

ARBOR REALTY TRUST INC
Form 10-Q
May 01, 2014
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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, 2014

Or

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

For the transition period from to

Commission file number: 001-32136

Arbor Realty Trust, Inc.

(Exact name of registrant as specified in its charter)

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Maryland
(State or other jurisdiction of
incorporation)

20-0057959
(I.R.S. Employer
Identification No.)

333 Earle Ovington Boulevard, Suite 900

Uniondale, NY

11553

(Address of principal executive offices)

(Zip Code)

(516) 506-4200

(Registrant's telephone number, including area code)

(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 No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common stock, \$0.01 par value per share: 50,136,308 outstanding (excluding 2,650,767 shares held in the treasury) as of May 1, 2014.

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ARBOR REALTY TRUST, INC.

FORM 10-Q

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CAUTIONARY STATEMENTS

The information contained in this quarterly report on Form 10-Q is not a complete description of our business or the risks associated with an investment in Arbor Realty Trust, Inc. We urge you to carefully review and consider the various disclosures made by us in this report.

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as may, will, should, potential, intend, expect, seek, estimate, believe, could, project, predict, continue or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in economic conditions generally and the real estate market specifically; adverse changes in the financing markets we access affecting our ability to finance our loan and investment portfolio; changes in interest rates; the quality and size of the investment pipeline and the rate at which we can invest our cash; impairments in the value of the collateral underlying our loans and investments; legislative/regulatory changes; the availability and cost of capital for future investments; competition; and other risks detailed from time to time in our SEC reports. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect management's views as of the date of this report. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement. For a discussion of our critical accounting policies, see Management's Discussion and Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries Significant Accounting Estimates and Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2013.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	March 31, 2014 (Unaudited)	December 31, 2013
Assets:		
Cash and cash equivalents	\$ 32,704,172	\$ 60,389,552
Restricted cash (includes \$96,071,579 and \$54,051,439 from consolidated VIEs, respectively)	97,161,850	54,962,316
Loans and investments, net (includes \$1,034,066,873 and \$1,196,434,032 from consolidated VIEs, respectively)	1,574,832,799	1,523,699,653
Available-for-sale securities, at fair value	2,776,077	37,315,652
Investments in equity affiliates	4,680,306	4,680,306
Real estate owned, net (includes \$80,787,215 and \$80,787,215 from consolidated VIEs, respectively)	110,791,226	111,718,177
Real estate held-for-sale, net	11,444,812	11,477,676
Due from related party (includes \$0 and \$91,988 from consolidated VIEs, respectively)	281,462	98,058
Prepaid management fee related party	19,047,949	19,047,949
Other assets (includes \$18,907,215 and \$19,861,310 from consolidated VIEs, respectively)	46,589,572	54,083,143
Total assets	\$ 1,900,310,225	\$ 1,877,472,482
Liabilities and Equity:		
Repurchase agreements and credit facilities	\$ 248,206,026	\$ 159,125,023
Collateralized debt obligations (includes \$519,770,974 and \$639,622,981 from consolidated VIEs, respectively)	519,770,974	639,622,981
Collateralized loan obligations (includes \$264,500,000 and \$264,500,000 from consolidated VIEs, respectively)	264,500,000	264,500,000
Junior subordinated notes to subsidiary trust issuing preferred securities	159,423,385	159,291,427
Notes payable	17,498,874	2,500,000
Mortgage note payable real estate owned	42,745,650	42,745,650
Mortgage note payable real estate held-for-sale	11,005,354	11,005,354
Due to related party	1,140,910	2,794,087
Due to borrowers	32,656,568	20,326,030
Deferred revenue	77,123,133	77,123,133
Other liabilities (includes \$12,228,728 and \$13,944,737 from consolidated VIEs, respectively)	58,349,055	60,842,515
Total liabilities	1,432,419,929	1,439,876,200
Commitments and contingencies		
Equity:		
Arbor Realty Trust, Inc. stockholders equity:	89,295,905	67,654,655

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Preferred stock, cumulative, redeemable, \$0.01 par value: 100,000,000 shares authorized; 8.25% Series A, \$38,787,500 aggregate liquidation preference; 1,551,500 shares issued and outstanding at March 31, 2014 and December 31, 2013; 7.75% Series B, \$31,500,000 aggregate liquidation preference; 1,260,000 shares issued and outstanding at March 31, 2014 and December 31, 2013; 8.50% Series C, \$22,500,000 aggregate liquidation preference; 900,000 shares issued and outstanding at March 31, 2014, no shares issued and outstanding at December 31, 2013

Common stock, \$0.01 par value: 500,000,000 shares authorized; 52,787,075 shares issued, 50,136,308 shares outstanding at March 31, 2014 and 51,787,075 shares issued, 49,136,308 shares outstanding at December 31, 2013	527,870	517,870
Additional paid-in capital	630,644,261	623,993,245
Treasury stock, at cost 2,650,767 shares at March 31, 2014 and December 31, 2013	(17,100,916)	(17,100,916)
Accumulated deficit	(212,748,410)	(212,231,319)
Accumulated other comprehensive loss	(22,728,414)	(25,237,253)
Total equity	467,890,296	437,596,282
Total liabilities and equity	\$ 1,900,310,225	\$ 1,877,472,482

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended March 31,	
	2014	2013
Interest income	\$ 24,911,855	\$ 22,988,822
Interest expense	10,591,378	10,642,244
Net interest income	14,320,477	12,346,578
Other revenue:		
Property operating income	8,661,515	8,334,328
Other income, net	858,396	1,379,458
Total other revenue	9,519,911	9,713,786
Other expenses:		
Employee compensation and benefits	3,385,949	3,083,639
Selling and administrative	1,982,219	2,189,283
Property operating expenses	6,524,138	6,343,313
Depreciation and amortization	1,811,683	1,496,299
Impairment loss on real estate owned	250,000	
Provision for loan losses (net of recoveries)	134,344	2,500,155
Management fee - related party	2,450,000	2,800,000
Total other expenses	16,538,333	18,412,689
Income from continuing operations before gain on extinguishment of debt and income (loss) from equity affiliates	7,302,055	3,647,675
Gain on extinguishment of debt		3,763,000
Income (loss) from equity affiliates	40,048	(81,885)
Income from continuing operations	7,342,103	7,328,790
Income (loss) from discontinued operations	123,588	(101,572)
Net income	7,465,691	7,227,218
Preferred stock dividends	1,590,930	533,328
Net income attributable to noncontrolling interest		53,651
Net income attributable to Arbor Realty Trust, Inc. common stockholders	\$ 5,874,761	\$ 6,640,239
Basic earnings per common share:		
Income from continuing operations, net of noncontrolling interest and preferred stock dividends	\$ 0.12	\$ 0.20
Income (loss) from discontinued operations		
Net income attributable to Arbor Realty Trust, Inc. common stockholders	\$ 0.12	\$ 0.20
Diluted earnings per common share:		
Income from continuing operations, net of noncontrolling interest and preferred stock dividends	\$ 0.12	\$ 0.19
Income (loss) from discontinued operations		
Net income attributable to Arbor Realty Trust, Inc. common stockholders	\$ 0.12	\$ 0.19
Dividends declared per common share	\$ 0.13	\$ 0.12
Weighted average number of shares of common stock outstanding:		
Basic	49,336,308	33,771,925
Diluted	49,752,813	34,236,689

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See Notes to Consolidated Financial Statements.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

	Three Months Ended March 31,	
	2014	2013
Net income	\$ 7,465,691	\$ 7,227,218
Unrealized loss on securities available-for-sale, net	(58,789)	
Reclassification of unrealized gain on securities available-for-sale realized into earnings	(431,476)	
Unrealized loss on derivative financial instruments	(441,773)	(354,980)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	3,440,877	3,495,764
Comprehensive income	9,974,530	10,368,002
Less:		
Preferred stock dividends	1,590,930	533,328
Comprehensive income attributable to noncontrolling interest		53,651
Comprehensive income attributable to Arbor Realty Trust, Inc. common stockholders	\$ 8,383,600	\$ 9,781,023

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

Three Months Ended March 31, 2014

	Preferred Stock Shares	Preferred Stock Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance										
January 1, 2014	2,811,500	\$ 67,654,655	51,787,075	\$ 517,870	\$ 623,993,245	(2,650,767)	\$ (17,100,916)	\$ (212,231,319)	\$ (25,237,253)	\$ 437,596,282
Issuance of common stock			1,000,000	10,000	6,504,000					6,514,000
Issuance of 8.50% Series C preferred stock	900,000	21,641,250								21,641,250
Stock-based compensation					147,016					147,016
Distributions common stock								(6,387,720)		(6,387,720)
Distributions preferred stock								(1,590,930)		(1,590,930)
Distributions preferred stock of private REIT								(4,132)		(4,132)
Net income								7,465,691		7,465,691
Unrealized loss on securities available-for-sale									(58,789)	(58,789)
Reclassification of unrealized gain on securities available-for- sale realized into earnings									(431,476)	(431,476)
Unrealized loss on derivative financial instruments, net									(441,773)	(441,773)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings									3,440,877	3,440,877
Balance										
March 31, 2014	3,711,500	\$ 89,295,905	52,787,075	\$ 527,870	\$ 630,644,261	(2,650,767)	\$ (17,100,916)	\$ (212,748,410)	\$ (22,728,414)	\$ 467,890,296

See Notes to Consolidated Financial Statements.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

	Three Months Ended March 31,	
	2014	2013
Operating activities:		
Net income	\$ 7,465,691	\$ 7,227,218
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,811,683	1,632,131
Stock-based compensation	147,016	571,810
Gain on sale of securities	(518,640)	
Gain on extinguishment of debt		(3,763,000)
Provision for loan losses (net of recoveries)	134,344	2,500,155
Impairment loss on real estate owned	250,000	
Amortization and accretion of interest, fees and intangible assets, net	(1,393,654)	(214,661)
Change in fair value of non-qualifying swaps and linked transactions	46,071	(107,722)
(Loss) income from equity affiliates	(40,048)	81,885
Changes in operating assets and liabilities:		
Other assets	(1,437,250)	13,998
Distributions of operations from equity affiliates	40,048	24,365
Other liabilities	83,686	(4,160,838)
Change in restricted cash	(179,394)	239,974
Due to/from related party	(1,836,582)	(2,189,651)
Net cash provided by operating activities	\$ 4,572,971	\$ 1,855,664
Investing activities:		
Loans and investments funded, originated and purchased, net	(268,256,928)	(101,354,622)
Payoffs and paydowns of loans and investments	228,173,239	34,733,621
Due to borrowers and reserves	(36,240)	(585,143)
Deferred fees	2,566,938	515,220
Purchase of securities, net		(20,500,000)
Principal collections on securities, net	663,684	7,615,742
Investment in real estate, net	(1,278,339)	(2,799,667)
Proceeds from sale of available-for-sale securities	33,904,172	
Net cash used in investing activities	\$ (4,263,474)	\$ (82,374,849)
Financing activities:		
Proceeds from repurchase agreements, loan participations, credit facilities and notes payable	132,087,708	23,704,650
Paydowns and payoffs of repurchase agreements, loan participations and credit facilities	(28,007,831)	(104,962,456)
Proceeds from collateralized loan obligations		177,000,000
Payoffs and paydowns of collateralized debt obligations	(119,668,296)	(58,130,055)
Change in restricted cash	(42,020,140)	(29,771,615)
Payments on financial instruments underlying linked transactions	(45,881,649)	(18,265,294)
Receipts on financial instruments underlying linked transactions	52,385,881	18,939,101
Payments on swaps and margin calls to counterparties	(347,106)	(20,644,853)
Receipts on swaps and margin calls from counterparties	3,646,010	22,551,317
Distributions paid to noncontrolling interest		(50,167)
Proceeds from issuance of common stock	6,800,000	91,696,328
Expenses paid on issuance of common stock	(206,000)	(2,974,812)
Proceeds from issuance of preferred stock	22,500,000	38,787,500

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Expenses paid on issuance of preferred stock	(764,553)	(1,329,526)
Distributions paid on common stock	(6,387,720)	(4,154,553)
Distributions paid on preferred stock	(1,410,305)	
Distributions paid on preferred stock of private REIT	(4,132)	(4,132)
Payment of deferred financing costs	(716,744)	(3,096,570)
Net cash (used in) / provided by financing activities	\$ (27,994,877)	\$ 129,294,863
Net (decrease) increase in cash and cash equivalents	\$ (27,685,380)	\$ 48,775,678
Cash and cash equivalents at beginning of period	60,389,552	29,188,889
Cash and cash equivalents at end of period	\$ 32,704,172	\$ 77,964,567

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

	Three Months Ended March 31,	
	2014	2013
Supplemental cash flow information:		
Cash used to pay interest	\$ 10,928,537	\$ 13,094,185
Cash used for taxes	\$ 6,706	\$ 108,594
Supplemental schedule of non-cash investing and financing activities:		
Distributions accrued on 8.25% Series A preferred stock	\$ 266,664	\$ 533,328
Distributions accrued on 7.75% Series B preferred stock	\$ 203,438	\$
Distributions accrued on 8.50% Series C preferred stock	\$ 180,625	\$