UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period to

Commission File No. 001-35517

ARES COMMERCIAL REAL ESTATE CORPORATION

(Exact name of Registrant as specified in its charter)

Maryland	**45-3148087**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Two North LaSalle Street, Suite 925, Chicago, IL 60602

(Address of principal executive office) (Zip Code)

(312) 324-5900

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding at May 14, 2013**
Common stock, $0.01 par value	9,267,162

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ARES COMMERCIAL REAL ESTATE CORPORATION

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	As of	
	March 31, 2013 (unaudited)	**December 31, 2012**
ASSETS		
Cash and cash equivalents	$ 22,550	$ 23,390
Restricted cash	3,719	3,210
Loans held for investment	409,943	353,500
Accrued interest receivable	2,464	1,746
Deferred financing costs, net	4,780	5,168
Other assets	497	845
Total assets	$ 443,953	$ 387,859
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Secured financing agreements	$ 200,050	$ 144,256
Convertible notes	67,411	67,289
Derivative liability	2,223	1,825
Accounts payable and accrued expenses	1,455	1,788
Due to affiliate	1,442	1,320
Dividends payable	2,317	2,316
Other liabilities	5,471	3,627
Total liabilities	280,369	222,421
Commitments and contingencies (Note 5)		
STOCKHOLDERS EQUITY		
Preferred stock, par value $0.01 per share, 50,000,000 shares authorized at March 31, 2013 and December 31, 2012, no shares issued and outstanding at March 31, 2013 and December 31, 2012	-	-
Common stock, par value $0.01 per share, 450,000,000 shares authorized at March 31, 2013 and December 31, 2012, respectively, 9,267,162 shares issued and outstanding at March 31, 2013 and December 31, 2012	92	92
Additional paid in capital	169,336	169,200
Accumulated deficit	(5,844)	(3,854)
Total stockholders equity	163,584	165,438
Total liabilities and stockholders equity	$ 443,953	$ 387,859

See accompanying notes to consolidated financial statements.

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ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	For the three months ended March 31, 2013 (unaudited)	For the three months ended March 31, 2012 (unaudited)
Net interest margin:		
Interest income	$ 6,711	$ 949
Interest expense (from secured funding facilities)	(1,385)	(339)
Net interest margin	5,326	610
Expenses:		
Other interest expense	1,950	-
Management fees to affiliate	614	-
Professional fees	566	65
Acquisition and investment pursuit costs	640	-
General and administrative expenses	482	37
General and administrative expenses reimbursed to affiliate	747	-
Total expenses	4,999	102
Net income	327	508
Less income (loss) attributable to Series A Convertible Preferred Stock:		
Preferred dividends	-	(52)
Accretion of redemption premium	-	(572)
Net income (loss) attributable to common stockholders	$ 327	$ (116)
Net income (loss) per common share:		
Basic and diluted earnings (loss) per common share	$ 0.04	$ (0.12)
Weighted average number of common shares outstanding:		
Basic weighted average shares of common stock outstanding	9,212,644	998,571
Diluted weighted average shares of common stock outstanding	9,267,162	998,571
Dividends declared per share of common stock	$ 0.25	$ 0.30

See accompanying notes to consolidated financial statements.

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ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(in thousands, except share and per share data)

(unaudited)

	Common Stock				Additional Paid-in		Accumulated		Total Stockholders
	Shares		Amount		Capital		Deficit		Equity
Balance at December 31, 2012	9,267,162	$	92	$	169,200	$	(3,854)	$	165,438
Stock-based compensation	-		-		136		-		136
Net income attributable to common stockholders	-		-		-		327		327
Dividends declared	-		-		-		(2,317)		(2,317)
Balance at March 31, 2013	9,267,162	$	92	$	169,336	$	(5,844)	$	163,584

See accompanying notes to consolidated financial statements.

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ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	For the three months ended March 31, 2013 (unaudited)	For the three months ended March 31, 2012 (unaudited)
Operating activities:		
Net income	$ 327	$ 508
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Amortization of deferred financing costs	227	125
Accretion of deferred loan origination fees and costs	(739)	(57)
Stock based compensation	136	-
Unrealized loss on derivative	398	-
Changes in operating assets and liabilities:		
Interest receivable	(718)	(518)
Other assets	323	(24)
Due to affiliate	122	(144)
Interest payable	-	71
Refundable deposits	50	(200)
Accounts payable and accrued expenses	1,100	18
Net cash provided by (used in) operating activities	1,226	(221)
Investing activities:		
Issuance of and fundings on loans held for investment	(56,299)	(73,147)
Principal repayment of loans held for investment	56	18
Receipt of origination fees	539	880
Net cash used in investing activities	(55,704)	(72,249)
Financing activities:		
Proceeds from secured funding arrangements	55,794	47,289
Secured funding costs	(10)	(596)
Convertible notes issuance costs	171	-
Proceeds from issuance of Series A Convertible Preferred Stock	-	5,723
Proceeds from issuance of common stock	-	23,400
Payment of offering costs	-	-
Common dividend payment	(2,317)	-
Net cash provided by financing activities	53,638	75,816
Change in cash and cash equivalents	(840)	3,346
Cash and cash equivalents, beginning of period	23,390	1,240
Cash and cash equivalents, end of period	$ 22,550	$ 4,586
Supplemental Information:		
Interest paid during the period	$ 1,128	$ 143
Supplemental disclosure of noncash financing activities:		
Dividends payable	$ 2,317	$ 502
Accretion of redemption premium	$ -	$ 572
Deferred financing and offering costs	$ -	$ 332

See accompanying notes to consolidated financial statements.

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ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2013

(unaudited)

1. ORGANIZATION

Ares Commercial Real Estate Corporation (together with our consolidated subsidiaries, the Company, ACRE, we, us and our) is a Maryland corporation that was incorporated on September 1, 2011, and was initially funded and commenced investment operations on December 9, 2011. The Company is focused primarily on originating, investing in and managing middle-market commercial real estate (CRE) loans and other CRE-related investments. ACRE completed the initial public offering (the IPO) of its common stock on May 1, 2012. The Company is externally managed by Ares Commercial Real Estate Management LLC (ACREM or our Manager), a Securities and Exchange Commission (SEC) registered investment adviser and a wholly owned subsidiary of Ares Management LLC, a global alternative asset manager and also a SEC registered investment adviser.

The Company s target investments include: transitional senior mortgage loans, stretch senior mortgage loans, subordinate debt mortgage loans such as B-notes and mezzanine loans and other select CRE debt and preferred equity investments. Transitional senior mortgage loans provide strategic, flexible, short-term financing solutions on transitional CRE middle-market assets that are the subject of a business plan that is expected to enhance the value of the property. Stretch senior mortgage loans provide flexible one stop financing on quality CRE middle-market assets that are typically stabilized or near-stabilized properties with healthy balance sheets and steady cash flows, with the mortgage loans having higher leverage (and thus higher loan-to-value ratios) than conventional mortgage loans and are typically fully funded at closing and non-recourse to the borrower (as compared to conventional mortgage loans, which are usually full recourse to the borrower).

The Company intends to elect and qualify to be taxed as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended (the Code), commencing with the Company s taxable year ended December 31, 2012. The Company generally will not be subject to U.S. federal income taxes on the Company s REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, to the extent that the Company annually distributes all of its REIT taxable income to stockholders and complies with various other requirements as a REIT.

Interim financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. The current period s results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with GAAP and includes the accounts of the Company and its wholly owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the Company s results of its operations and financial condition as of and for the periods presented. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include funds on deposit with financial institutions.

Restricted Cash

Restricted cash includes escrow deposits for taxes, insurance, leasing outlays, capital expenditures, tenant security deposits, and payments required under certain loan agreements. These escrow deposits are held on behalf of the respective borrowers and are offset by escrow liabilities included in other liabilities on the consolidated balance sheets.

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Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents and loans held for investment. The Company places its cash and cash equivalents with financial institutions and, at times, cash held may exceed the Federal Deposit Insurance Corporation, or FDIC , insured limit. The Company has exposure to credit risk on its CRE loans and other target investments. The Company s Manager will seek to manage credit risk by performing credit fundamental analysis of potential collateral assets.

Loans Held for Investment

The Company originates CRE debt and related instruments generally to be held for investment and to maturity. Loans that are held for investment are carried at cost, net of unamortized loan fees and origination costs, unless the loans are deemed impaired.

Impairment occurs when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is considered to be impaired, the Company will record an allowance to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan s contractual effective rate.

Each loan classified as held for investment is evaluated for impairment on a periodic basis. Loans are collateralized by real estate and as a result, the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower could impact the expected amounts received and are therefore regularly evaluated. The Company monitors performance of its investment portfolio under the following methodology (1) borrower review, which analyzes the borrower s ability to execute on its original business plan, reviews its financial condition, assesses pending litigation and considers its general level of responsiveness and cooperation; (2) economic review, which considers underlying collateral, (i.e. leasing performance, unit sales and cash flow of the collateral and its ability to cover debt service as well as the residual loan balance at maturity); (3) property review, which considers current environmental risks, changes in insurance costs or coverage, current site visibility, capital expenditures and market perception; and (4) market review, which analyzes the collateral from a supply and demand perspective of similar property types, as well as from a capital markets perspective. Such impairment analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including periodic financial data such as property occupancy, tenant profile, rental rates, operating expenses, and the borrower s exit plan, among other factors.

In addition, we evaluate the entire portfolio to determine whether the portfolio has any impairments that require a general valuation allowance on the remainder of the loan portfolio. As of March 31, 2013 and December 31, 2012, there are no impairments on the Company s loan portfolio.

Underwriting Commissions and Offering Costs

Underwriting commissions and offering costs incurred in connection with common stock offerings are reflected as a reduction of additional paid-in capital. Costs incurred that are not directly associated with the completion of a common stock offering are expensed. Underwriting commissions that are the responsibility of and paid by a related party, such as our Company s Manager, are reflected as a contribution of additional paid in capital from a sponsor in the consolidated financial statements.

Revenue Recognition

Interest income is accrued based on the outstanding principal amount and the contractual terms of each loan. Origination fees, contractual exit fees and direct loan origination costs are also recognized in interest income over the initial loan term as a yield adjustment using the effective interest method.

Deferred Financing Costs

Deferred financing costs are capitalized and amortized over the terms of the respective debt instrument.

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Fair Value Measurements

The Company determines the estimated fair value of financial assets and liabilities using the three-tier fair value hierarchy established by GAAP, which prioritizes the inputs used in measuring fair value. 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 only financial instrument recorded at fair value on a recurring basis in the Company s consolidated financial statements is a derivative instrument. The Company has not elected the fair value option for the remaining financial instruments, including loans held for investment, secured funding agreements and other debt instruments. Such financial instruments are carried at cost. Fair value is separately disclosed (see Note 9). The three levels of inputs that may be used to measure fair value are as follows:

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.

Stock Based Compensation

The Company recognizes the cost of stock based compensation and payment transactions using the same expense category as would be charged for payments in cash. The fair value of the restricted stock or restricted stock units granted is recorded to expense on a straight-line basis over the vesting period for the award, with an offsetting increase in stockholders equity. For grants to directors and officers, the fair value is determined based upon the market price of the stock on the grant date.

Earnings per Share

The Company calculates basic earnings (loss) per share by dividing net income (loss) allocable to common stockholders for the period by the weighted-average shares of common stock outstanding for that period after consideration of the earnings (loss) allocated to the Company s restricted stock and restricted stock units, which are participating securities as defined in GAAP. Diluted earnings (loss) per share takes into effect any dilutive instruments, such as restricted stock and restricted stock units and convertible debt, except when doing so would be anti-dilutive.

Derivative Financial Instruments

The Company does not hold or issue derivative instruments for trading purposes. The Company recognizes derivatives on its balance sheet, measures them at their estimated fair value using Level III inputs under an option pricing model and recognizes changes in their estimated fair value in the Company s results of operations for the period in which the change occurs. On December 19, 2012, the Company issued $69.0 million aggregate principal amount of unsecured 7.000% Convertible Senior Notes due 2015 (the 2015 Convertible Notes). The conversion features of the 2015 Convertible Notes are deemed to be an embedded derivative under Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging (ASC 815). In accordance with ASC 815, the Company is required to bifurcate the embedded derivative related to the conversion features of the 2015 Convertible Notes. The Company has recognized the embedded derivative as a liability on its balance sheet, measured it at its estimated fair value and recognized changes in its estimated fair value in the Company s results of operations for the period in which the change occurs.

Income Taxes

The Company intends to elect and qualify for taxation as a REIT. As a result of the Company s expected REIT qualification and its distribution policy, the Company does not generally expect to pay U.S. federal corporate level income taxes. Many of the REIT requirements, however, are highly technical and complex. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that the Company distribute annually at least 90% of the Company s REIT taxable income to the Company s stockholders. If the Company has previously qualified as a REIT and fails to qualify as a REIT in any subsequent taxable year and does not qualify for certain statutory relief provisions, the Company will be subject to U.S. federal and state income taxes at regular corporate rates (including any applicable alternative minimum tax) and may be precluded from qualifying as a REIT for the Company s four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain U.S. federal, state, local and foreign taxes on the Company s income and property and to U.S. federal income and excise taxes on the Company s undistributed REIT taxable income.

ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company has analyzed its various federal and state filing positions and believes that its income tax filing positions and deductions are well documented and supported.

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As of March 31, 2013 and December 31, 2012, the Company has not recorded a reserve for any uncertain income tax positions; therefore, there has been no interest or penalties incurred to date.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Significant estimates include the valuation of derivatives.

Segment Reporting

For the three months ended March 31, 2013, the Company operated in one business segment. The Company is primarily engaged in originating, investing in and managing commercial mortgage loans and other CRE related debt investments.

3. LOANS HELD FOR INVESTMENT

As of March 31, 2013, the Company has originated or co-originated 17 loans secured by CRE middle market properties. The aggregate originated commitment under these loans at closing was approximately $470.2 million, of which $413.0 million in total principal remained outstanding as of March 31, 2013. During the three months ended March 31, 2013, the Company funded approximately $56.3 million and received repayments of $56 thousand on its net $470.2 million of commitments at closing as described in more detail in the tables below. Such investments are referred to herein as the Company s investment portfolio. References to LIBOR are to 30-day LIBOR (unless otherwise specifically stated).

The following table presents an overview of the Company s current investment portfolio, based on information available as of March 31, 2013.

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(amounts in millions, except percentages)

Loan Type	Location	Total Commitment (at closing)	Outstanding Principal (1)	Carrying Amount (1)	Interest Rate	LIBOR Floor	Unleveraged Effective Yield (2)	Maturity Date (3)	Payment Terms (4)
Transitional Senior Mortgage Loans									
Apartment	Brandon, FL	$ 49.6	$ 44.2	$ 43.8	L+4.80%	0.5%	5.9%	Jan 2016	I/O
Office	Austin, TX	38.0	31.4	31.1	L+5.75%-L+5.25%(5)	1.0%	7.6%	Mar 2015	I/O
Apartment	New York, NY	36.1	32.2	31.9	L+5.00%	0.8%	6.3%	Oct 2017	I/O
Office	Cincinnati, OH	35.5	27.0	26.9	L+5.35%-L+5.00%(6)	0.3%	6.1%	Nov 2015	I/O
Apartment	New York, NY	26.3	23.0	22.8	L+5.75%-L+5.00%(7)	0.2%	6.7%	Dec 2015	I/O
Office	Overland Park, KS	25.5	24.4	24.1	L+5.00%	0.3%	5.9%	Mar 2016	I/O
Apartment	Avondale, AZ	22.1	20.7	20.6	L+4.25%	1.0%	5.8%	Sep 2015	I/O
Apartment	New York, NY	21.9	18.7	18.6	L+5.75%-L+5.00%(7)	0.2%	6.7%	Dec 2015	I/O
Apartment	New York, NY	21.8	18.8	18.7	L+5.75%-L+5.00%(7)	0.2%	6.7%	Dec 2015	I/O
Office	Denver, CO	11.0	9.7	9.6	L+5.50%	1.0%	7.3%	Jan 2015	I/O
Stretch Senior Mortgage Loans									
Office	Miami, FL	47.0	47.0 (8)	46.9(9)	L+5.25%	1.0%	6.6%	Apr 2014	I/O