ARBOR REALTY TRUST INC
Form 424B3
August 04, 2004

Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-116223

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2004

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)

Maryland *(State or other jurisdiction of incorporation)*	**20-0057959** *(I.R.S. Employer Identification No.)*
333 Earle Ovington Boulevard **New York, NY** *(Address of principal executive offices)*	**11553** *Zip Code*

(516) 832-8002

(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 þ No o.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act). Yes o No þ.

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the last practicable date. Common stock, $0.01 par value per share: 15,670,038 outstanding as of July 28, 2004.

ARBOR REALTY TRUST, INC.

FORM 10-Q

INDEX

Table of Contents

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, endeavo anticipate, estimate, overestimate, underestimate, 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; changes in the markets; legislative/regulatory changes; completion of pending investments; the availability and cost of capital for future investments; competition within the finance and real estate industries; 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 our 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 Critical Accounting Policies.

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

	June 30, 2004	December 31, 2003
	(Unaudited)	
Assets:		
Cash	$ 6,166,645	$ 6,115,525
Loans and investments, net	637,388,563	286,036,610
Related party loans, net	26,935,784	35,940,881
Available-for-sale securities, at fair value	54,082,735	
Investment in equity affiliates	10,439,417	5,917,542
Other assets	8,261,184	4,153,874
Total assets	$743,274,328	$338,164,432
Liabilities and Stockholders Equity:		
Notes payable and repurchase agreements	$425,713,693	$172,528,471
Dividends Payable	6,516,355	
Other liabilities	22,780,743	10,888,245
Total liabilities	455,010,791	183,416,716
Minority interest	48,716,537	43,631,602
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.01 par value: 100,000,000 shares authorized; 3,146,724 shares issued and outstanding	31,467	31,467
Common stock, $0.01 par value: 500,000,000 shares authorized; 15,471,433 and 8,199,567 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	154,715	81,996
Additional paid-in capital	241,341,916	112,215,649
Distributions in excess of earnings	(338,428)	(691,865)
Deferred compensation	(279,116)	(521,133)
Accumulated other comprehensive loss	(1,363,554)	
Total stockholders equity	239,547,000	111,116,114
Total liabilities and stockholders equity	$743,274,328	$338,164,432

See notes to consolidated financial statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

(Unaudited)

	Three Months Ended June 30, 2004	Six Months Ended June 30, 2004
Revenue:		
Interest income	$11,939,350	$20,102,741
Other income	5,427	26,531
Total revenue	11,944,777	20,129,272
Expenses:		
Interest expense	3,310,544	5,934,437
Employee compensation and benefits	617,137	1,230,443
Stock based compensation	92,806	207,007
Selling and administrative	366,843	611,154
Management fee	540,939	834,057
Total expenses	4,928,269	8,817,098
Income before minority interest	7,016,508	11,312,174
Income allocated to minority interest	1,236,560	2,427,899
Net income	$ 5,779,948	$ 8,884,275
Basic earnings per common share	$ 0.39	$ 0.77
Diluted earnings per common share	$ 0.38	$ 0.76
Dividends declared per common share	$ 0.35	$ 0.73

See notes to consolidated financial statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

For the Six Months Ended June 30, 2004
(Unaudited)

	Preferred Stock Shares	Preferred Stock Par Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Distribution In Excess of Earnings	Deferred Compensation	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2004	3,146,724	$ 31,467	8,199,567	$ 81,996	$ 112,215,649	$ (691,865)	$ (521,133)		$ 111,116,114
Issuance of common stock			7,274,200	72,742	134,115,399				134,188,141
Stock based compensation							207,007		207,007
Distributions common stock						(8,530,838)			(8,530,838)
Forfeited unvested restricted stock			(2,334)	(23)	(34,987)		35,010		
Adjustment to minority interest from increased ownership in ARLP					(4,954,145)				(4,954,145)
Net unrealized loss on securities held for sale								(1,363,554)	(1,363,554)
Net income						8,884,275			8,884,275
Balance June 30, 2004	3,146,724	$ 31,467	15,471,433	$ 154,715	$ 241,341,916	$ (338,428)	$ (279,116)	$ (1,363,554)	$ 239,547,000

See notes to consolidated financial statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended June 30, 2004
	(Unaudited)
Operating activities:	
Net income	$ 8,884,275
Adjustments to reconcile net income to cash provided by operating activities	
Stock based compensation	207,007
Minority interest	2,427,899
Amortization of premium on securities held for sale	123,960
Changes in operating assets and liabilities:	
Other assets	(4,107,310)
Other liabilities	10,318,715
Net cash provided by operating activities	17,854,546
Investing activities:	
Loans and investments originated and purchased, net	(406,282,504)
Payoffs and paydowns of loans and investments	63,935,648
Securities held for sale	(57,228,552)
Prepayments on securities held for sale	1,658,303
Investments in equity affiliates, net	(4,521,875)
Net cash used in investing activities	(402,438,980)
Financing activities:	
Proceeds from notes payable and repurchase agreements	345,270,649
Payoffs and paydowns of notes payable and repurchase agreements	(92,085,427)
Issuance of common stock	145,484,000
Offering expenses paid	(9,722,076)
Distributions paid to minority interest	(1,195,756)
Distributions paid on common stock	(3,115,836)
Net cash provided by financing activities	384,635,554
Net increase in cash	51,120
Cash at beginning of period	6,115,525
Cash at end of period	$ 6,166,645
Supplemental cash flow information:	
Cash used to pay interest	$ 5,679,753
Supplemental schedule of non-cash financing activities:	
Common stock dividends declared but not paid	$ 5,415,002
Distributions declared on operating partnership units	$ 1,101,353

Accrued offering expenses	$ 1,573,783

See notes to consolidated financial statements.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004
(Unaudited)

Note 1 Description of Business and Basis of Presentation

Arbor Realty Trust, Inc. (the Company) is a Maryland corporation that was formed in June 2003 to invest in real estate related bridge and mezzanine loans, preferred equity and, in limited cases, mortgage backed securities, discounted mortgage notes and other real estate related assets. The Company has not invested in any discounted mortgage notes for the period presented. The Company conducts substantially all of its operations through its operating partnership, Arbor Realty Limited Partnership (ARLP).

On April 13, 2004 the Company sold 6,750,000 shares of its common stock in a public offering at a price to the public of $20.00 per share, for net proceeds of approximately $124.4 million after deducting the underwriting discount and the other estimated offering expenses. The Company used the proceeds to pay down indebtedness. After giving effect to this offering, the Company had 14,949,567 shares of common stock outstanding. In addition, on May 6, 2004, the underwriters exercised a portion of their over-allotment option, which resulted in the issuance of 524,200 additional shares on May 11, 2004. The Company received net proceeds of approximately $9.8 million after deducting the underwriting discount and the Company had 15,473,767 shares of common stock outstanding after giving effect to the exercise of the over-allotment. On June 11, 2004, 2,334 shares of unvested restricted stock were forfeited. After giving effect to this, the Company had 15,471,433 shares issued and outstanding.

The Company is organized and conducts its operations to qualify as a real estate investment trust (REIT) and to comply with the provisions of the Internal Revenue Code with respect thereto. A REIT is generally not subject to federal income tax on that portion of its REIT taxable income (Taxable Income) which is distributed to its stockholders, provided that at least 90% of Taxable Income is distributed and provided that certain other requirements are met.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and rule 10-01 of regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements, although management believes that the disclosures presented herein are adequate to make the information presented not misleading. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the financial statements and the related management s discussion and analysis of financial condition and results of operations included in the form S-11 of Arbor Realty Trust, Inc. (File No. #333-110472) for the period ended December 31, 2003. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2004 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2004.

Note 2 Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated interim financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated interim financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Table of Contents

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004
(Unaudited)

Note 2 Summary of Significant Accounting Policies (Continued)

Available-For-Sale Securities

The Company invests in agency-sponsored whole pool mortgage related securities. Pools of Federal National Mortgage Association, or FNMA, and Federal Home Loan Mortgage Corporation, or FHLMC, adjustable rate residential mortgage loans underlie these mortgage related securities. The Company will receive payments from the payments that are made on these underlying mortgage loans, which have a fixed rate of interest for three years and adjust annually thereafter. These securities are carried at their estimated fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income pursuant to SFAS No. 115 Accounting for certain Investments in Debt and Equity Securities. Unrealized losses other than temporary losses are recognized currently in income.

Revenue Recognition

Interest income available-for-sale securities Discounts or premiums are accreted into interest income on an effective yield or interest method over the remaining fixed rate term of the securities, adjusted for actual prepayment activity. Income is not accrued on non-performing securities; cash received on such securities is treated as income to the extent of interest previously accrued.

Recently Issued Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), which requires a variable interest entity (VIE) to be consolidated by its primary beneficiary (PB). The PB is the party that absorbs a majority of the VIE s anticipated losses and/or a majority of the expected returns.

In adopting FIN 46 and FIN 46-R, the Company has evaluated its loans and investments and investments in equity affiliates to determine whether they are VIE s. This evaluation resulted in the Company determining that its mezzanine loans, preferred equity investments and investments in equity affiliates were potential variable interests. For each of these investments, the Company has evaluated (1) the sufficiency of the fair value of the entities equity investments at risk to absorb losses, (2) that as a group the holders of the equity investments at risk have (a) the direct or indirect ability through voting rights to make decisions about the entities significant activities, (b) the obligation to absorb the expected losses of the entity and their obligations are not protected directly or indirectly, (c) the right to receive the expected residual return of the entity and their rights are not capped, (3) the voting rights of some of these investors are proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected returns of the equity, or both, and (4) that substantially all of the entities activities do not involve or are not conducted on behalf of an investor that has disproportionately few voting rights. For these investments the Company has determined that the entities have sufficient equity at risk and, accordingly, they are not VIE s. As such, the Company has continued to account for the mezzanine loans and preferred equity investments and investments in equity investments as a loan, joint venture or real estate, as appropriate.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004
(Unaudited)

Note 3 Loans and Investments

	June 30, 2004	December 31, 2003
Bridge loans	$268,240,737	$127,971,220
Mezzanine loans	329,401,012	124,210,000
Preferred equity investments	40,437,173	33,428,173
Other	1,948,985	1,967,867
	640,027,907	287,577,260
Unearned revenue	(2,639,344)	(1,540,650)
Loans and investments, net	$637,388,563	$286,036,610

Concentration of Borrower Risk

The Company is subject to concentration risk in that, as of June 30, 2004, the unpaid principal balance related to 18 loans with five unrelated borrowers represented approximately 37.8% of total assets. The Company had 55 loans and investments as of June 30, 2004.

Note 4 Available-For-Sale Securities

The following is a summary of the Company s available-for-sale securities at June 30, 2004.

	Amortized Cost	Gross Unrealized Loss	Estimated Fair Value
Federal Home Loan Mortgage Corporation, variable rate security, fixed rate of interest for three years at 3.797% and adjustable rate interest thereafter, due March 2034 (including unamortized premium of $592,345)	$24,593,951		