TUTOGEN MEDICAL INC
Form DEF 14A
February 08, 2005

SCHEDULE 14A

(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934

Check the appropriate box:
|_| Preliminary proxy statement.
|X| Definitive proxy statement.
|_| Definitive additional materials.
|_| Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12.
|_| Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2)).

TUTOGEN MEDICAL, INC.

(Name of Registrant as specified in its Charter)

None.

(Name of person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (check the appropriate box):
|X| No fee required.
|_| Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

|_| Fee paid previously with preliminary materials.
|_| Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

TUTOGEN MEDICAL, INC.
1130 MCBRIDE AVENUE
WEST PATERSON, NEW JERSEY 07424

February 8, 2005

Dear Shareholder:

On behalf of the Board of Directors, I cordially invite you to attend the 2005 Annual Meeting of the Shareholders of Tutogen Medical, Inc. (the "Company"), which will be held on March 14, 2005 at the Doubletree Hotel, 8250 North Central Expressway, Dallas, Texas 75206 at 10:00 a.m. local time.

At the Annual Meeting, you will be asked (i) to elect eight (8) directors, (ii) to amend the Company's 1996 Stock Option Plan increasing the total number of shares covered by the Plan from 3,500,000 to 4,000,000, (iii) to ratify the appointment of Deloitte & Touche, L.L.P. as the Company's auditors for the fiscal year ending September 30, 2005 and (iv) to transact such other business as may properly come before the meeting or any adjournment thereof. On the following pages you will find the Notice of the Annual Meeting of Shareholders, and the Proxy Statement providing information concerning the matters to be acted upon at the meeting. Of course, the Board of Directors will be present at the Annual Meeting to answer any questions you might have.

YOUR VOTE IS IMPORTANT! The Company's Board of Directors would greatly appreciate your attendance at the Annual Meeting. HOWEVER, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, IT IS VERY IMPORTANT THAT YOUR SHARES BE REPRESENTED. Accordingly, please sign, date, and return the enclosed proxy card, which will indicate your vote upon the various matters to be considered. If you do attend the meeting and desire to vote in person, you may do so by withdrawing your proxy at that time.

I sincerely hope you will be able to attend the Annual Meeting and I look forward to seeing you at the 2005 Annual Meeting of Shareholders.

Very truly yours,

Roy D. Crowinshield, Ph.D.
CHAIRMAN OF THE BOARD

TUTOGEN MEDICAL, INC.
1130 MCBRIDE AVENUE
WEST PATERSON, NEW JERSEY 07424

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD MARCH 14, 2005

TO THE SHAREHOLDERS OF TUTOGEN MEDICAL, INC.:

NOTICE IS HEREBY GIVEN that the 2005 Annual Meeting of the Shareholders of

Tutogen Medical, Inc., a Florida corporation (the "Company") will be held at the Doubletree Hotel, 8250 North Central Expressway, Dallas, Texas 75206, 10:00 a.m. local time, to act on the following matters:

1. To elect eight (8) directors to serve until the 2006 Annual Meeting of Shareholders and until their respective successors shall be duly elected and qualified;

2. To approve an amendment to the Company's 1996 Stock Option Plan increasing the number of shares covered thereby from 3,500,000 to 4,000,000 shares;

3. To ratify the appointment of Deloitte & Touche L.L.P. as the Company's independent auditors for the fiscal year ending September 30, 2005; and

4. To transact such other business as may properly come before the meeting or any adjournment thereof.

Only Shareholders of record at 5:00 p.m., Eastern Standard Time, on February 1, 2005 are entitled to receive notice of, and to vote at, the Annual Meeting. EACH SHAREHOLDER, EVEN THOUGH HE OR SHE MAY PRESENTLY INTEND TO ATTEND THE ANNUAL MEETING, IS REQUESTED TO SIGN AND DATE THE ENCLOSED PROXY CARD AND TO RETURN IT WITHOUT DELAY IN THE ENCLOSED POSTAGE-PAID ENVELOPE. Any shareholder present at the Annual Meeting may withdraw his or her proxy and vote in person on each matter brought before the Annual Meeting.

By Order of the Board of Directors

Roy D. Crowninshield, Ph.D.
CHAIRMAN OF THE BOARD

West Paterson, New Jersey
February 8, 2005

TUTOGEN MEDICAL, INC.
1130 MCBRIDE AVENUE
WEST PATERSON, NEW JERSEY 07424

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MARCH 14, 2005

GENERAL INFORMATION

This Proxy Statement is being furnished to the holders ("Shareholders") of the common shares, par value $.01 per share ("Common Shares"), of Tutogen Medical, Inc., a Florida corporation (the "Company") in connection with the solicitation, by the Company's Board of Directors, of proxies for use at the 2005 Annual Meeting of Shareholders to be held on March 14, 2005 at 10:00 a.m. (the "Annual Meeting") and at any adjournment thereof. The Annual Meeting will be held at the Doubletree Hotel, 8250 North Central Expressway, Dallas, Texas 75206.

At the Annual Meeting, Shareholders will be asked to consider and vote

on (i) the election of eight (8) directors, (ii) an amendment to the Company's 1996 Stock Option Plan increasing the total number of shares covered by the Plan from 3,500,000 to 4,000,000 and (iii) the ratification of Deloitte & Touche, L.L.P. as the Company's auditors for the fiscal year ending September 30, 2005. All properly executed proxies received prior to or at the Annual Meeting will be voted in accordance with the instructions indicated thereon, if any. If no instructions are indicated, such proxies will be voted FOR the election of the Board of Directors' nominees for directors, FOR the amendment to the 1996 Stock Option Plan and FOR the ratification of Deloitte & Touche L.L.P. as the Company's auditors.

The Board of Directors has fixed 5:00 p.m., Eastern Standard Time, on February 1, 2005 as the record date (the "Record Date") for the determination of the Shareholders of record entitled to receive notice of, and to vote at, the Annual Meeting or any adjournment thereof. On February 1, 2005 there were 15,915,960 issued and outstanding Common Shares of the Company, constituting the only class of stock outstanding. The presence of a majority of the outstanding Common Shares as of the Record Date, in person or represented by proxy, will constitute a quorum at the Annual Meeting.

Any Shareholder may revoke his or her proxy, at any time before it is exercised, by (i) duly executing and submitting a subsequently dated proxy, (ii) delivering a subsequently dated written notice of revocation to the Company, which notice is received at or before the Annual Meeting, or (iii) voting in person at the Annual Meeting (although, mere attendance at the Annual Meeting will not, in and of itself, constitute a revocation of the proxy). Any written notice revoking a proxy should be sent to the Secretary of the Company at the Company's principal executive offices, located at the address set forth above.

This Proxy Statement and the enclosed proxy card are first being sent to Shareholders, together with the Notice of Annual Meeting, on or about February 8, 2005. SHAREHOLDERS ARE REQUESTED TO COMPLETE, DATE, AND SIGN THE ACCOMPANYING FORM OF PROXY AND RETURN IT PROMPTLY IN THE ENVELOPE PROVIDED WITH THESE MATERIALS. No postage is necessary if the proxy is mailed in the United States in the accompanying envelope.

PROPOSAL I

ELECTION OF DIRECTORS

In accordance with the Company's Bylaws, the Board of Directors has fixed the number of directors of the Company ("Directors") to be elected at the Annual Meeting at eight (8). The Board of Directors has unanimously nominated the following persons (each, a "Nominee"), all of whom are current Directors, to stand for election at the Annual Meeting. Each Nominee has agreed, if elected, to hold office until the 2006 Annual Meeting of Shareholders and until his successor has been duly elected and qualified.

It is intended that the proxies received from Shareholders, unless contrary instructions are given therein, will be voted in favor of the election of the Nominees named below, each of whom has consented to being named herein and have indicated their intention to serve if elected. If any Nominee, for any reason, should become unavailable for election, or if a vacancy should occur before the election, it is intended that the shares represented by the proxies will be voted for such other person, as the Company's Board of Directors shall designate to replace such Nominee. The Board of Directors has no reason to believe that any of the Nominees will not be available or prove unable to serve if so elected.

NOMINEES FOR DIRECTOR

The following table sets forth the names and ages of each person nominated for election as a Director of the Company, the positions and offices that each Nominee has held with the Company, and the period during which each has served in such positions and offices. Each Director serves for a term of one (1) year and until his successor is duly elected and qualified.

TABLE OF NOMINEES

Name of Nominee	Age	Positions/offices	Period Served in Office/Position
G. Russell Cleveland	66	Director	1997 - present
Roy D. Crowinshield, Ph.D.	56	Chairman of the Board Director	2004 - present 2003 - present
Robert C. Farone	62	Director	1999 - present
J. Harold Helderman, M.D.	59	Director	1997 - present
Richard J. May	40	Director	2004 - present
Guy L. Mayer	53	Chief Executive Officer Director	January 2005 - present January 2005 - present
Thomas W. Pauken	61	Director Chairman of the Board	1999 - present 2000 - 2004
Carlton E. Turner, Ph.D., D.Sc.	64	Director	2000 - present

Set forth below are descriptions of the business experience during the past five (5) years or more, and other biographical information, for the Nominees seeking election to the Board of Directors.

G. RUSSELL CLEVELAND is the President, Chief Executive Officer, sole Director, and majority shareholder of Renaissance Capital Group, Inc. ("Renaissance"). He is also President, Chief Executive Officer, and a director of Renaissance Capital Growth & Income Fund III, Inc. Mr. Cleveland is a Chartered Financial Analyst with more than thirty-five (35) years experience as a specialist in investments for smaller capitalization companies. A graduate of the Wharton School of Business, Mr. Cleveland has served as President of the Dallas Association of Investment Analysts. Mr. Cleveland currently serves on the Boards of Directors of Renaissance U.S. Growth & Income Trust PLC, Cover-All Technologies, Inc., Digital Recorders, Inc., Integrated Security Systems, Inc., and BFS U.S. Special Opportunities Trust PLC (London).

ROY D. CROWNINSHIELD, PH.D. is the current Chairman of the Board. Prior to joining Tutogen, Dr. Crowninshield served twenty-one (21) years in various capacities at Zimmer Holdings, Inc., ("Zimmer") including President of Zimmer's U.S. operations and most recently as the Company's Chief Scientific Officer. Prior to joining Zimmer in 1983, he was a faculty member at the University of Iowa where he led many research projects evaluating the function of total joint

implants. He currently holds academic appointments as a professor in the Orthopedic Surgery Department at Rush Medical College in Chicago, Illinois and as an adjunct professor in the College of engineering of the University of Notre Dame. He holds an undergraduate and doctorate degrees from the University of Vermont. He has worked in the orthopedic industry for over twenty (20) years and has extensive experience in the research and development, manufacture, and clinical investigation of orthopedic implants. He has authored more than 100 journal articles, book chapters, and published abstracts in orthopedics and engineering.

ROBERT C. FARONE has been Vice President/General Manager of Samsonite Company Stores since June 2001. Samsonite Company Stores is a chain of 188 retail luggage stores. Mr. Farone had been President of Bag'n Baggage, Ltd. from June 1985 through February 2001. Bag'n Baggage is an 80-store retailer of luggage and leather goods operating in eight (8) states under the trade names Bag'n Baggage, Biagio, Houston Trunk Factory, Malm and Roberto's. Mr. Farone has also served as a director on the board of Caribbean Marine, Inc. from June 1985 to April 2001. From September 1985 to July 1986 he served as a director on the board of 50 Off Stores, and from August 1988 to September 1991 he served as Chairman of the Board. 50 Off Stores was a regional chain of deep discount stores specializing in ready to wear having 72 locations in five states.

J. HAROLD HELDERMAN, M.D. is Dean of Admissions and Professor of Medicine, Microbiology and Immunology at Vanderbilt University, Nashville, Tennessee, and is the Medical Director of the Vanderbilt Transplant Center. Dr. Helderman received his MD from the State University of New York, Downstate Medical Center in 1971, Summa Cum Laude. In addition to book and monograph writings, he has authored more than 125 publications in his field of transplant medicine. Dr. Helderman is past President of the American Society of Transplantation.

RICHARD J. MAY has been Vice President of Tax and Tax Counsel for Zimmer since January 2004. Prior to this, Mr. May held both tax and finance senior executive positions with Centerpulse USA Holding, Inc., which was recently acquired by Zimmer. His most recent position with Centerpulse was Group Vice President Finance and Tax Counsel, primarily responsible for the worldwide/global tax function. Mr. May has over eighteen (18) years of experience in corporate tax, accounting and finance roles. Prior to joining Centerpulse (previously Sulzer Medica), he worked at Rockwell International and Arthur Anderson & Co. He holds a bachelor's degree in accounting (suma cum laude) from Texas A&M University, and a Juris Doctor degree (cum laude) from the University of Houston Law Center. He is a certified public accountant and a member of the Texas Bar Association.

GUY L. MAYER is the current Chief Executive Officer of the Company. Prior to joining Tutogen, Mr. Mayer served as Chairman and CEO of Visen medical, a private Biotech company focused on Molecular Imaging technologies and prior to Visen, was President and CEO of ETEX Corporation, a private biomedical company based in Cambridge, MA. For thirteen (13) years prior to joining ETEX, Mr. Mayer held various senior positions at Zimmer, then a division of Bristol Myers Squibb with sales in excess of $1.2 billion. Mr. Mayer's positions at Zimmer included President, Global Products Group, President, Orthopedics Implant Division, President, Zimmer Japan and Sr. Vice President, Zimmer International. Prior experience includes general management positions with Picker International in diagnostic imaging, and American Hospital Supply Corporation. Mr. Mayer is a 1974 Graduate of the University of Ottawa and currently serves on the Board of Directors of Spire Corporation, a publicly owned corporation, and several private companies.

THOMAS W. PAUKEN currently serves as the Trustee for Capital Partners II, Ltd. Liquidating Trust. He also serves on the Board of TOR Minerals International, Inc. For six (6) years, Mr. Pauken served as Vice President and Corporate Counsel of Garvon, Inc., a Dallas-based venture capital company. From 1981 to 1985, Mr. Pauken served as Director of ACTION, an independent federal agency. He also served on the White House legal counsel's staff during the Reagan Administration. Mr. Pauken's military service included a tour of duty in Vietnam as a Military Intelligence Officer. Mr. Pauken received a B.A. from Georgetown University and J.D. degree from Southern Methodist University Law School.

CARLTON E. TURNER, PH.D., D.SC. has been the President and Chief Executive Officer of Carrington Laboratories, Inc. ("Carrington") (NASDAQ: CARN) since April 1995. Carrington is a research-based pharmaceutical and medical device company in the field of wound care products. Dr. Turner has also served as the Chief Operating Officer from November 1994 to April 1995 and as the Executive Vice President of Scientific Affairs from January 1994 to November 1994 at Carrington. Before that, he was the President, Chief Operating Officer and Founder of Princeton Diagnostic Laboratories of America from 1987 to 1993. From 1981 to 1987 he was an Assistant to President Ronald Reagan with Cabinet Rank and Director of the White House Drug Policy Office. Previously, he was a Research Professor and Director of the Research Institute of Pharmacological Science, University of Mississippi.

DIRECTOR MEETINGS AND COMMITTEES

During the fiscal year ended September 30, 2004 ("Fiscal Year 2004"), the Board of Directors of the Company held a total of four (4) regular and four (4) telephonic meetings. Each of the directors attended at least eighty percent (80%) of the total number of meetings of the Board of Directors. It is the Company's policy that each of the incumbent directors attends the Annual Meetings of Shareholders.

The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating Committee, each consisting entirely of independent directors. The Board of Directors has determined, after considering all the relevant facts and circumstances, that Messrs. Cleveland, Farone, Pauken and Drs. Helderman and Turner are independent directors, as "independence" is defined by the listing standards of the American Stock Exchange (the "Exchange"), because they have no material relationship with us.

The Board of Directors has adopted charters for the Audit, Compensation and Nominating Committees describing the authority and responsibilities delegated to each committee by the board. The Board of Directors has also adopted Corporate Governance Guidelines and a Code of Ethics. The charters of the Audit, Compensation and Nominating Committees and the Corporate Governance Guidelines and Code of Ethics have been posted on the Company's website at www.tutogen.com. These documents are also available in print to any stockholder requesting a copy in writing from the corporate secretary at the executive offices set forth in this proxy statement.

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AUDIT COMMITTEE

The Company has a standing Audit Committee consisting of three (3) members. For Fiscal Year 2004, the members of the Audit Committee were Messrs. G. Russell Cleveland, Robert C. Farone and Dr. Carlton E. Turner. The Committee met four (4) times during Fiscal Year 2004. Each member of the Audit Committee is a member of the Board of Directors and "independent", as such term is defined in the Exchange listing standards currently in effect and applicable to the

Company. Each of the members of the Audit Committee, by virtue of his past employment experience, has considerable knowledge of financial statements, finance, and accounting. Although no member of the Committee has a professional certification in accounting, Mr. Cleveland and Dr. Turner each has significant employment experience as a Chief Executive Officer with financial oversight responsibilities. Dr. Turner has also served as the Chief Operating Officer of various companies. In addition, Mr. Cleveland is a graduate of the Wharton School of Business and has more than thirty-five (35) years of experience as a financial analyst. The Company believes both Mr. Cleveland and Dr. Turner qualify as "financial experts" under the Securities and Exchange Commission regulations. The background and experience of each of the Audit Committee members is more fully disclosed in their biographies under "Nominees for Director".

The mission of the Company's Audit Committee is to ensure accurate and reliable financial reporting by the Company, and to promote shareholder confidence in the reliability of the Company's financial information. To this end, the Audit Committee independently reviews and oversees the Company's internal reporting process, and helps ensure that management develops and adheres to a sound system of internal controls. The Audit Committee also is responsible for retaining and overseeing the Company's independent auditors, and facilitates the auditors' objective review and assessment of the Company's financial statements and its internal reporting practices. The Audit Committee serves as a forum, separate from management, within which the independent auditors, among others, can candidly address issues of concern. To specify and clarify the duties of the Audit Committee, the Company has adopted a formal written charter. The Audit Committee reviews and reassesses the adequacy of its charter on an annual basis.

NOMINATING COMMITTEE

The purpose and responsibilities of the Nominating Committee include the identification of individuals qualified to become board members, the recommendation to the Board of Directors of nominees to stand for election as directors at each election of directors, the development and recommendation to the Board of Directors of a set of corporate governance principles applicable to the Company, the oversight of the selection and composition of Committees of the Board of Directors, and the oversight of the evaluations of the Board of Directors and management. During fiscal 2004, the Nominating Committee consisted of Messrs. Cleveland, Farone, Pauken and Drs. Helderman and Turner. The Nominating Committee met one (1) time during 2004. The Nominating Committee will consider persons recommended by stockholders for inclusion as nominees for election to the Board of Directors if the names, biographical data, and qualifications of such persons are submitted in writing in a timely manner addressed and delivered to the Company's secretary at the address listed herein. The Nominating Committee identifies and evaluates nominees for the Board of Directors, including nominees recommended by stockholders, based on numerous factors it considers appropriate, some of which may include strength of character, mature judgment, career, diversity, and the extent to which the nominee would fill a present need on the Board of Directors. As discussed above, the members of the Nominating Committee are independent, as that term is defined by the listing standards of the Exchange.

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COMPENSATION COMMITTEE

The Board of Directors has appointed a Compensation Committee, consisting of independent members of the Board of Directors, to review and approve corporate goals and objectives relevant to the compensation of the Chief Executive Officer, evaluate the performance of the Chief Executive Officer in

light of those goals and objectives, and determine and approve the compensation level of the Chief Executive Officer based on this evaluation. For Fiscal Year 2004, the members of the Compensation Committee were Messrs. Robert C. Farone, Thomas W. Pauken and Dr. J. Harold Helderman. The Compensation Committee also recommends to the Board of Directors with respect to, or, as directed by the Board of Directors, determines and approves, compensation of the other executive officers, and considers the grant of stock options to the executive officers under the 1996 Stock Option Plan. The Compensation Committee makes every effort to ensure that the compensation plan is consistent with the Company's values and is aligned with the Company's business strategy and goals. The Compensation Committee held three (3) meetings during fiscal 2004.

The compensation program for executive officers consists primarily of base salary, incentive bonuses, annual discretionary bonuses, and long-term incentives in the form of stock options. Executives also participate in various other benefit plans, including medical and retirement plans that generally are available to all employees.

The Company's philosophy is to pay base salaries to executives at levels that enable the Company to attract, motivate, and retain highly qualified executives, taking into account the possibility of performance-based bonuses. The bonus program is designed to reward individuals for performance based on the Company's financial results as well as the achievement of personal and corporate objectives that contribute to the long-term success in building stockholder value. Stock option grants are intended to result in minimal or no rewards if the price of the Company's common stock does not appreciate, but may provide substantial rewards to executives as stockholders in general benefit from stock price appreciation.

Each of Messrs. Mayer and Kruger is a party to an employment agreement which provides for designated base salaries plus incentive compensation based on the performance of the Company and the employees as determined by the Board of Directors.

SHAREHOLDER COMMUNICATIONS WITH DIRECTORS

At the 2005 Annual Meeting of the Board of Directors, following the Annual Meeting of Shareholders, the Board intends to adopt new policies and procedures relating to shareholder communications with the Company's directors. It is presently anticipated that this initiative will provide that shareholders and other interested parties wishing to contact any member (or all members) of the Board of Directors, any committee of the Board, or any chair of any such committee may do so by mail, addressed, either by name or title, to the Board of Directors or to any such individual directors or group or committee of directors, and that all such correspondences should be sent to the Company's principal office. It is also anticipated that all shareholder communications to directors will be opened by the Office of the Corporate Secretary for the purpose of determining whether the contents represent a message to the directors before being forwarded to the addressee. In addition, the Corporate Secretary's office will make, if necessary, sufficient copies of the contents to be forwarded to each director who is a member of the group or committee to which the communication is addressed. It is further anticipated that the new director communications policy will exclude the forwarding to directors of certain kinds of information, such as materials in the nature of advertising, promotions of a product or service, and patently offensive material.

COMPENSATION OF DIRECTORS

The Company's outside Directors receive a $6,000 annual retainer, $1,500

per meeting for attendance at Board meetings, and $500 per telephonic meeting, plus reimbursement of out-of-pocket expenses. The Chairman of the Board receives $1,000 per month for his services as Chairman. Additionally, the Company's Directors are eligible to participate in the Company's 1996 Stock Option Plan.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The rules of the Securities and Exchange Commission require our directors, officers, and persons who own more than ten percent (10%) of a registered class of our equity securities to file reports of ownership and changes in ownership with the Commission. The regulations also require that such persons to furnish the Company with copies of all such reports they file. To our knowledge, based solely upon our review of the copies of such reports received by us during the fiscal year ended September 30, 2004 and representations from our officers, directors and ten percent (10%) shareholders, the Company believes that each person who, at any time during Fiscal Year 2004 was a director, officer, or beneficial owner of more than ten percent (10%) of our common stock, complied with all Section 16(a) filing requirements during the such year.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR
THE ELECTION OF ALL EIGHT (8) NOMINEES.

PROPOSAL II

AMENDMENT TO THE 1996 STOCK OPTION PLAN

The Company has a 1996 Stock Option Plan (the "1996 Plan") to attract, maintain and develop management by encouraging ownership of the Company's common stock by Directors, Officers and other key employees. The 1996 Plan presently reserves 3,500,000 shares of the Company's common stock for issuance thereunder. As of January 8, 2005, options have been issued to purchase 3,367,097 shares leaving 132,903 shares available for issuance under the 1996 Plan. Unless sooner terminated, the 1996 Plan will expire on February 27, 2006.

The Board of Directors of the Company has unanimously approved for submission to a vote of the shareholders a proposal to amend the 1996 Plan to provide for an increase in the number of shares reserved for issuance under the 1996 Plan from 3,500,000 shares of common stock to 4,000,000 shares of common stock. The Board of Directors believes it is in the Company's and its shareholders' best interests to approve the Amendment because it will provide sufficient shares remaining under the Plan to enable the Board to utilize stock based incentive compensation for both current and future employees of the Company.

The proposed amendment will cause Section 3.1 of the Plan to be replaced with the following:

3.1 SHARES SUBJECT TO PLAN. THE STOCK SUBJECT TO THE OPTIONS GRANTED UNDER THE PLAN SHALL BE SHARES OF THE COMPANY'S AUTHORIZED BUT UNISSUED COMMON STOCK, PAR VALUE $.01 PER SHARE ("COMMON STOCK"). THE TOTAL NUMBER OF SHARES THAT MAY BE ISSUED PURSUANT TO OPTIONS GRANTED UNDER THE PLAN SHALL NOT EXCEED 4,000,000 SHARES OF COMMON STOCK.

The proposed amendment to the 1996 Plan will be adopted upon receiving the affirmative vote of holders of a majority of the shares present or represented by proxy at the Meeting. Except for such amendment, if approved by

the shareholders, the 1996 Plan will remain unchanged.

At January 31, 2005 the closing market price of the Company's shares was $ 2.37.

SUMMARY OF THE PLAN

The following is a summary of the provisions of the 1996 Plan. This summary is qualified in its entirety by reference to the 1996 Plan, a copy of which may be obtained from the Company.

The 1996 Plan authorizes the granting of both incentive stock options, as defined under Section 422 of the Internal Revenue Code of 1986 ("ISO"), and non-statutory stock options ("NSSO") to purchase Common Stock. All employees of the Company and its affiliates are eligible to participate in the 1996 Plan. The 1996 Plan also authorizes the granting of NSSO's to non-employee Directors and consultants of the Company. Pursuant to the 1996 Plan, an option to purchase 10,000 shares of Common Stock shall be granted automatically to each outside Director who is newly elected to the Board. In addition, the Plan provides for the granting of options to purchase 2,500 shares of Common Stock on the date of each annual meeting of shareholders to each outside Director who has served in that capacity for at least the past six (6) months and continues to serve following such meeting.

The Board of Directors or the Compensation and Stock Option Committee is responsible for the administration of the 1996 Plan and determines the employees to which options will be granted, the period during which each option will be exercisable, the exercise price, the number of shares of the Common Stock covered by each option, and whether an option will be a non-qualified or an incentive stock option. The exercise price, however, for the purchase of shares subject to such an option, cannot be less than one hundred percent (100%) of the fair market value of the Common Stock on the date the option is granted. The Stock Option Committee has no authority to administer or interpret the provisions of the 1996 Plan relating to the grant of options to outside Directors. The Compensation Committee also acts as the Stock Option Committee.

No option granted pursuant to the 1996 Plan is transferable otherwise than by will or the laws of descent and distribution. The term of each option granted to an employee under the 1996 Plan is determined by the Board of Directors or the Compensation and Stock Option Committee, but in no event may such term exceed ten (10) years from the date of grant. Each option granted to an outside Director under the 1996 Plan shall be exercisable in whole or in part during the four (4) year period commencing on the date of the grant of such option. Any option granted to an outside Director should remain effective during its entire term, regardless of whether such Director continues to serve as a Director. The purchase price per share of Common Stock under each option granted to a Director will be the fair market value of such share on the date of grant.

The vesting period for options granted under the 1996 Plan are set forth in an option agreement entered into with the optionee. Options granted to an optionee terminate three (3) years after retirement. In the event of death or disability, all vested options expire one year from the date of death or termination of employment due to disability. Upon the occurrence of a "change in control" of the Company, the maturity of all options then outstanding under the 1996 Plan will be accelerated automatically, so that all such options will become exercisable in full with respect to all shares that have not been previously exercised or become exercisable. A "change in control" includes certain mergers, consolidation, and reorganization, sales of assets, or dissolution of the Company.

FEDERAL INCOME TAX CONSEQUENCES

The holder of an ISO does not realize taxable income upon the grant or upon the exercise of the option (although the option spread is an item of tax preference income potentially subject to the alternative minimum tax). If the stock acquired upon exercise of the options sold or otherwise disposed of within two (2) years from the option grant date or within one year from the exercise date then, in general, gain realized on the sale is treated as ordinary income to the extent of the option spread at the exercise date, and the company receives a corresponding deduction. Any remaining gain is treated as capital gain. If the stock is held for at least two (2) years from the grant date and one year from the exercise date, then gain or loss realized upon the sale will be capital gain or loss and the Company will not be entitled to a deduction. A special basis adjustment applies to reduce the gain for alternative minimum tax purposes.

An optionee does not realize taxable income upon the grant of an NQO. In general, the holder of a NQO realizes ordinary income in an amount equal to the difference between the exercise price and the market value on the date of exercise. The Company is entitled to an expense deduction at the same time and in a corresponding amount.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THIS PROPOSAL.

PROPOSAL III

APPROVAL AND RATIFICATION OF APPOINTMENT
OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors has selected the firm of Deloitte & Touche L.L.P., independent public accountants, to be the Company's auditors for the fiscal year ending September 30, 2005, and recommends that Shareholders vote to ratify that appointment. Although neither the law nor the governing documents of the Company requires the submission of this matter to a Shareholder vote, in the event of a negative vote, the Board of Directors will reconsider its selection of auditors. Ratification of the appointment of the auditors will require that, at a meeting where a quorum is present, the votes cast in favor of the ratification exceed those votes cast opposing ratification. Deloitte & Touche L.L.P. is expected to have a representative at the Annual Meeting who will be available to respond to appropriate questions from Shareholders.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THIS PROPOSAL.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth the cash and non-cash compensation paid to or accrued to all persons who have served as Chief Executive Officer and other officers or individuals whose compensation exceeded $100,000 for the Fiscal Year 2004.

		Annual Compensation		Long Term Compensation Awards	
Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Securities Underlying Options (#)	All Compe (1
Roy D. Crowinshield, Ph.D.(2) Chief Executive Officer and Interim Chief Executive Officer	2004	21,000	0	100,000	
Manfred K. Kruger President and Chief Operating Officer	2004	428,550	0	0	67
	2003	352,500	179,700	37,500	76
	2002	282,500	68,000	50,000	58
George Lombardi Chief Financial Officer Treasurer and Secretary	2004	166,500	0	0	
	2003	160,125	67,500	20,000	
	2002	152,300	29,000	0	
Dr. Karl Koschatzky Vice President of R & D Worldwide	2004	140,000	0	0	39
	2003	107,600	32,400	45,000	28
	2002	91,200	18,750	15,000	17

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(1) Includes primarily pension contribution and automobile leasing and other automobile related expenses.

(2) Dr. Crowninshield was appointed Chairman and interim Chief Executive Officer on July 1, 2004. As CEO of the Company, Dr. Crowninshield devoted at least one-third of his time on Company affairs for which he was compensated at the rate of $7,000 per month and was granted options to purchase 100,000 shares of the Company's Common Stock. Effective January 1, 2005, Dr. Crowninshield resigned as Chief Executive Officer and was replaced by Mr. Guy L. Mayer. Dr. Crowninshield remains as Chairman of the Board.

EMPLOYMENT AGREEMENTS

On December 6, 2004, the Company entered into an employment agreement with Mr. Guy L. Mayer to serve as Chief Executive Officer (CEO) of the Company, commencing January 1, 2005. The term of employment is indefinite and terminates upon written notice by the Company, notice of termination by Mr. Mayer or termination of employment for cause. Minimum notice of termination by the Company, except for cause, is one (1) year from the end of any calendar quarter. Mr. Mayer's employment annual base salary is $300,000. In addition, the employment agreement provides for a bonus for the balance of the Company's fiscal year 2005 in an amount up to ninety percent (90%) of his earned salary for fiscal 2005, subject to the Company realizing certain performance goals based on revenue and operating income. In addition, on January 3, 2005, Mr. Mayer was granted a ten (10) year option to purchase 250,000 shares of the Company's Common Stock, exercisable at the market price ($2.60) on the

date of grant, twenty-five percent (25%) vesting on the date of grant and twenty-five percent (25%) on each of the first three (3) anniversaries.

The Company has an employment agreement with Manfred Kruger, its President, Chief Operating Officer and Managing Director, International Operations. Pursuant to that agreement, the term of Mr. Kruger's employment with the Company commenced on June 16,1997. The agreement is for an indefinite period and shall terminate upon written notice by the Company, notice of his election to terminate, or the Company terminates his employment for cause. Minimum notice of termination by the Company, except for cause, is one (1) year from the end of a calendar quarter. Mr. Kruger's annual base salary commencing April 1, 2005 will be $320,000. In addition, the employment agreement provides for an annual bonus in an amount up to forty-seven percent (47%) of his annual base salary, subject to the satisfaction of reasonable performance goals established by the board. In addition, Mr. Kruger has a "change of control" agreement whereby he is entitled to twelve (12) months salary in the event he is terminated as the result of a change of control of the Company.

The Company has a severance agreement with George Lombardi, its Chief Financial Officer, Treasurer and Secretary. Pursuant to that agreement, upon written notice of his termination at least six weeks before the end of a calendar quarter, the Company will provide Mr. Lombardi with six (6) months salary including medical benefits. Mr. Lombardi's annual base salary is currently $166,500. The Company also provides a management incentive bonus in an amount up to forty-one percent (41%) of his annual salary, subject to the satisfaction of reasonable performance goals established by the board. In addition, Mr. Lombardi has a "change of control" agreement whereby he is entitled to twelve (12) months salary including medical benefits in the event he is terminated as the result of a change of control of the Company.

MANAGEMENT BONUS INCENTIVE PLAN

The Company provides a management bonus incentive plan based on operating goals agreed upon by the Board of Directors and individual MBO's (Management by Objectives), both established on or about the beginning of each fiscal year. The incentive bonus can range up to forty-one percent (41%) of salary for key managers to forty-seven percent (47%) for the President and Chief Operating Officer to ninety percent (90%) for the Chief Executive Officer.

OPTION GRANTS IN FISCAL YEAR 2004

OPTION GRANTS IN FISCAL YEAR 2004
(Individual Grants)

	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted To Employees	Exercise or Base Price ($/Sh)	Expiration Date	Pot V An A
Roy D. Crowninshield, Ph.D.	100,000	44.4%	$3.75	8/5/2014	$6

(1) Potental realizable value is based on the assumption that the Common Stock appreciates at the annual rate shown (compounded annually) from the due date of grant until the expirationof the option term. These numbers are calculated based on the requirements of the SEC and do not reflect the Company's estimate of future price growth.

The following table sets forth the value of the unexercised options at September 30, 2004. No options were exercised during this fiscal year. The market price of the Company's Common Stock at September 30, 2004 was $2.99.

FY-END OPTION VALUES

Name	Number of Unexercised Options at September 30, 2004		Value of Unexercised In-the-Money Options a September 30, 2004	
	Exercisable	Unexercisable	Exercisable	Unexerci
Roy D. Crowninshield, Ph.D.	25,000	75,000	- 0 -	- 0
Manfred K. Kruger	568,750	31,250	$ 692,425	- 0
George Lombardi	208,000	10,000	$ 230,015	$ 3,2
Dr. Karl Koschatzky	90,418	36,250	$ 119,619	$ 7,2

401(K) PLAN

The Board of Directors of the Company approved a tax-deferred investment plan (the "401(k) Plan") effective in 1991. All full-time employees of the Company may elect to participate in the 401(k) Plan, once he or she has completed six (6) months of service to the Company. Under the 401(k) Plan, a participating employee is given an opportunity to make an elective contribution under a salary deferral savings arrangement of up to the maximum allowed by law. In addition, the Company makes a separate matching contribution, in an amount equal to fifty percent (50%) of the amount contributed by the employee. An employee of the Company may elect to retire after attaining age 65. At that time, the total amount contributed, plus any accumulated earnings, will be used to provide a lump sum payment to any retiring participant in the 401(k) Plan. Participants terminating employment prior to normal retirement date will be fully vested in their own elective contribution. Funds accumulated from the Company's matching contributions will vest over a six (6) year period. During Fiscal 2004, Mr. Lombardi participated in the 401(k) Plan at five percent (5%) of his salary.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information regarding the Company's 1996 Stock Option Plan as of February 1, 2005.

Plan Category	(a) Number of securities to be Issued upon exercise of Outstanding options, Warrants and Rights	(b) Weighted-average Exercise price of Outstanding options, Warrants and Rights	N R F (e
Equity compensation plan approved by			

Securities holders (1)..................	2,413,768	$2.72
Equity compensation plan not approved by Securities holders.......................	-0-	-0-
Total	2,413,768	$2.72

(1) Reflects options to purchase shares of the Company's common stock and shares available for Issuance under the Company's 1996 Stock Option Plan.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee consists of Messrs. Farone, Pauken and Dr. Helderman. There are no "interlocks" as defined by the SEC with respect ot any member of the committee.

COMPENSATION COMMITTEE REPORT

The following Report of the Compensation Committee and the information under the heading Performance Graph below shall not be deemed incorporated by reference by any general statement incorporating by reference into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934 together, the "Acts"), except to the extent that the Company specifically incorporates the information by reference, and shall not otherwise be deemed filed uner the Acts.

The Compensation Committee oversees the Company's compensation program. The goals of the Company's compensation program are to attract, retain, motivate and reward highly qualified management personnel and to provide them with long-term career opportunities. The Company's compensation philosophy is to provide its executives with a competitive total compensation package which motivates superior job performance, the achievement of the Company's business objectives, and the enhancement of shareholder value.

Compensation of the Company's executive officers is reviewed annually by the Board of Directors and the Compensation Committee. Changes proposed for these employees are evaluated and approved by the Compensation Committee on an individual basis. The Company's general approach to compensating executive officers is to pay cash salaries which generally are competitive within ranges of salaries paid to executives of other similar companies, although the Company does not attempt to meet salary levels of such companies. Instead, the Committee sets overall compensation at a level it believes to be fair, based upon a subjective analysis of the individual executive's experience and past and potential contributions to the Company. The Committee also establishes bonus goals for executive officers so as to compensate them on a performance basis. To assist in determining appropriate overall compensation, the Compensation Committee also reviews information regarding the Company's revenues and income.

Stock option grants to employees of the Company, including the Chief Executive Oficer, are made at the discretion of the Compensation Committee pursuant to the Company's 1996 Stock Option Plan. Factors and criteria to be used by the Committee in the award of stock options include individual responsibilities, individual prerformenace and direct and indirect contributions to the profitability performance and direct and indirect contributions to the profitability of the Company.

Respectfully submitted,

The Compensation Committee

Robert C. Farone
Thomas W. Pauken
J. Harold Helderman, M.D.

REPORT OF THE AUDIT COMMITTEE

In connection with its duty to ensure the independence of the Company's auditors, and consistent with "Independence Standards Board Standard No. 61", the Audit Committee met with the Company's independent public accountants to discuss the auditor's independence. Based on those discussions, the Audit Committee and the independent accountants collectively concluded that there were no relationships between the auditor and its related entities and the Company and its related entities, which in the auditor's professional judgment may reasonably be thought to bear on its independence and no written disclosure of such relationships by the auditors was warranted under such circumstances. The Audit Committee received a confirmation letter from the Company's accountants that, in its professional judgment, the auditor is independent of the Company within the meaning of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Audit Committee also discussed with the independent public accountants the plans for the audit engagement, approved the services to be performed, determined the range of audit and non-audit fees, and reviewed the Company's system of internal accounting and controls.

Following the completion of the auditors' examination of the Company's financial statements, with management present, the Audit Committee reviewed and discussed with the independent auditors the results of the auditors' examination of the financial statements, and the audited financial statements for the fiscal year ended September 30, 2004 ("Fiscal Year 2004"). In addition, the Audit Committee and management engaged in an open and frank discussion with the auditors of such matters as the consistency of the Company's accounting policies and their application, and the clarity, faithfulness, verifiability, neutrality and completeness of the accounting information included in the Company's financial statements, and all other communications required to be addressed by generally accepted auditing standard, including those describe in "Statement on Auditing Standards No. 61 - Communications with Audit Committees". Based on the foregoing reviews and discussions, the Audit Committee recommended to the full Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for Fiscal Year 2004 and filed with the Securities and Exchange Commission. The Audit Committee also recommended the reappointment of the independent auditors for the Company's fiscal year ending September 30, 2005, subject to shareholder approval, and the Board of Directors concurred in such recommendation.

Respectfully submitted,
The Audit Committee

G. Russell Cleveland
Robert C. Farone
Carlton E. Turner, Ph.D., D.Sc.

PERFORMANCE GRAPH

The following graph shows a comparison of cumulative five (5) year total stockholder returns for the Company's Common Stock, with the cumulative return of the Nasdaq Stock Market - U.S. Index and an industry peer group. The industry peer group of companies selected by the Company is made up of the Company's publicly held competitors in the Medical Device industry. The graph assumes the investment of $100 on August 17, 2000, the date on which trading commenced on the American Stock Exchange. The comparisons reflect in the table and graph, however, are not intended to forcast the future performance of the Common Stock and may not be indicative of such future performance.

COMPARE 5-YEAR CUMULATIVE TOTAL RETURN
AMONG TUTOGEN MEDICAL INC.,
AMEX MARKET INDEX AND PEER GROUP INDEX

[PERFORMANCE GRAPH]

Note: Assumes $100 invested on August 17, 2000 and assumes dividends reinvested.

	8/17/00	12/31/00	12/31/01	12/31/02	12/31/03
TUTOGEN MEDICAL	100.00	64.71	47.84	51.76	70.75
PEER GROUP INDEX	100.00	87.66	106.68	86.27	126.91
NASDAQ MARKET INDEX	100.00	90.88	86.69	83.23	113.29

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL
OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock as of February 1, 2005 by (i) each person known to the Company to own beneficially more than five percent (5%) of its Common Stock, (ii) each director and executive officer of the Company, and (iii) all directors and executive officers as a group. As of February 1, 2005 there were approximately 15,915,960 shares of Common Stock issued and outstanding.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner (1)(2)
SPV 1996 LP.. 101 Finsbury Pavement London, England EC2A 1EJ	1,896,794

Zimmer CEP (formerly Centerpulse) USA Holding Co.................... Subsidiary of Zimmer Holdings, Inc. 345 East Main Street Warsaw, IN 46580	5,297,124
G. Russell Cleveland (4)..	107,300
Roy D. Crowinshield, Ph.D. (11).....................................	35,000
Robert C. Farone (5)..	145,814
J. Harold Helderman, M.D. (7).......................................	110,000
Dr. Karl Koschatsky (8)...	96,668
Manfred K. Kruger (8)...	581,250
George Lombardi (8)...	210,500
Guy L. Mayer (8)..	62,500
Richard J. May (6)..	- 0 -
Thomas W. Pauken (9)..	380,540
Carlton E. Turner, Ph.D., D.Sc. (8).................................	60,000
All directors and officers as a group (11 persons) (10).............	7,086,696

* Less than one percent (1%)

(1) In accordance with Rule 13d-3 promulgated pursuant to the Exchange Act, a person is deemed to be the beneficial owner of the security for purposes of the rule if he or she has or shares voting power or dispositive power with respect to such security or has the right to acquire such ownership within sixty (60) days. As used herein, "voting power" is the power to vote or direct the voting of shares and "dispositive power" is the power

to dispose or direct the disposition of shares, irrespective of any economic interest therein.

(2) Except as otherwise indicated by footnote, the persons named in the table have sole voting and investment power with respect to all of the Common Stock beneficially owned by them.

(3) In calculating the percentage ownership for a given individual or group, the number of shares of Common Stock outstanding includes unissued shares subject to options, warrants, rights or conversion privileges exercisable within sixty (60) days after November 30, 2004 held by such individual or group.

(4) Includes 50,000 shares of Common Stock issuable upon exercise of options exercisable within sixty (60) days. Mr. Cleveland is the President and majority shareholder of Renaissance Capital Group, Inc. His business address is 8080 N. Central Expressway, Suite 210-LB 59, Dallas, TX 75206.

(5) Includes 50,000 shares of Common Stock issuable upon exercise of options exercisable within sixty (60) days.

(6) Mr. May serves on the board as representative of Zimmer. Mr. May disclaims beneficial ownership of the shares owned by Zimmer CEP USA Holding Co., a subsidiary of Zimmer.

(7) Includes 90,000 shares of Common Stock issuable upon exercise of options and warrants exercisable within sixty (60) days.

(8) All of the shares of Common Stock beneficially owned by Drs. Koschatzky and Turner and Messrs. Kruger, Lombardi and Mayer are derivative securities issuable upon exercise of options exercisable within sixty (60) days.

(9) Mr. Pauken has beneficial ownership in 330,540 shares of Common Stock, which includes 120,000 shares of Common Stock issuable upon exercise of options and warrants exercisable within sixty (60) days and, as Trustee of Capital Partners II, Ltd. Liquidating Trust, has voting rights to 50,000 shares owned by the Trust.

(10) Includes shares owned by Zimmer CEP USA Holding Co., a subsidiary of Zimmer.

(11) Includes 25,000 shares of Common Stock issuable upon exercise of options and warrants exercisable within sixty (60) days.

RELATED TRANSACTIONS

The Company has an exclusive license and distribution agreement with Zimmer Spine, a wholly owned subsidiary of Zimmer, whereby Zimmer Spine has been granted the right to act as the Company's exclusive distributor of bone tissue for spinal applications in the United States. For the year ended September 30, 2004, sales to Zimmer Spine were $4.8 million, which represented sixteen percent (16%) of the Company's total revenues.

The Company has also engaged Zimmer Dental, also a wholly owned subsidiary of Zimmer, to act as an exclusive distributor for the Company's bone tissue for dental applications in the United States and certain international markets. For the year ended September 30, 2004, Dental was paid commissions aggregating approximately $3.2 million on revenues of $6.9 million.

Centerpulse, a wholly owned subsidiary of Zimmer is the owner of approximately thirty-three and three-tenth percent (33.3%) of the Company's outstanding shares of Common Stock and has representation on the Company's Board of Directors.

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PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table represents the aggregate fees billed for professional audit services rendered to the Company by Deloitte & Touche, L.L.P. for the audit of the Company's annual financial statements for the years ended September 30, 2004 and 2003, and all fees billed for other services by Deloitte & Touche L.L.P. during those periods:

Year Ended September 30,	2004	2003
Audit fees (1)	$105,500	$126,873
Audit-related fees (2)	27,864	- 0 -
Tax fees (3)	11,462	4,134
All other fees (4)	- 0 -	16,212
Total Accounting Fees and Services	$144,826	$143,085

(1) AUDIT FEES. These are fees for professional services for the audit of the Company's annual financial statements, and for the review of the financial statements included in the Company's

filings on Form 10Q and for services that are normally provided in connection with statutory and regulatory filings or engagements.

(2) AUDIT-RELATED FEES. These are fees for the assurance and related services reasonably related to the performance of the audit or the review of the Company's financial statements.

(3) TAX FEES. These are fees for professional services with respect to tax compliance, tax advice, and tax planning.

(4) ALL OTHER FEES. These are fees for permissible work that does not fall within any of the other fee categories, i.e., Audit Fees, Audit-Related Fees, or Tax Fees.

PRE-APPROVAL POLICY FOR AUDIT AND NON-AUDIT SERVICES

The Company's Audit Committee has responsibility for the approval of all audit and non-audit services before the Company engages an accountant. All of the services rendered to the Company by Deloitte & Touche L.L.P. for the fiscal years ended September 30, 2004 and 2003 were pre-approved by the Audit Committee before the engagement of the auditors for such services.

The Company and the Audit Committee are working with the Company's legal counsel to establish formal pre-approval policies and procedures for all future engagements of the Company's accountants. In accordance with the rules and regulations of the U.S. Securities and Exchange Commission relating to the independence of auditors, the Company's new pre-approval policies and procedures will be detailed as to particular services, will require that the Audit Committee be informed of each service, and will prohibit the delegation of any pre-approval responsibilities to the Company's management.

The Company's pre-approval policy will expressly provide for the annual pre-approval of all audit, audit-related and all non-audit services proposed to be rendered by the independent auditor for the fiscal year, as specifically described in the auditor's engagement letter, such annual pre-approval to be performed by the Audit Committee. The new policy will also provide that all additional engagements of the auditor that were not approved in the annual pre-approval process, and all engagements that are anticipated to exceed previously approved thresholds, shall be presented by the President or Chief Financial Officer of the Company to the Audit Committee for pre-approval, on a case-by-case basis, before management engages the auditors for any such purposes. The Audit Committee may be authorized

to delegate, to one or more of its members, the authority to pre-approve certain permitted services, provided that the estimated fee for any such service does not exceed a specified dollar amount.

All pre-approvals shall be contingent on a finding, by the Audit Committee, or delegates thereof, as the case may be, that the provision of the proposed services by the Company's auditor is compatible with the maintenance of the auditor's independence in the conduct of its auditing functions. In no event shall any non-audit related service be approved that would result in the independent auditor no longer being considered independent under the applicable rules and regulations of the Securities and Exchange Commission.

VOTING SECURITIES

Under the Florida Business Corporation Act ("FBCA"), directors are elected by a plurality of the votes cast at a meeting in which a quorum is present. In connection with an election of directors, votes may be cast in favor of, or withheld from, each nominee. Votes withheld from a nominee will be

counted in determining whether a quorum has been reached. However, since directors are elected by a plurality, votes withheld from a nominee or nominees will be excluded entirely and will not be counted as a vote cast in an election of directors.

In connection with the proposals to ratify the Company's auditors, votes may be cast "For" or "Against" a proposal, or a Shareholder may "Abstain" from voting on the proposal or proposals. Under the FBCA, at a meeting where a quorum is present, all matters submitted to Shareholders (other than an election of directors) are approved if the vote's cast in favor of the action exceeds the vote's cast in opposition to the matter presented (unless the Articles of Incorporation or state law requires a greater number of votes). Accordingly, with respect to any proposal coming before the Annual Meeting, other than the election of Directors, all abstentions and broker non-votes will be counted as present for purposes of determining the existence of a quorum, but since they are neither a vote cast in favor of, or a vote cast against, a proposed action, abstentions and broker non-votes will not be counted as a vote cast on any matter coming before the meeting. A broker non-vote generally occurs when a broker, who holds shares in street name for a customer, does not have authority to vote on certain non-routine matters because its customer has not provided any voting instructions on the matter.

Each Common Share outstanding on the Record Date entitles the record holder thereof to cast one vote with respect to each matter to be voted upon.

DEADLINE FOR SUBMITTING SHAREHOLDER PROPOSALS FOR THE 2006 ANNUAL MEETING

Under the applicable laws of the Securities and Exchange Commission, Shareholder proposals may be eligible for inclusion in the Company's proxy statement and form of proxy that are mailed to all Shareholders in advance of the annual meeting. A Shareholder is eligible to submit a proposal for inclusion in the Company's proxy materials, if at such time the Shareholder owns at least one percent (1%) or $2,000 in market value of the Company's Common Stock. In addition, the Shareholder must have held such shares for at least one (1) year, and must continue to own such shares through the date of the 2005 Annual Meeting. Eligible Shareholders who wish to submit a proposal for inclusion in the Company's proxy materials for the 2005 Annual Meeting of Shareholders should submit the proposal(s), in writing, to the Office of the Secretary of the Company at the address set forth on the first page of this Proxy Statement. All such proposals must be received at the Office of the Secretary no later than November 15, 2005. The proposal must be in the form required by applicable rules of the Commission.

Alternatively, Shareholders who wish to have a proposal presented at the 2006 Annual Meeting, but are not seeking to include the proposals in the Company's written proxy materials mailed to shareholders prior to the meeting, should submit the proposals to the Office of the Secretary of the Company between December 15, 2005 and January 31, 2006. There are no shareholder eligibility requirements for Shareholders who not seeking to include their proposals in the Company's written proxy materials. However, the proposals must include (i) a brief description of the matter to be brought before the Annual Meeting and the reasons therefore, (ii) the name and record address of the Shareholder proposing the matter, (iii) the class and number of shares beneficially owned by the Shareholder, (iv) any material interest of the Shareholder, an immediate family member of the Shareholder, or an affiliate of the Shareholder in the proposed matter; and (v) any other information which is reasonably required in order to make the proposal not materially misleading. If the Chairman of the 2005 Annual Meeting determines that a matter has not been

properly brought before the meeting in accordance with the foregoing procedures, such matter will not be presented and no action will be taken thereon at the Annual Meeting.

ANNUAL REPORT

The Company's annual report for the year ended September 30, 2004 (the "Annual Report") accompanies this proxy statement. The Annual Report contains a copy of the Company's Form 10-K Report (without exhibits) for the year then ended.

SOLICITATION COSTS

The Company will bear the costs of preparing, assembling and mailing the Proxy Statement, the proxy card, and the 2004 Annual Report in connection with the Annual Meeting. In addition to the use of the mail to solicit proxies for the Annual Meeting, certain employees of the Company may be utilized by the Company to solicit Shareholders' proxies by telephone, telegraph or in person. Such employees will not receive additional compensation for such services to the Company. Arrangements may be made with banks, brokerage houses, and other institutions, nominees, and fiduciaries, to forward the proxy materials to beneficial owners and to obtain authorization from beneficial owners for the execution of proxies. The Company will, upon request, reimburse those persons and entities for expenses incurred in forwarding proxy materials to beneficial owners.

OTHER MATTERS

At the time of the preparation of this Proxy Statement, the Board of Directors of the Company had not been informed of any matters which would be presented for action at the 2005 Annual Meeting, other than the proposals specifically identified in the Notice of Annual Meeting of Shareholders and described above. If any other matters are properly submitted for action at the Annual Meeting, it is intended that the persons named in the accompanying proxy card will vote or refrain from voting on such matters in accordance with their best judgment, after consultation with the Board of Directors.

By Order of the Board of Directors

Roy D. Crowinshield, Ph.D.
CHAIRMAN OF THE BOARD

February 8, 2005
West Paterson, New Jersey

[LOGO] Tutogen Medical, Inc.

ANNUAL MEETING PROXY CARD

A ELECTION OF DIRECTORS

1. The Board of Directors recommends a vote FOR the listed nominees.

	FOR	WITHHOLD		FOR
01 - G. Russell Cleveland	[ ]	[ ]	05 - Guy L. Mayer	[ ]
02 - Robert C. Farone	[ ]	[ ]	06 - Thomas W. Pauken	[ ]
03 - Richard J. May	[ ]	[ ]	07 - Carlton E. Turner	[ ]
04 - J. Harold Helderman	[ ]	[ ]	08 - Roy D. Crowninshield	[ ]

B ISSUES

The Board of Directors recommends a vote FOR the following proposals.

	FOR	AGAINST	ABSTAIN
2. Amend the Company's 1996 Incentive and Non-Statutory Stock Option Plan increasing the total number of shares covered by the Plan from 3,500,000 to 4,000,000.	[ ]	[ ]	[ ]
3. Ratify the appointment of Deloitte and Touche L.L.P. as the Company's auditors for the 2005 fiscal year.	[ ]	[ ]	[ ]
4. In their discretion, on such other business as may properly come before the meeting.	[ ]	[ ]	[ ]

Mark box at the right
attend the meeting.

C AUTHORIZED SIGNATURES - SIGN HERE - THIS SECTION MUST BE COMPLETED FOR YOUR INSTRUCTIONS TO
NOTE: Please sign your name here exactly as it appears hereon. Joint owners should each sign. W
attorney, executor, administrator, trustee, guardian, corporate officer or other similar capaci
owner is a corporation, an authorized officer should sign for the corporation and state his tit
deemed valid for all shares held in all capacities that they are held by the signatory.

Signature 1 - Please keep signature within the box	Signature 2 - Please keep signature within the box

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PROXY - TUTOGEN MEDICAL, INC.

ANNUAL MEETING OF SHAREHOLDERS MARCH 14, 2005

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned holder of Common Shares of Tutogen Medical, Inc., a corporation organized under the laws of the state of Florida, does hereby appoint Roy D. Crowninshield and Guy L. Mayer, and each of them, as due and lawful attorneys-in-fact (each of whom shall have full power of substitution), to represent and vote as designated below all of the Common Shares of Tutogen Medical, Inc. that the undersigned held of record at 5:00 p.m., Eastern Standard Time, on February 1, 2005 at the Annual Meeting of Shareholders of Tutogen Medical, Inc. to be held at the Doubletree Hotel, located at the Dallas Campbell Centre, 8250 North Central Expressway, Dallas, Texas 75206 on March 14, 2005, at 10:00 a.m., local time, or any adjournment thereof, on the following matters, and on such other business as may properly come before the meeting:

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE SHAREHOLDER. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AS DIRECTORS; THE AMENDMENT OF THE COMPANY'S STOCK OPTION PLAN; AND FOR THE RATIFICATION OF THE AUDITORS.

(PLEASE SIGN, DATE, AND RETURN THIS PROXY CARD EXACTLY AS YOUR NAME OR NAMES APPEAR ON THE REVERSE SIDE, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING.)

Dividends declared
$10,698

Unsettled acquisition trades
$3,764

See notes to condensed consolidated financial statements

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Starwood Property Trust, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
March 31, 2010 (unaudited)

1. Business and Organization

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

The Company is organized and conducts its operations to qualify as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended (the Code). As such, the Company will generally not be subject to U.S. federal corporate income tax on that portion of its net income that is distributed to stockholders if it distributes at least 90% of its taxable income to its stockholders by prescribed dates and complies with various other requirements.

The Company is organized as a holding company that conducts its business primarily through three wholly-owned subsidiaries, SPT Real Estate Sub I, LLC and SPT TALF Sub I, LLC, and SPT Operations, LLC. The Company has formed joint ventures (the Joint Ventures) with Starwood Hospitality Fund II (Hotel II) and Starwood Opportunity Fund VIII (SOF VIII) in accordance with the co-investment and allocation agreement with our Manager. These Joint Ventures are owned 75% by the Company and are consolidated into the Company s consolidated financial statements.

2. Summary of Significant Accounting Policies

Basis of Accounting and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) and include our accounts and those of our consolidated subsidiaries. All significant intercompany amounts have been eliminated. Certain information and footnote disclosures normally included in financial statements prepared under GAAP have been condensed or omitted pursuant to the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments considered necessary for fair presentation of the Company s financial position, results of operations, comprehensive income, and cash flows have been made. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission (SEC). The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the operating results for the full year.

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

The Company uses plain English when describing or referencing accounting standards in the notes to the financial statements. As a result, there may be no reference to particular accounting standards by name, standard number, or ASC reference number.

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Recent Accounting Pronouncements

Amendments to Variable Interest Entity Accounting. In June 2009, the FASB issued a statement which amends the consolidation guidance applicable to variable interest entities (VIEs). The amendments will significantly effect the overall consolidation analysis. It changes the way a primary beneficiary is determined in a VIE and how entities account for securitizations and special purpose entities as a result of the elimination of the qualified special purpose entity concept. This statement was effective on January 1, 2010 and the adoption of this statement did not have a material effect on our consolidated financial statements.

Segment Reporting

The Company is a REIT focused on originating and acquiring real estate related debt investments and currently operates in one reportable segment.

Debt Securities

GAAP requires that at the time of purchase, the Company designate debt securities as held-to-maturity, available-for-sale, or trading depending on intent and ability to hold such security to maturity. Held-to-maturity investments are stated at cost plus any premiums or discounts, which are amortized through the consolidated statements of income using the effective interest method. Securities that the Company does not hold for the purpose of selling in the near-term, but may dispose of prior to maturity, are designated as available-for-sale and are carried at estimated fair value with the net unrealized gains or losses recorded as a component of accumulated other comprehensive income (loss) in stockholders equity. As of March 31, 2010, the Company s commercial mortgage backed securities (CMBS) were designated as held-to-maturity and all residential mortgage backed securities (RMBS) were designated as available for sale.

The Company evaluates securities for other-than-temporary impairment (OTTI) at least quarterly. Securities are considered to be other-than-temporarily impaired when the estimated fair value of a security is less than amortized cost and (i) we intend to sell the security, (ii) it is more likely than not that we will be required to sell the security before recovery, or (iii) we do not expect to recover the entire amortized cost basis of the security. The evaluation of a security s estimated cash flows includes the following, as applicable: (1) review of the credit of the issuer or the borrower, (2) review of the credit rating of the security, (3) review of the key terms of the security, (4) review of the performance of the loan or underlying loans, including debt service coverage and loan-to-value ratios, (5) analysis of the value of the collateral for the loan or underlying loans, (6) analysis of the effect of local, industry, and broader economic factors, and (7) analysis of historical and anticipated trends in defaults and loss severities for similar securities. If an OTTI has occurred, the carrying value of the security will be reduced to fair value, with the unrealized losses being charged against earnings as a loss on the consolidated statements of operations. For securities held to maturity, only the credit component of the unrealized loss will be charged against earnings and the component of the loss related to factors other than credit will be recognized in other comprehensive income (OCI).

Loans Held for Investment

The Company purchases and originates commercial real estate debt and related instruments (collectively, Loans) generally to be held to maturity. Held for investment loans are carried at cost, net of unamortized loan fees, acquisition premiums or discounts, and other related costs, unless the loans were deemed impaired. Interest income will be recognized using the effective interest method. Net deferred loan fees and origination and acquisition costs will be recognized in interest income over the loan term as yield adjustment. Loans that the Company plans to sell or liquidate in the near term will be held at the lower of cost or fair value. As of March 31, 2010, all of the Company s Loans were designated as held for investment.

The Company must periodically evaluate each of its Loans for possible impairment. Impairment is indicated when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the Loan. If a Loan were determined to be impaired, we would write down the Loan through a charge to the provision for loan losses. Impairment on these Loans is measured by comparing a valuation based on discounted cash-flows to the carrying value of the respective Loan. These valuations require significant judgments, which include assumptions

regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plans, loan sponsorship, actions of other lenders and other factors deemed necessary by management. Actual losses, if any, could ultimately differ from these estimates.

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Revenue Recognition

Interest income is accrued based on the outstanding principal amount of the investment security or loan and the contractual terms. Discounts or premiums associated with the purchase of an investment security are amortized into interest income on an effective yield or interest method, based on expected cash flows through the expected maturity date of the security. Depending on the nature of the investment, changes to expected cash flows may result in a prospective change to yield or a retrospective change, which would include a catch up adjustment. Upon settlement of securities, the excess (or deficiency) of net proceeds over the net carrying value of such security or loan is recognized as a gain (or loss) in the period of settlement. Investment security transactions are recorded on the trade date.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash investments, single asset CMBS, loan investments and interest receivable. The Company may place cash investments in excess of insured amounts with high quality financial institutions. The Company performs ongoing analysis of credit risk concentrations in its investment portfolio by evaluating exposure to various markets, underlying property types, contract terms, tenant mix and other credit metrics. As of, and for the period ended, March 31, 2010, approximately 11% of the Company s investment portfolio and income was related to loans on properties leased to the same tenant.

Derivative Instruments and Hedging Activities

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

As required by GAAP, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

Deferred Financing Costs

Costs incurred in connection with secured financing are capitalized and amortized over the respective loan terms as a component of interest expense. As of March 31, 2010, the Company had approximately $1.0 million of capitalized financing costs, net of amortization. For the three months ended March 31, 2010, approximately $30,000 of amortization was included in interest expense on the statement of operations.

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Income Taxes

The Company will elect to be taxed as a REIT and intends to comply with the Code with respect thereto. Accordingly, the Company will not be subject to federal income tax to the extent of its dividends to stockholders as long as certain asset, income and stock ownership tests are met. Many of these requirements are technical and complex and if we fail to meet these requirements we may be subject to federal, state, and local income tax and penalties.

The Company formed a taxable REIT subsidiary (TRS) in 2010 that will be subject to federal and state income taxes. As of March 31, 2010, the Company did not incur any income tax expense related to the TRS and therefore no provision was recorded.

3. Debt Securities

Mortgage-Backed Securities Held to Maturity

Our investments in CMBS are accounted for at amortized cost. The following table summarizes the weighted average coupon, rating and life of our investments in CMBS based on the book values as of March 31, 2010 and December 31, 2009:

March 31, 2010	**Carry Value**	**Par Value**	**Coupon**[1]	**Rating**	**Life (years)**
Multi-Asset CMBS	$ 202,676	$ 202,699	5.63%	AAA	1.9
Single Borrower CMBS	45,923	56,081	5.23%	B-	6.1
	$ 248,599	$ 258,780			

December 31, 2009	**Carry Value**	**Par Value**	**Coupon**[1]	**Rating**	**Life (years)**
Multi-Asset CMBS	$ 202,646	$ 202,699	5.70%	AAA	2.1
Single Borrower CMBS	43,250	53,712	5.40%	BB+	6.3
	$ 245,896	$ 256,411			

(1) Calculated using the March 31, 2010 and December 31, 2009 one month LIBOR rates of 0.2486% and 0.2309%, respectively, as applicable.

The Company s investments in multi-asset CMBS were acquired through a joint venture in which the Company owns a 75% controlling interest and which the Company is required to consolidate under GAAP. The majority of loans backing the CMBS investments are fixed rate instruments. Approximately $13.5 million or 5% of the CMBS are variable rate and pay interest at LIBOR plus a weighted average spread of 1.30%.

Mortgage-Backed Securities Available-for-Sale

Our investments in RMBS are accounted for at fair value. The Company has allocated $50 million to be invested in RMBS with expected durations of 18 months or less and has engaged a third party manager who specializes in RMBS to execute the purchase of RMBS. The table below summarizes the weighted average coupon, rating and life of the Company s investments in RMBS as of March 31, 2010:

March 31, 2010	**Cost**	**FV Adj**	**Fair Value**	**Coupon**	**Rating**	**Life**
RMBS	$ 34,357	$ (327)	$ 34,030	0.38%	BBB-	0.57

Approximately $33.7 million or 99% of the RMBS are variable rate and pay interest at LIBOR plus a weighted average spread of 0.09%. The Company purchased all of the RMBS securities at a discount which will be accreted into income over the expected remaining life of the security, which in all cases is less than 18 months. The majority of the income from this strategy is earned from these discounts.

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4. Loans Held for Investment

The Company s investments in mortgages and loans are accounted for at amortized cost. The following table summarizes the Company s investments as of March 31, 2010 and December 31, 2009.

As of March 31, 2010

Investment	Carry Value	Face Amount	Weighted Average Coupon	Weighted Average Life (years)
First Mortgages	$ 588,797	$ 614,068	8.0%	2.7
Subordinated Debt	145,363	154,543	7.6%	4.1
Total Loans	$ 734,160	$ 768,611		

As of December 31, 2009

Investment	Carry Value	Face Amount	Weighted Average Coupon	Weighted Average Life (years)
First Mortgages	$ 182,829	$ 212,424	8.7%	7.2
Subordinated Debt	31,692	42,560	8.1%	12.6
Total Loans	$ 214,521	$ 254,984		

For the three months ended March 31, 2010, the Company acquired loans held for investment as follows:

Beginning Balance	$ 214,521
Acquisitions	520,895
Additional fundings [1]	464
Principal repayments	(2,201)
Discount/premium amortization	481
Provision for credit losses	
Balance March 31, 2010	$ 734,160

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

In February 2010, the Company acquired a portfolio of performing commercial mortgages with a $502.9 million par value from Teachers Insurance and Annuity Association of America for $509.9 million plus acquisition costs. The fixed- rate portfolio included 18 senior first mortgages and 2 junior first mortgage B-Notes on retail and office properties across 10 states and with a weighted average coupon of 7.75%. In addition, the Company acquired a performing first mortgage on a shopping center in Avon Colorado with a par value of $12.5 million for $10.2 through a consolidated joint venture in which the Company owns a 75% controlling interest. All loans were paying in accordance with their terms as of March 31, 2010 and no allowance for loan losses was deemed necessary.

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5. Other Investments

In January 2010, the Company committed $6.3 million to acquire a 5.6% interest in a venture formed to acquire assets of a commercial real estate debt management and servicing business primarily for an opportunity to participate in debt opportunities arising from the venture s special servicing business. Because the Company does not have control or significant influence over the venture, the investment will be accounted for under the cost method. As of March 31, 2010, the Company had funded $6.0 million of its commitment. A member of the Company s board of directors has a $50,000 investment in the same venture.

On March 31, 2010, the Company purchased $1.7 million of marketable securities that are classified as available for sale and will be carried at fair value with changes in fair value recorded to other comprehensive income.

6. Secured Financing Facilities

On August 28, 2009 and September 25, 2009, the Company entered into multiple Federal Reserve Bank of New York Term Asset-backed securities Loan Facilities (TALF) through a joint venture with SOF VIII. The TALF loans are non-recourse, bear a fixed interest rate and mature five years from the loan closing dates. The loans are collateralized by the Company s CMBS investments, which are held in a Master TALF Collateral Account and are under the control of the lender until the loan is satisfied.

March 31, 2010	Debt Carry Value	Collateral Carry Value
August 28, 2009, TALF loans, fixed rate 3.872%, mature August 2014	$ 54,986	$ 64,896
September 25, 2009, TALF loans, fixed rate 3.796%, mature September 2014	116,364	137,780
Total	$ 171,350	$ 202,676

December 31, 2009	Debt Carry Value	Collateral Carry Value
August 28, 2009, TALF loans, fixed rate 3.872%, mature August 2014	$ 55,030	$ 64,898
September 25, 2009, TALF loans, fixed rate 3.796%, mature September 2014	116,364	137,748
Total	$ 171,394	$ 202,646

Principal repayments are due on the TALF financing when principal is collected on the underlying CMBS securities, which principal can be paid off earlier or later than expected based on certain market factors including asset sales or loan defaults. As of March 31, 2010, the Manager had no anticipation of early principal repayments or loan defaults of the underlying CMBS.

On March 31, 2010, the Company entered into a Master Repurchase and Securities Contract (the Repurchase Agreement) with Wells Fargo Bank, National Association (Wells Fargo). The Repurchase Agreement is secured by approximately $400 million of the diversified loan portfolio (the TIAA Assets) purchased from Teachers Insurance and Annuity Association of America on February 26, 2010. The Repurchase Agreement provides for asset purchases of up to $280 million (the Facility).

Advances under the Repurchase Agreement accrue interest at a per annum Pricing Rate equal to the sum of (i) 30 day LIBOR plus (ii) the Pricing Margin of 3.0%. During the existence of an Event of Default (as defined in the Repurchase Agreement), interest accrues at the Default Rate, which is equal to the Pricing Rate plus 4.0%. The maturity date of the repurchase (the Facility) is May 31, 2013. The Facility is required to be fully drawn by May 31, 2010, otherwise the Company is required to pay a non-utilization fee equal to 3.0% per annum on any portion of the maximum Facility amount that has not been drawn by such date. The TIAA Assets have been approved as eligible

assets under the Repurchase Agreement and the Company shall be entitled to receive advances under the Facility within one business day after request from Wells Fargo, provided that no Event of Default exists, no material adverse change has occurred with respect to the Company or the TIAA Assets and certain other contractual conditions are satisfied. As of March 31, 2010, the Company had drawn $25.0 million of the Facility.

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The following table represents our five-year principal repayments schedule for the TALF secured financing assuming no early prepayments or defaults and including expected extensions of the underlying CMBS assets and the Wells Fargo Facility.

2010	$	
2011		85,853
2012		85,497
2013		25,000
2014 and thereafter		
Total	$	196,350

7. Derivatives and Hedging Activity

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company s known or expected cash receipts and its known or expected cash payments principally related to the Company s investments and borrowings.

Cash Flow Hedges of Interest Rate Risk

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

In connection with the Repurchase Agreement, the Company entered into an interest rate swap with Deustche Bank in March 2010 which corresponds to the maturities of the loans financed by the Facility to effectively fix borrowing costs at 4.155% for the term of the Facility. The interest rate swap has a notional amount of $278.7 million and terminates on February 5, 2013. Under the agreement, the Company will pay a monthly coupon at a fixed rate of 1.155% of the notional amount to the counterparty and receive floating rate LIBOR commencing on May 5, 2010.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income (AOCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended March 31, 2010, such derivatives were used to hedge the variable cash flows associated with forecasted borrowings expected to be made under the Repurchase Agreement. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended March 31, 2010 the Company recorded no hedge ineffectiveness in earnings.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate debt. Over the next twelve months, the Company estimates that an additional $1.8 million will be reclassified as an increase to interest expense. The Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 34 months.

As of March 31, 2010, the fair value of the swap was a liability of approximately $120,000 and was included in other liabilities on the Company s balance sheet, with an offsetting loss recognized in AOCI.

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8. Related-Party Transactions

The Company entered into a management agreement (the Management Agreement) with our Manager upon closing of our initial public offering, which provides for an initial term of three years with automatic one-year extensions thereafter unless terminated as described below. Under the Management Agreement, our Manager, subject to the oversight of our Board of Directors, is required to manage the day-to-day activities of the Company, for which the Manager receives a base management fee and is eligible for an incentive fee and stock awards. The Manager is also entitled to charge the Company for certain expenses incurred on behalf of the Company.

In accordance with the Management Agreement, the Company pays the Manager an annual base management fee calculated as 1.5% per annum of stockholders equity less adjustments for unrealized gains (losses) and other non-cash items affecting stockholders equity and less any common stock repurchased since inception. These fees are payable quarterly in arrears and adjustments shall be made at the end of each calendar year to reflect the actual management fees payable for the year. For the period ended March 31, 2010, approximately $3.4 million was incurred and payable to the Manager for base management fees.

The Manager is entitled to an incentive fee with respect to each calendar quarter based on annualized Core Earnings as defined below. The incentive fee is calculated as 20% of the excess of Core Earnings over 8% of the weighted average shares outstanding times the weighted average public offering issue price. Core Earnings is a non-GAAP measure defined as GAAP net income (loss) excluding non-cash equity compensation expense, the incentive fee, unrealized gains, losses, or other non-cash items. The incentive fee shall be payable one-half in common stock so long as the ownership of shares by the Manager does not exceed the 9.8% stock ownership limit set forth in the Company s articles of incorporation. As of March 31, 2010, no incentive fee was earned by the Manager.

The Company is required to reimburse the Manager for operating expenses incurred by the Manager on behalf of the Company, including legal, accounting, due diligence, executive compensation and other services. The expense reimbursement is not subject to any dollar limitations but will be subject to review by the Company s Board of Directors. For the period ended March 31, 2010, approximately $302,000 was incurred for executive compensation and other reimbursable expenses, of which approximately $141,000 was payable as of March 31, 2010. For the period ended December 31, 2009, approximately $163,000 was incurred for executive compensation and other reimbursable expenses, of which approximately $84,000 was payable as of December 31, 2009.

In connection with the initial public offering, the Company incurred an estimated $592,000 for services provided by parties related to affiliates of our Manager that were recorded as a reduction in additional paid-in capital. After the initial three-year term, the Company can terminate the Management Agreement without cause with an affirmative two-thirds vote by the Company s independent directors and 180 days written notice to the Manager. Upon termination without cause, the Manager is due a termination fee equal to three times the sum of the average annual base management fee and incentive fee earned by the Manager over the preceding eight calendar quarters. No termination fee is payable if the Manager is terminated for cause, as defined in the Management Agreement, which can be done at anytime with 30 days written notice from the Company s Board of Directors.

9. Stockholders Equity

Our authorized capital stock consists of 100,000,000 shares of preferred stock, $0.01 par value, and 500,000,000 shares of common stock, $0.01 par value.

The Company declared a dividend of $0.22 per share of common stock for the first quarter of 2010 on March 4, 2010. The dividend was paid on April 15, 2010, to common stockholders of record on March 31, 2010. The Company also declared a dividend of $0.10 per share of common stock for the quarter ending December 31, 2009, which dividend was paid on January 29, 2010 to common stockholders of record as of December 30, 2009.

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Equity Incentive Plans

The Company has reserved 3,112,500 shares of common stock for issuance under the Equity Plan and Manager Equity Plan and an additional 100,000 shares of common stock for issuance under the Director Stock Plan. These plans provide for the issuance of restricted stock or restricted stock units. The holders of awards of restricted stock or restricted stock units will be entitled to receive dividends or distribution equivalents, which will be payable at such time dividends are paid on outstanding shares.

The Company granted each of its four independent directors 2,200 restricted shares, with a total fair value of approximately $175,000. The awards will vest ratably in three annual installments on each of the first, second, and third anniversaries of the grant, subject to the director s continued service. As of March 31, 2010 and December 31, 2009, approximately $11,000 and $16,000 was included in general and administrative expense related to the grants, respectively.

In August 2009, the Company granted 1,037,500 restricted stock units with a fair value of approximately $20.8 million at the grant date to the Manager under the Manager Equity Plan. The award will vest ratably in quarterly installments over three years beginning on October 1, 2009. As of March 31, 2010 and December 31, 2009, 86,458 shares had vested as of each period and approximately $1.5 million and $2.4 million was included in management fees related to this grant, respectively.

The Company granted 5,000 restricted stock units with a fair value of $100,000 under the Equity Plan in August 2009. The award will vest ratably in quarterly installments over three years beginning on October 1, 2009. As of March 31, 2010 and December 31, 2009, 417 shares had vested as of each period and approximately $8,000 and $11,000 was included in general and administrative expense related to this grant, respectively.

Schedule of Non-Vested Share and Share Equivalents

	Restricted Stock Grants to Independent Directors	Restricted Stock Units Grants to Employees	Restricted Stock Units Grants to Manager	Total
January 1, 2010	8,800	4,583	951,042	964,425
Granted	2,200			2,200
Vested		(417)	(86,458)	(86,875)
Forfeited	(2,200)			(2,200)
March 31, 2010	8,800	4,166	864,584	877,550

Vesting Schedule

	Restricted Stock Grants to Independent Directors	Restricted Stock Units Grants to Employees	Restricted Stock Units Grants to Manager	Total
2010	2,933	1,251	259,374	263,558
2011	2,933	1,668	345,832	350,433
2012	2,115	1,247	259,378	262,740
2013	819			819
Total	8,800	4,166	864,584	877,550

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10. Net Income per Share

Net income per share for the three months ended March 31, 2010, is computed as follows (amounts in thousands except share and per share):

Basic and Diluted:	
Net income attributable to Starwood Property Trust, Inc.	$ 5,941
Weighted average number of shares of common stock outstanding	47,662,840
Basic net income per share of basic stock	$ 0.12
Weighted average number of shares of diluted stock outstanding	48,626,300
Diluted net income per share of diluted stock	$ 0.12

11. Fair Value of Financial Instruments

GAAP establishes a hierarchy of valuation techniques based on the observability of inputs utilized in measuring financial instruments at fair values. GAAP establishes market based or observable inputs as the preferred source of values, followed by valuation models using management assumptions in the absence of market inputs. The three levels of the hierarchy under GAAP are described below:

Level I Quoted prices in active markets for identical assets or liabilities.

Level II Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level III Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period) unobservable inputs may be used.

Unobservable inputs reflect our own assumptions about the factors that market participants would use in pricing an asset or liability, and would be based on the best information available. We anticipate that a significant portion of our assets subject to these disclosure requirements will fall in Level II in the valuation hierarchy.

Any changes to the valuation methodology will be reviewed by management to ensure the changes are appropriate. The methods used by us may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we anticipate that our valuation methods will be appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. We will use inputs that are current as of the measurement date, which may include periods of market dislocation, during which price transparency may be reduced.

The following table presents the Company s financial instruments carried at fair value on a recurring basis in the consolidated balance sheet as of March 31, 2010.

	As of March 31, 2010			
	Total	**Level I**	**Level II**	**Level III**
Residential mortgage-backed securities	$ 34,030	$	$ 34,030	$
Marketable securities	1,673	1,673		
Derivatives[1]	(120)		(120)	
Total	$ 35,583	$ 1,673	$ 33,910	$

(1)

Included in
Other Liabilities

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GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the financial statements, for which it is practical to estimate the value. In cases where quoted market prices are not available, fair values are based upon the estimation of discount rates to estimated future cash flows using market yields or other valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, fair values are not necessarily indicative of the amount the Company could realize on disposition of the financial instruments. The use of different market assumptions or estimation methodologies could have a material effect on the estimated fair value amounts.

Cash and cash equivalents, accrued interest and accounts payables are valued at their cost or carrying value due to the short term nature and are deemed low risk of material change. CMBS and RMBS securities are valued by reviewing broker quotes from dealers in those securities as well as other available market data sources. Original cost, discounted cash flows, credit and tenant review as well as other quantitative and qualitative factors are evaluated to determine the fair value of our loan portfolio.

The value of secured financing facilities are determined based on projected future discounted cash flows, current market values of interest rates, assessment of the yield curve environment and credit analysis of our counterparty.

The following table presents the fair value of all of the Company s financial instruments not carried at fair value on the consolidated balance sheet as of March 31, 2010.

	Carry Value as of March 31, 2010	Fair Value as of March 31, 2010
Financial Assets:		
CMBS	$ 248,599	$ 251,053
Loans	$ 734,160	$ 773,470
Financial Liabilities:		
Secured financing	$ 196,350	$ 196,677

	Carry Value as of December 31, 2009	Fair Value as of December 31, 2009
Financial Assets:		
CMBS	$ 245,896	$ 249,457
Loans	$ 214,521	$ 215,575
Financial Liabilities:		
Secured financing	$ 171,394	$ 170,868

12. Commitments and Contingencies

In connection with the Company s initial public offering, the Company is required to pay $27.2 million of underwriters fees if Core Earnings exceed an 8% performance hurdle rate over four consecutive quarters as defined in the purchase agreement. Based on the Company s original and current business plan, it expects to achieve this level of earnings. Therefore, the Company recorded a deferred liability and an offsetting reduction in additional paid-in capital for the full $27.2 million.

Management is not aware of any other contractual obligations, legal proceedings, or any other contingent obligations incurred in the normal course of business that would have a material adverse effect on the Company s financial statements.

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Starwood Property Trust, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
March 31, 2010 (unaudited)

13. Quarterly Financial Data

Summarized unaudited consolidated quarterly information for the period from December 31, 2009 through March 31, 2010 is provided below (amounts in thousands except share and per share):

	Quarter Ended	
	March 31, 2010	December 31, 2009
Revenues	$ 14,641	$ 7,162
Income (Loss) attributable to Starwood Property Trust, Inc.	$ 5,941	$ (1,098)
Income (Loss) per share of common stock basic	$ 0.12	$ (0.02)
Income (Loss) per share of common stock diluted	$ 0.12	$ (0.02)

14. Subsequent Events

On May 6, 2010, the Company s board of directors declared a dividend of $0.25 per common share for the second quarter of 2010, which is payable July 15, 2010 to common stockholders of record on June 30, 2010.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following Management s Description and Analysis of Financial Condition and Results of Operations should be read in conjunction with the information included elsewhere in this Quarterly Report on Form 10-Q and in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. This description contains forward-looking statements that involve risks and uncertainties. Actual results could differ significantly from the results discussed in the forward-looking statements due to the factors set forth in Risk Factors and elsewhere in this Quarterly Report on Form 10-Q and in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Overview

Starwood Property Trust, Inc. (together with its subsidiaries, the Company) is a Maryland corporation that commenced operations on August 17, 2009 upon completion of our initial public offering. We are focused on originating, investing in, and financing and managing commercial mortgage loans and other commercial real estate debt investments, CMBS, and other commercial real estate-related debt investments. We also invest in residential mortgage loans and RMBS. We collectively refer to commercial mortgage loans, other commercial real estate debt investments, CMBS, other commercial real estate-related debt investments, residential mortgage loans, and RMBS as our target assets.

The Company is organized as a holding company that conducts its business primarily through three wholly-owned subsidiaries, SPT Real Estate Sub I, LLC, SPT TALF Sub I, LLC, and SPT Operations, LLC. The Company has formed joint ventures (the Joint Ventures) with Starwood Hospitality Fund II and Starwood Opportunity Fund VIII in accordance with the co-investment and allocation agreement with SPT Management, LLC (our Manager). Each Joint Venture is owned 75% by the Company and is consolidated into the Company s consolidated financial statements. As of March 31, 2010, the only assets held by the Joint Ventures were a net $31.3 million investment in AAA rated A2 CMBS financed through the Term Asset-Backed Securities Loan Facility (TALF) and a net $10.5 million investment in a loan acquisition for a first mortgage in Avon, Colorado.

Since the closing of our initial public offering in August 2009, we have focused on opportunities that exist in the U.S. commercial mortgage loan, commercial real estate debt, and CMBS and RMBS markets. As market conditions change over time, we may adjust our strategy to take advantage of changes in interest rates and credit spreads as well as economic and credit conditions. We believe that the diversification of our portfolio of assets, our expertise among the target asset classes, and the flexibility of our strategy will position us to generate attractive risk-adjusted returns for our stockholders in a variety of assets and market conditions.

Recent Developments for the Three Months Ended March 31, 2010

As of March 31, 2010, we had entered into agreements or consummated transactions representing net investments or commitments to invest approximately $1,026.2 million.

In January 2010, we formed SPT Operations, LLC, a taxable REIT subsidiary, which invested $6.0 million in February 2010 in a non-controlling interest in a venture formed to acquire assets of a commercial real estate and CMBS servicing business. We also invested $2.1 million in single-borrower CMBS secured by hotel assets.

In February 2010, we acquired a $502.9 million portfolio of performing commercial mortgages from TIAA-CREF for approximately $509.9 million, plus accrued interest. The fixed-rate portfolio consists of 18 senior first mortgage A-notes and 2 junior first mortgage B-Notes with a weighted average coupon of 7.75% and secured by retail and office assets totaling 4.5 million square feet across 10 states.

In February 2010, we engaged an investment advisory firm with RMBS expertise to invest up to $25 million in short-term RMBS securities on a discretionary basis. In March 2010, the Company engaged the investment advisory firm to invest another $25 million in short-term RMBS securities, for a total of $50 million, on a discretionary basis. The trades are settled directly into a segregated brokerage account in the Company s name. As of March 31, 2010, approximately $35.9 million in RMBS securities had been acquired.

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In March 2010, we acquired a $12.5 million performing commercial mortgage on a shopping center in Avon, Colorado for $10.2 million. The shopping center consists of four buildings containing 53,818 square feet of big box anchor space, 62,577 square feet of retail and restaurant space, and 22,042 square feet of office space. The loan pays a coupon of 1 month LIBOR plus a spread of 1.75%. Additionally, we acquired $1.7 million of marketable securities.

Recent Developments for the Three Months Ended December 31, 2009

As of December 31, 2009, we had entered into agreements or consummated transactions representing net investments or commitments to invest approximately $460.4 million.

We invested $214.5 million in fixed rate commercial mortgage loans, including a $109 million portfolio of loans on seven industrial properties in the Southeast region of the United States, a $16 million loan on a retail center in Orland Park, IL, an $18 million loan on a hotel in Laguna Beach, CA, and a $74 million loan on a portfolio of 17 extended stay hotels located in the Southeast and Mid-Atlantic regions of the United States.

We invested $202.6 million in AAA-rated CMBS securities and obtained approximately $171.6 million of five-year term financing from the TALF in connection with the investment. Our pro rata share of the $31.1 million equity investment was approximately $23.3 million, which represents a 75% ownership interest.

We invested $43.3 million in single-borrower CMBS secured by hotel assets.

The following table sets forth certain information regarding the investments described above as of March 31, 2010:

Investment	Property Type	Carry Value	Face Amount	% Owned	Financing	Net Investment	Rating	Vintage
Loans, first mortgages	Assorted	$ 588,797	$ 614,068	99%*	$ 22,368	$ 566,429	N/A	2005-2009
Loans, subordinated debt	Assorted	145,363	154,543	100%	2,632	142,731	N/A	1999-2005
Multi-Asset CMBS	Assorted	202,676	202,699	75%	171,350	31,326	AAA	2006-2007
Single Borrower CMBS	Hospitality	45,923	56,081	100%		45,923	B-	2001-2006
RMBS	Residential	34,030	36,245	100%		34,030	BBB-	2004-2007
Other Investments	Assorted	7,673	7,673	100%		7,673	N/A	N/A
		$ 1,024,462	$ 1,071,309		$ 196,350	$ 828,112		

* One loan with a $10.5 million book value is owned through a consolidated 75% owned joint venture.

Our loan and mortgage backed securities portfolio at March 31, 2010 is diversified by property type and US geographic region as follows:

Collateral Property Type	As of March 31, 2010	As of December 31, 2009	Geographic Location	As of March 31, 2010	As of December 31, 2009
Hospitality	15.1%	32.7%	Northeast	6.9%	14.1%
Industrial	12.0%	26.5%	Mid-Atlantic	15.7%	14.8%
Office	31.5%	18.0%	Southeast	20.5%	35.9%
Retail	35.2%	16.2%	Southwest	8.7%	5.3%
Multifamily	5.6%	5.1%	Midwest	25.4%	8.7%
Other	0.5%	1.2%	West	20.9%	17.2%
Mixed Use	0.1%	0.3%	Other	1.9%	4.0%
	100.0%	100.0%		100.0%	100.0%

Distributions to Stockholders

On March 4, 2010, we declared a dividend of $0.22 per common share for the period ending March 31, 2010, which was paid on April 15, 2010 to common stockholders of record as of March 31, 2010. We also declared a dividend of $0.10 per common share for the quarter ending December 31, 2009, which dividend was paid on January 29, 2010 to common stockholders of record as of December 30, 2009.

Critical Accounting Policies and Use of Estimates

Refer to the section of our Annual Report on Form 10-K for the year ended December 31, 2009 entitled Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting policies for full discussion of our critical accounting policies.

Recent Accounting Pronouncements

Amendments to Variable Interest Entity Accounting. In June 2009, the FASB issued a statement which amends the consolidation guidance applicable to variable interest entities (VIEs). The amendments will significantly effect the overall consolidation analysis. It changes the way a primary beneficiary is determined in a VIE and how entities account for securitizations and special purpose entities as a result of the elimination of the qualified special purpose entity concept. This statement was effective on January 1, 2010 and the adoption of this statement did not have a material effect on our consolidated financial statements.

Results of Operations

We began our principal operations on August 17, 2009. We are currently in the process of investing the proceeds of our initial public offering and private placement transactions, as well as credit available under the our Master Repurchase and Securities Contract with Wells Fargo Bank, National Association (the Repurchase Agreement), and as of March 31, 2010 had invested approximately $1,026.2 million of such proceeds. Results for the initial period of our operations are not indicative of the results we expect when our investment strategy has been fully implemented.

Net income attributable to Starwood Property Trust for the period January 1, 2010 through March 31, 2010 was approximately $5.9 million or $0.12 per weighted average share of common stock (basic and diluted). We earned investment income of approximately $14.0 million and incurred approximately $1.6 million in interest expense, for net investment income of approximately $12.4 million, of which approximately $0.3 million was not attributable to common stockholders. In addition, we earned approximately $0.6 million in interest income on cash balances.

For the period January 1, 2010 through March 31, 2010, our non-investment expenses totaled $6.7 million and consisted of $3.4 million of base management fees payable to our Manager, $1.5 million of non-cash stock-based expense related to the amortization of grants issued to our Manager upon completion of our initial public offering, and $1.8 million of other general and administrative expenses. The other general and administrative expense includes insurance, professional fees, officer compensation costs, and general overhead costs for the Company. There was no incentive management fee incurred for the period.

Cash Flows

Cash and cash equivalents were $108.0 million as of March 31, 2010, down from $645.1 million as of December 31, 2009. The $537.1 million decrease was primarily attributable to investment activity during the three months ended March 31, 2010 of $561.9 million. Financing activities provided cash of $21.2 million and operating activities provided cash of $3.6 million during the period from January 1, 2010 through March 31, 2010.

Net cash provided by operating activities for the period from January 1, 2010 through March 31, 2010 were approximately $3.6 million, including approximately $0.3 million of operating income attributable to noncontrolling interests. The net income for the same period was $6.3 million. Non-cash charges for stock-based compensation, amortization of deferred loan fees and discounts, amortization of deferred financing costs and amortization of net discount on MBS contributed $0.4 million. The net change in operating assets and liabilities decreased cash flows by $3.0 million and consisted of a $2.0 million decrease in accounts payable, accrued expenses and other liabilities and a decrease in interest receivables and other assets of $1.0 million.

Net cash used in investing activities for the three months ended March 31, 2010 totaled $561.9 million and related primarily to the acquisition of new loans of $521.3 million, new MBS of $35.9 million, other investments of $6.0 million and purchased interest of $2.6 million offset by principal repayments on loans and MBS of $2.2 million and $1.7 million, respectively.

Net cash provided by financing activities related primarily to the approximately $25.0 million of net proceeds from the initial drawdown of the Repurchase Agreement. In addition, net contributions from joint venture partners were approximately $2.3 million offset by the payment of dividends of $5.4 million and deferred financing costs of $0.7 million.

Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make distributions to our stockholders, and other general business needs. We will use significant cash to purchase our target assets, repay principal and interest on our borrowings, make distributions to our stockholders and fund our operations. Our primary sources of cash currently consist of payments of principal and interest we receive on our portfolio of assets, cash generated from our operations and financing arrangements such as the Wells Fargo Repurchase Agreement.

We may, subject to maintaining our qualification as a REIT and our exemption under the Investment Company Act of 1940, as amended, also attempt to secure additional bank credit facilities (including term loans and revolving facilities), if available, to finance our assets and provide a funding source for future investments. We also expect to continue to invest in a number of our assets through co-investments with other investment vehicles managed by affiliates of our Manager and/or other third parties, which may allow us to pool capital to access larger transactions and diversify investment exposure.

As of March 31, 2010, we had cash and cash equivalents of $108.0 million, including $0.8 million related to borrower reserve funds maintained in an unrestricted account, as compared to $645.1 million of cash and cash equivalents as of December 31, 2009. In January 2010, we invested another $2.1 million in single-borrower CMBS secured by hotel assets. In February 2010, we acquired $7.8 million of RMBS, a portfolio of 20 loans for $509.9 million, and invested $6.0 million in an unconsolidated venture to acquire minority interest in a real estate service company. In March 2010 we acquired an additional $26.0 million of RMBS and $10.2 million first mortgage on a shopping center. In addition, we have drawn $25.0 million under the Repurchase Agreement and have an undrawn balance of approximately $255.0 million as of March 31, 2010.

We expect the cash flows from our current investments to be sufficient to satisfy our liquidity needs for the next twelve months with respect to our current investment portfolio, operating expenses, and REIT distribution requirements. However, we anticipate needing additional sources of liquidity, in addition to cash on hand, to repay amounts due under our financing arrangements and acquire additional target assets over the next twelve months. Additional sources of liquidity we may use in the future include (i) repurchase agreements (ii) private financing such as warehouse and bank credit facilities, (iii) securitizations, and (iv) public offerings of our equity or debt securities.

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Repurchase Agreements

Repurchase agreements effectively allow us to borrow against loans and securities that we own. Under these agreements, we will sell our loans and securities to a counterparty and agree to repurchase the same loans and securities from the counterparty at a price equal to the original sales price plus an interest factor. During the term of the repurchase agreement, we receive the principal and interest on the related loans and securities and pay interest to the counterparty.

On March 31, 2010, the Company entered into the Repurchase Agreement with Wells Fargo. The Repurchase Agreement provides for advances of up to $280 million based on an average advance rate of 70% of the approximately $400 million loan pool securing the Facility. Advances under the Repurchase Agreement accrue interest at LIBOR plus 3.0% and mature on May 13, 2013.

Leverage Policies

We intend to employ leverage, to the extent available, to fund the acquisition of our target assets and to increase potential returns to our stockholders. Although we are not required to maintain any particular leverage ratio, the amount of leverage we will deploy for particular investments in our target assets will depend upon our Manager s assessment of a variety of factors, which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in our portfolio, the gap between the duration of our assets and liabilities, including hedges, the availability and cost of financing the assets, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy and commercial and residential mortgage markets, our outlook for the level, slope, and volatility of interest rates, the credit quality of our assets, the collateral underlying our assets, and our outlook for asset spreads relative to the LIBOR curve.

Contractual Obligations and Commitments

Contractual obligations as of March 31, 2010 are as follows (amounts in thousands):

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Secured financings, including interest payable	$ 209,432	$ 7,583	$ 201,849	$	$
Deferred underwriting fees	27,195		27,195		
Total	$ 236,627	$ 7,583	$ 229,044	$	$

The table above does not include amounts due under our Management Agreement as those obligations, discussed below, do not have fixed and determinable payments.

Pursuant to the Management Agreement between our Manager and us, our Manager provides for the day-to-day management of our operations in exchange for the fees and other payments described below.

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

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Incentive Fee. From August 17, 2009 (the effective date of the Management Agreement), our Manager is entitled to be paid the incentive fee described below with respect to each calendar quarter (or part thereof that the management agreement is in effect) if (1) our Core Earnings (as defined below) for the previous 12-month period (or part thereof that the management agreement is in effect) exceeds an 8% hurdle, and (2) our Core Earnings for the 12 most recently completed calendar quarters (or part thereof that the management agreement is in effect) is greater than zero.
The incentive fee will be an amount, not less than zero, equal to the difference between (1) the product of (x) 20% and (y) the difference between (i) our Core Earnings (as defined below) for the previous 12-month period (or part thereof that the management agreement is in effect), and (ii) the product of (A) the weighted average of the issue price per share of our common stock of all of our public offerings multiplied by the weighted average number of all shares of common stock outstanding (including any restricted stock units, any restricted shares of common stock and other shares of common stock underlying awards granted under our equity incentive plans) in such previous 12-month period (or part thereof that the Management Agreement is in effect), and (B) 8%, and (2) the sum of any incentive fee paid to our Manager with respect to the first three calendar quarters of such previous 12-month period (or part thereof that the management agreement is in effect). For purposes of calculating the incentive fee prior to the completion of a 12-month period following the effective date of the Management Agreement, Core Earnings will be calculated on an annualized basis.
One half of each quarterly installment of the incentive fee will be payable in shares of our common stock so long as the ownership of such additional number of shares by our Manager would not violate the 9.8% stock ownership limit set forth in our articles of incorporation, after giving effect to any waiver from such limit that our Board of Directors may grant to our Manager in the future. The remainder of the incentive fee will be payable in cash. The number of shares to be issued to our Manager will be equal to the dollar amount of the portion of the quarterly installment of the incentive fee payable in shares divided by the average of the closing prices of our common stock on the NYSE for the five trading days prior to the date on which such quarterly installment is paid.
Expense Reimbursement. We are required to reimburse our Manager for operating expenses related to us that are incurred by our Manager, including expenses relating to legal, accounting, due diligence and other services. Our reimbursement obligation is not subject to any dollar limitation. Expenses are reimbursed in cash on a monthly basis. We do not reimburse our Manager for the salaries and other compensation of its personnel except that, pursuant to a secondment agreement between Starwood Capital Group and us, we are responsible for Starwood Capital Group s expenses incurred in employing our Chief Financial Officer and Treasurer and our Executive Vice President, General Counsel and Chief Compliance Officer.
Termination Fee. The termination fee is equal to three times the sum of the average annual base management fee and incentive fee earned by our Manager during the 24-month period prior to such termination, calculated as of the end of the most recently completed fiscal quarter. The termination fee will be payable upon termination of the Management Agreement (i) by us without cause or (ii) by our Manager if we materially breach the Management Agreement.

Off-Balance Sheet Arrangements

As of March 31, 2010, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, or special purpose or variable interest entities, established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes. Further, as of March 31, 2010, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide additional funding to any such entities.

Dividends

On March 4, 2010, we declared a dividend of $0.22 per common share for the period ending March 31, 2010, which was paid on April 15, 2010 to common stockholders of record as of March 31, 2010.

Non-GAAP Financial Measures

Core Earnings is a non-GAAP financial measure. We calculate Core Earnings as our GAAP net income (loss) less non-cash equity compensation expense, the incentive fee, depreciation and amortization (to the extent that we foreclose on any properties underlying our target assets), any unrealized gains, losses or other non-cash items recorded in net income for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income. The amount will be adjusted to exclude one-time events pursuant to changes in GAAP and certain other non-cash charges as determined by our Manager and approved by a majority of our independent directors.

We believe that Core Earnings provide an additional measure of our core operating performance by eliminating the impact of certain non-cash expenses and facilitating a comparison of our financial results to those of other comparable REITs with fewer or no non-cash charges and comparison of our own operating results from period to period. The Company uses Core Earnings in this way, and also uses Core Earnings to compute the incentive fee due under the management agreement. The Company believes that its investors also use Core Earnings to evaluate and compare the performance of the Company and its peers, and as such, the Company believes that the disclosure of Core Earnings is useful to (and expected by) its investors.

However, we caution that Core Earnings do not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP), or an indication of our cash flow from operating activities (determined in accordance with GAAP), a measure of our liquidity, or an indication of funds available to fund our cash needs, including our ability to make cash distributions. In addition, our methodology for calculating Core Earnings may differ from the methodologies employed by other REITs to calculate the same or similar supplemental performance measures, and accordingly, our reported Core Earnings may not be comparable to the Core Earnings reported by other REITs.

Our Core Earnings for the period January 1, 2010 through March 31, 2010 were approximately $7.5 million or $0.15 per weighted average share. The table below provides a reconciliation of our net income to Core Earnings for this period:

March 31, 2010 Reconciliation of Net Income to Core Earnings

	Amounts		Per Share	
Net income attributable to Starwood Property Trust, Inc.	$	5,941	$	0.12
Add back for non-cash stock-based compensation		1,560		0.03
Core Earnings	$	7,501	$	0.15

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We seek to manage our risks related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value while, at the same time, seeking to provide an opportunity to stockholders to realize attractive risk-adjusted returns through ownership of our capital stock. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and seek to actively manage that risk, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Credit Risk

We are subject to varying degrees of credit risk in connection with our assets. We have exposure to credit risk on the mortgage assets and underlying mortgage loans in our non-Agency RMBS and CMBS portfolios as well as other assets. Our Manager seeks to manage credit risk by performing deep credit fundamental analysis of potential assets. Credit risk will also be addressed through our Manager s on-going surveillance, and investments will be monitored for variance from expected prepayments, defaults, severities, losses and cash flow on a monthly basis.

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Our investment guidelines do not limit the amount of our equity that may be invested in any type of our target assets; however, not more than 25% of our equity may be invested in any individual asset without the consent of a majority of our independent directors. Our investment decisions will depend on prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. As a result, we cannot predict the percentage of our equity that will be invested in any of our target assets at any given time.

At March 31, 2010, the S&P ratings of our CMBS portfolio were as follows:

S&P Rating	Carry Value	Percentage
AAA	$ 202,676	81.5%
BB	10,852	4.4%
B+	9,045	3.6%
B-	11,625	4.7%
CCC+	3,747	1.5%
CCC-	10,654	4.3%
	$ 248,599	100.0%

At December 31, 2009, the S&P ratings of our CMBS portfolio were as follows:

S&P Rating	Carry Value	Percentage
AAA	$ 202,646	82.4%
A	1,384	0.6%
BBB	8,917	3.6%
BBB-	9,355	3.8%
BB+	12,680	5.2%
BB	10,914	4.4%
	$ 245,896	100.0%

At March 31, 2010, the S&P ratings of our RMBS portfolio were as follows:

S&P Rating	Carry Value	Percentage
AAA	$ 5,455	16.0%
AA+	1,218	3.6%
AA-	2,895	8.5%
A	3,833	11.3%
A-	1,610	4.7%
BBB	6,017	17.7%
BBB-	158	0.5%
BB+	317	0.9%
BB-	1,784	5.2%
B+	5,159	15.2%
B-	921	2.7%
CCC	2,100	6.2%
D	2,563	7.5%
	$ 34,030	100.0%

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Interest Rate Risk

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. We will be subject to interest rate risk in connection with our assets and our related financing obligations. In general, we expect to finance the acquisition of our target assets through financings in the form of borrowings under programs established by the U.S. government, warehouse facilities, bank credit facilities (including term loans and revolving facilities), resecuritizations, securitizations and repurchase agreements. We may mitigate interest rate risk through utilization of hedging instruments, primarily interest rate swap agreements. Interest rate swap agreements are intended to serve as a hedge against future interest rate increases on our borrowings.

At March 31, 2010, approximately $57.7 million, or 5.7%, of our investments were LIBOR based variable rate loans. The majority of our investments were secured by pools of fixed-rate loans and all were classified as held-to-maturity investments. In addition, our TALF financing was non-recourse fixed-rate debt. As of March 31, 2010, a hypothetical 100 basis point increase in interest rates applied to our variable rate assets would increase our annual interest income by approximately $0.6 million. Similarly, a hypothetical 100 bps decrease in interest rates would decrease our annual interest income by the same amount.

Item 4T. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including the Chief Executive Officer, as appropriate, to allow timely decisions regarding required disclosures. Notwithstanding the foregoing, no matter how well a control system is designed and operated, it can provide only reasonable, not absolute, assurance that it will detect or uncover failures within our company to disclose material information otherwise required to be set forth in our periodic reports.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

No change in internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

Currently, no legal proceedings are pending, threatened, or to our knowledge, contemplated against us.

Item 1A. Risk Factors.

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K filed on March 8, 2010 with the Securities and Exchange Commission.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Reserved

Item 5. Other Information.

None.

Item 6. Exhibits.

(a)	**Exhibits:**
10.1	Loan Purchase and Sale Agreement, dated February 16, 2010, among Starwood Property Mortgage Sub-1, L.L.C., Teachers Insurance and Annuity Association of America and Chicago Title Insurance Company, as escrow agent
10.2	Master Repurchase and Securities Contract, dated March 31, 2010, between Starwood Property Mortgage Sub-1, L.L.C. and Wells Fargo Bank, National Association
31.1	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Starwood Property Trust, Inc.

Date: May 10, 2010

By: /s/ Barry S. Sternlicht
Barry S. Sternlicht
Chief Executive Officer (Principal Executive Officer)

By: /s/ Barbara J. Anderson
Barbara J. Anderson
Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit No.	Description
10.1	Loan Purchase and Sale Agreement, dated February 16, 2010, among Starwood Property Mortgage Sub-1, L.L.C., Teachers Insurance and Annuity Association of America and Chicago Title Insurance Company, as escrow agent
10.2	Master Repurchase and Securities Contract, dated March 31, 2010, between Starwood Property Mortgage Sub-1, L.L.C. and Wells Fargo Bank, National Association
31.1	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002