transactions that our Manager will not undertake on our behalf in view of such relationships.

Blackstone and its affiliates may represent creditors or debtors in proceedings under Chapter 11 of the Bankruptcy Code or prior to such filings. From time to time Blackstone and its affiliates may serve as advisor to creditor or equity committees. This involvement, for which Blackstone and its affiliates may be compensated, may limit or preclude the flexibility that we may otherwise have to participate in restructurings.

Service Providers. Our service providers (including lenders, brokers, attorneys, and investment banking firms) may be sources of investment opportunities, counterparties therein or advisors with respect thereto. This may influence our Manager in deciding whether to select such a service provider. In addition, in instances where multiple Blackstone businesses may be exploring a potential individual investment, certain of these service providers may choose to be engaged by other Blackstone affiliates rather than us.

Material, Non-Public Information. We, directly or through Blackstone, our Manager or certain of their respective affiliates may come into possession of material non-public information with respect to an issuer in which we have invested or may invest. Should this occur, our Manager may be restricted from buying or selling securities, derivatives or loans of the issuer on our behalf until such time as the information becomes public or is no longer deemed material. Disclosure of such information to the personnel responsible for management of our business may be on a need-to-know basis only, and we may not be free to act upon any such information. Therefore, we and/or our Manager may not have access to material non-public information in the possession of Blackstone which might be relevant to an investment decision to be made by our Manager on our behalf, and our Manager may initiate a transaction or purchase or sell an investment which, if such information had been known to it, may not have been undertaken. Due to these restrictions, our Manager may not be able to initiate a transaction on our behalf that it otherwise might have initiated and may not be able to purchase or sell an investment that it otherwise might have purchased or sold, which could negatively affect our operations.

Possible Future Activities. Our Manager and its affiliates may expand the range of services that they provide over time. Except as and to the extent expressly provided in the Management Agreement, our Manager and its affiliates will not be restricted in the scope of its business or in the performance of any such services (whether now offered or undertaken in the future) even if such activities could give rise to conflicts of interest, and whether or not such conflicts are described herein. Our Manager, Blackstone and their affiliates continue to develop relationships with a significant number of companies, financial sponsors and their senior managers, including relationships with clients who may hold or may have held investments similar to those intended to be made by us. These clients may themselves represent appropriate investment opportunities for us or may compete with us for investment opportunities.

Transactions with Blackstone Funds. From time to time, we may enter into purchase and sale transactions with Blackstone Funds. Such transactions will be conducted in accordance with, and subject to, the terms and conditions of the Management Agreement (including the requirement that sales to or acquisitions of investments from Blackstone, any Blackstone Fund or any of their affiliates be approved in advance by a majority of our independent directors) and our code of business conduct and ethics and applicable laws and regulations.

Loan Refinancings. We may from time to time seek to participate in investments relating to the refinancing of loans held by the Blackstone Funds (including the BREDS funds). While it is expected that our participation in connection with such refinancing transactions will be at arms length and on market/contract terms, such transactions may give rise to potential or actual conflicts of interest.

Other Affiliate Transactions. Our Manager may on our behalf acquire debt issued by a borrower in which a separate equity or another debt investment has been made by Blackstone or its other affiliates, including the BREDS funds. In connection with investments in which we participate alongside other Blackstone Funds (including the BREDS funds), we may from time to time share certain rights with such other Blackstone Funds relating to such investments for legal, tax, regulatory or other similar reasons, including, in certain instances, certain control-related rights with respect to jointly-held investments. When making any such investments, there may be conflicting interests. There can be no assurance that the return on our investment will be equivalent to or better than the returns obtained by Blackstone or its other affiliates.

Further conflicts could arise once we and Blackstone or its affiliates have made their respective investments. For example, if a company goes into bankruptcy or reorganization, becomes insolvent or otherwise experiences financial distress or is unable to meet its payment obligations or comply with covenants relating to securities held by us or by the Blackstone or its affiliates, Blackstone or its affiliates may have an interest that conflicts with our interests or Blackstone or its affiliates may have information regarding the company that we do not have access to. If additional financing is necessary as a result of financial or other difficulties, it may not be in our best interests to provide such additional financing. If Blackstone or its affiliates were to lose their respective investments as a result of such difficulties, the ability of our Manager to recommend actions in our best interests might be impaired.

Termination of the Management Agreement would be costly.

Termination of the Management Agreement without cause will be difficult and costly. Our independent directors will review our Manager s performance annually and, following the initial three-year term, the Management Agreement may be terminated each year upon the affirmative vote of at least two-thirds of our independent directors, based upon a determination that (i) our Manager s performance is unsatisfactory and materially detrimental to us or (ii) the base management fee and incentive fee payable to our Manager are not fair (provided that in this instance, our Manager will be afforded the opportunity to renegotiate the management fee and incentive fees prior to termination). We are required to provide our Manager with 180 days prior notice of any such termination. Additionally, upon such a termination, or if we materially breach the Management Agreement and our Manager terminates the Management Agreement, the Management Agreement provides that we will pay our Manager a termination fee equal to three times the sum of the average annual base management fee and the average annual incentive fee earned during the 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination. These provisions increase the cost to us of terminating the Management Agreement and adversely affect our ability to terminate our Manager without cause.

Our Manager maintains a contractual as opposed to a fiduciary relationship with us. Our Manager s liability is limited under the Management Agreement and we have agreed to indemnify our Manager against certain liabilities.

Pursuant to the Management Agreement, our Manager does not assume any responsibility other than to render the services called for thereunder and is not responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager maintains a contractual as opposed to a fiduciary relationship with us. Under the terms of the Management Agreement, our Manager and its affiliates and their respective directors, officers, employees and stockholders are not liable to us, our directors, our stockholders or any subsidiary of ours, or their directors, officers, employees or stockholders for any acts or omissions performed in accordance with and pursuant to the Management Agreement, except by reason of acts or