ARBOR REALTY TRUST INC
Form 10-Q
August 03, 2012
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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 June 30, 2012

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, Suite 900 **Uniondale, NY** (Address of principal executive offices)	**11553** (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 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 £

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 o	Accelerated filer x
Non-accelerated filer o (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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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: 27,749,225 outstanding (excluding 2,650,767 shares held in the treasury) as of August 3, 2012.

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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, 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 in our Annual Report on Form 10-K for the year ended December 31, 2011. 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 Significant Accounting Estimates and Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2011.

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.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

		June 30, 2012 (Unaudited)		December 31, 2011
Assets:				
Cash and cash equivalents	$	64,281,810	$	55,236,479
Restricted cash (includes $75,806,337 and $65,357,993 from consolidated VIEs, respectively)		77,691,781		67,326,530
Loans and investments, net (includes $1,041,040,686 and $1,093,893,014 from consolidated VIEs, respectively)		1,224,753,997		1,302,440,660
Available-for-sale securities, at fair value (includes $1,500,000 and $2,000,000 from consolidated VIEs, respectively)		3,864,552		4,276,368
Securities held-to-maturity, net (includes $734,515 and $742,602 from consolidated VIEs, respectively)		64,041,729		29,942,108
Investment in equity affiliates		60,097,517		60,450,064
Real estate owned, net (includes $83,099,540 and $83,099,540 from consolidated VIEs, respectively)		127,077,250		128,397,612
Real estate held-for-sale, net (includes $0 and $2,550,000 from consolidated VIEs, respectively)				62,084,412
Due from related party (includes $0 and $1,217 from consolidated VIEs, respectively)		206,568		656,290
Prepaid management fee related party		19,047,949		19,047,949
Other assets (includes $10,326,594 and $11,696,071 from consolidated VIEs, respectively)		49,906,372		46,855,858
Total assets	$	1,690,969,525	$	1,776,714,330
Liabilities and Equity:				
Repurchase agreements and credit facilities	$	127,297,594	$	76,105,000
Collateralized debt obligations (includes $910,206,205 and $1,002,615,393 from consolidated VIEs, respectively)		910,206,205		1,002,615,393
Junior subordinated notes to subsidiary trust issuing preferred securities		158,509,407		158,261,468
Notes payable		53,457,708		85,457,708
Mortgage note payable real estate owned		53,751,004		53,751,004
Mortgage notes payable held-for-sale				62,190,000
Due to related party		1,852,829		2,728,819
Due to borrowers (includes $639,644 and $740,809 from consolidated VIEs, respectively)		16,400,826		2,825,636
Deferred revenue		77,123,133		77,123,133
Other liabilities (includes $25,064,700 and $27,839,757 from consolidated VIEs, respectively)		79,978,223		82,595,636
Total liabilities		1,478,576,929		1,603,653,797
Commitments and contingencies				
Equity:				

Arbor Realty Trust, Inc. stockholders equity:				
Preferred stock, $0.01 par value: 100,000,000 shares authorized; no shares issued or outstanding				
Common stock, $0.01 par value: 500,000,000 shares authorized; 30,399,992 shares issued, 27,749,225 shares outstanding at June 30, 2012 and 26,778,737 shares issued, 24,298,140 shares outstanding at December 31, 2011		304,000		267,787
Additional paid-in capital		474,091,222		455,994,695
Treasury stock, at cost 2,650,767 shares at June 30, 2012 and 2,480,597 shares at December 31, 2011		(17,100,916)		(16,416,152)
Accumulated deficit		(203,130,388)		(221,015,880)
Accumulated other comprehensive loss		(43,704,083)		(47,704,045)
Total Arbor Realty Trust, Inc. stockholders equity		210,459,835		171,126,405
Noncontrolling interest in consolidated entity		1,932,761		1,934,128
Total equity		212,392,596		173,060,533
Total liabilities and equity	$	1,690,969,525	$	1,776,714,330

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Six Months Ended June 30, 2012 and 2011

(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest income	$ 19,502,713	$ 18,572,772	$ 39,109,120	$ 36,580,339
Interest expense	9,770,807	15,792,751	21,532,207	28,833,700
Net interest income	9,731,906	2,780,021	17,576,913	7,746,639
Other revenue:				
Property operating income	8,312,794	7,534,536	17,335,955	12,207,955
Other income	369,609	41,556	401,639	63,432
Total other revenue	8,682,403	7,576,092	17,737,594	12,271,387
Other expenses:				
Employee compensation and benefits	2,381,817	2,285,433	4,866,595	4,373,487
Selling and administrative	2,191,769	1,583,793	3,852,002	2,781,618
Property operating expenses	7,574,422	6,292,041	14,899,729	9,148,012
Depreciation and amortization	1,540,217	1,705,366	2,716,972	1,944,815
Provision for loan losses (net of recoveries)	7,945,453	7,560,263	15,734,861	8,095,398
Loss on sale and restructuring of loans				1,000,000
Management fee - related party	2,500,000	2,050,000	5,000,000	4,000,000
Total other expenses	24,133,678	21,476,896	47,070,159	31,343,330
Loss from continuing operations before gain on extinguishment of debt, (loss) income from equity affiliates and (provision) benefit for income taxes	(5,719,369)	(11,120,783)	(11,755,652)	(11,325,304)
Gain on extinguishment of debt	20,968,214	1,926,700	26,314,335	2,819,200
(Loss) income from equity affiliates	(224,136)	24,446	(474,710)	48,811
Income (loss) before (provision) benefit for income taxes	15,024,709	(9,169,637)	14,083,973	(8,457,293)
(Provision) benefit for income taxes	(600,000)		801,558	
Income (loss) from continuing operations	14,424,709	(9,169,637)	14,885,531	(8,457,293)
Loss on impairment of real estate held-for-sale		(750,000)		(750,000)
Gain on sale of real estate held-for-sale			3,487,145	
Income (loss) from operations of real estate held-for-sale	1,175,120	(381,220)	1,442,744	(772,719)
Income (loss) from discontinued operations	1,175,120	(1,131,220)	4,929,889	(1,522,719)
Net income (loss)	15,599,829	(10,300,857)	19,815,420	(9,980,012)
Net income attributable to noncontrolling interest	53,811	53,878	107,622	107,574
Net income (loss) attributable to Arbor Realty Trust, Inc.	$ 15,546,018	$ (10,354,735)	$ 19,707,798	$ (10,087,586)

Basic earnings (loss) per common share:				
Income (loss) from continuing operations, net of noncontrolling interest	$ 0.57	$ (0.37)	$ 0.60	$ (0.34)
Income (loss) from discontinued operations	0.05	(0.04)	0.20	(0.06)
Net income (loss) attributable to Arbor Realty Trust, Inc.	$ 0.62	$ (0.41)	$ 0.80	$ (0.40)
Diluted earnings (loss) per common share:				
Income (loss) from continuing operations, net of noncontrolling interest	$ 0.57	$ (0.37)	$ 0.59	$ (0.34)
Income (loss) from discontinued operations	0.05	(0.04)	0.20	(0.06)
Net income (loss) attributable to Arbor Realty Trust, Inc.	$ 0.62	$ (0.41)	$ 0.79	$ (0.40)
Dividends declared per common share	$ .075	$	$ .075	$
Weighted average number of shares of common stock outstanding:				
Basic	24,977,879	25,440,380	24,579,022	25,202,248
Diluted	25,267,459	25,440,380	24,805,807	25,202,248

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Three and Six Months Ended June 30, 2012 and 2011

(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income (loss)	$ 15,599,829	$ (10,300,857)	$ 19,815,420	$ (9,980,012)
Unrealized (loss) gain on securities available-for-sale, net	(411,817)	(88,184)	(411,817)	970,605
Unrealized loss on derivative financial instruments, net	(3,468,402)	(9,026,549)	(4,734,869)	(8,403,199)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	3,950,019	7,126,716	9,146,648	14,417,682
Comprehensive income (loss)	15,669,629	(12,288,874)	23,815,382	(2,994,924)
Less:				
Comprehensive income attributable to noncontrolling interest	53,811	53,878	107,622	107,574
Comprehensive income (loss) attributable to Arbor Realty Trust, Inc.	$ 15,615,818	$ (12,342,752)	$ 23,707,760	$ (3,102,498)

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended June 30, 2012

(Unaudited)

	Common Stock Shares	**Common Stock Par Value**	**Additional Paid-in Capital**	**Treasury Stock Shares**	**Treasury Stock**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Total Arbor Realty Trust, Inc. Stockholders Equity**	**Non-controlling Interest**	**Total**
Balance January 1, 2012	26,778,737	$ 267,787	$ 455,994,695	(2,480,597)	$ (16,416,152)	$ (221,015,880)	$ (47,704,045)	$ 171,126,405	$ 1,934,128	$ 173,060
Issuance of common stock	3,500,000	35,000	17,455,500					17,490,500		17,490
Purchase of treasury stock				(170,170)	(684,764)			(684,764)		(684
Stock-based compensation	121,255	1,213	641,027					642,240		642
Distributions common stock						(1,818,691)		(1,818,691)		(1,818
Distributions preferred stock of private REIT						(3,615)		(3,615)		(3
Net income						19,707,798		19,707,798	107,622	19,815
Distribution to non-controlling interest									(108,989)	(108
Unrealized loss on securities available-for-sale, net							(411,817)	(411,817)		(411
Unrealized loss on derivative financial instruments, net							(4,734,869)	(4,734,869)		(4,734
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings							9,146,648	9,146,648		9,146
Balance June 30, 2012	30,399,992	$ 304,000	$ 474,091,222	(2,650,767)	$ (17,100,916)	$ (203,130,388)	$ (43,704,083)	$ 210,459,835	$ 1,932,761	$ 212,392

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2012 and 2011

(Unaudited)

	Six Months Ended June 30, 2012	2011
Operating activities:		
Net income (loss)	$ 19,815,420	$ (9,980,012)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	2,716,972	2,330,499
Stock-based compensation	578,190	
Gain on sale of real estate held-for-sale	(3,487,145)	
Reversal of liabilities related to discontinued operations	(1,175,120)	
Impairment loss on real estate held-for-sale		750,000
Gain on extinguishment of debt	(26,314,335)	(2,819,200)
Provision for loan losses (net of recoveries)	15,734,861	8,095,398
Loss on sale and restructuring of loans		1,000,000
Amortization and accretion of interest, fees and intangible assets, net	1,816,482	6,834,928
Change in fair value of non-qualifying swaps	718,788	557,842
Loss (income) from equity affiliates	474,710	(48,811)
Changes in operating assets and liabilities:		
Other assets	(4,216,312)	(1,255,270)
Distributions of operations from equity affiliates	48,851	48,811
Other liabilities	1,084,682	(2,265,131)
Change in restricted cash	83,093	(312,465)
Due to/from related party	(719,315)	(13,619,565)
Net cash provided by / (used in) operating activities	$ 7,159,822	$ (10,682,976)
Investing activities:		
Loans and investments funded, originated and purchased, net	(88,248,229)	(73,028,631)
Payoffs and paydowns of loans and investments	114,877,983	67,298,389
Proceeds from sale of loan	17,945,000	
Due to borrowers and reserves	(310,788)	(732,148)
Change in restricted cash		(1,050,000)
Deferred fees	1,441,138	1,429,610
Purchase of securities held-to-maturity, net	(60,792,951)	
Principal collection on securities held-to-maturity, net	26,650,036	
Investment in real estate, net	(1,749,552)	(385,636)
Proceeds from sale of and investment in real estate, net	24,131,557	2,629,138
Contributions to equity affiliates	(223,532)	
Distributions from equity affiliates	52,518	49,434
Net cash provided by / (used in) investing activities	$ 33,773,180	$ (3,789,844)
Financing activities:		
	86,330,470	30,800,000

Proceeds from repurchase agreements, loan participations, credit facilities and notes payable				
Paydowns and payoffs of repurchase agreements, notes payable and credit facilities		(35,137,876)		(990,997)
Payoff of mortgage note payable held-for-sale		(20,750,000)		(1,600,000)
Proceeds from collateralized debt obligations				2,357,959
Payoffs and paydowns of collateralized debt obligations		(65,723,348)		(31,693,684)
Change in restricted cash		(10,448,344)		(42,799,944)
Payments on financial instruments underlying linked transactions		(27,099,099)		
Receipts on financial instruments underlying linked transactions		24,293,352		
Payments on swaps to hedge counterparties		(2,600,000)		(9,670,000)
Receipts on swaps from hedge counterparties		3,740,000		9,810,000
Purchases of treasury stock		(684,764)		(155,997)
Distributions paid to noncontrolling interest		(108,989)		(172,365)
Proceeds from issuance of common stock		18,900,000		
Expenses paid on issuance of common stock		(1,175,746)		
Distributions paid on common stock		(1,818,691)		
Distributions paid on preferred stock of private REIT		(3,615)		(7,190)
Payment of deferred financing costs		398,979		(133,500)
Net cash used in financing activities	$	(31,887,671)	$	(44,255,718)
Net increase / (decrease) in cash and cash equivalents	$	9,045,331	$	(58,728,538)
Cash and cash equivalents at beginning of period		55,236,479		101,124,564
Cash and cash equivalents at end of period	$	64,281,810	$	42,396,026

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (*Continued*)

For the Six Months Ended June 30, 2012 and 2011

(Unaudited)

	Six Months Ended June 30, 2012		2011	
Supplemental cash flow information:				
Cash used to pay interest	$	18,064,143	$	21,364,179
Cash used for taxes	$	136,074	$	290,090
Supplemental schedule of non-cash investing and financing activities:				
Transfer of real estate held-for-sale to first lien holder	$	41,440,000	$	
Release of mortgage note payable held-for-sale	$	41,440,000	$	
Satisfaction of participation loan	$	32,000,000	$	
Retirement of participation liability	$	32,000,000	$	
Loans transferred to real estate owned, net	$		$	83,099,540
Assumption of mortgage notes payable real estate owned	$		$	55,351,004
Issuance of common stock for management incentive fee	$		$	3,974,882

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(Unaudited)

Note 1 Description of Business / Form of Ownership

Arbor Realty Trust, Inc. (the Company) is a Maryland corporation that was formed in June 2003 to invest in a diversified portfolio of multi-family and commercial real estate related assets, primarily consisting of bridge loans, mezzanine loans, junior participating interests in first mortgage loans, and preferred and direct equity. The Company may also directly acquire real property and invest in real estate-related notes and certain mortgage-related securities. The Company conducts substantially all of its operations through its operating partnership, Arbor Realty Limited Partnership (ARLP), and ARLP s wholly-owned subsidiaries. The Company is externally managed and advised by Arbor Commercial Mortgage, LLC (ACM).

The Company is organized and conducts its operations to qualify as a real estate investment trust (REIT) for federal income tax purposes. A REIT is generally not subject to federal income tax on its REIT taxable income that it distributes to its stockholders, provided that it distributes at least 90% of its REIT taxable income and meets certain other requirements. Certain assets of the Company that produce non-qualifying income are owned by its taxable REIT subsidiaries, the income of which is subject to federal and state income taxes.

The Company s charter provides for the issuance of up to 500 million shares of common stock, with a par value of $0.01 per share, and 100 million shares of preferred stock, with a par value of $0.01 per share. The Company was incorporated in June 2003 and was initially capitalized through the sale of 67 shares of common stock for $1,005.

On July 1, 2003, ACM contributed $213.1 million of structured finance assets and $169.2 million of borrowings supported by $43.9 million of equity in exchange for a commensurate equity ownership in ARLP. In addition, certain employees of ACM were transferred to ARLP. At that time, these assets, liabilities and employees represented a substantial portion of ACM s structured finance business. The Company is externally managed and advised by ACM and pays ACM a management fee in accordance with a management agreement. ACM also sources originations, provides underwriting services, and services all structured finance assets on behalf of ARLP and its wholly owned subsidiaries.

On July 1, 2003, the Company completed a private equity offering of 1,610,000 units (including an overallotment option), each consisting of five shares of common stock and one warrant to purchase one share of common stock at $75.00 per unit. The Company sold 8,050,000 shares of common stock in the offering. Gross proceeds from the private equity offering totaled $120.2 million. Gross proceeds from the private equity offering combined with the concurrent equity contribution by ACM totaled approximately $164.1 million in equity capital. The Company paid and accrued offering expenses of $10.1 million resulting in Arbor Realty Trust, Inc. stockholders equity and noncontrolling interest of $154.0 million as a result of the private placement.

In April 2004, the Company sold 6,750,000 shares of its common stock in a public offering at a price of $20.00 per share, for net proceeds of approximately $124.4 million after deducting the underwriting discount and other offering expenses. The Company used the proceeds to pay down its indebtedness. In May 2004, the underwriters exercised a portion of their over-allotment option, which resulted in the issuance of 524,200 additional shares. The Company received net proceeds of approximately $9.8 million after deducting the underwriting discount. In October 2004, ARLP received proceeds of approximately $9.4 million from the exercise of warrants for 629,345 operating partnership units. Additionally, in 2004 and 2005, the Company issued 973,354 and 282,776 shares of common stock, respectively, from the exercise of warrants under its Warrant Agreement dated July 1, 2003 and received net proceeds of $12.9 million and $4.2 million, respectively.

In June 2007, the Company completed a public offering in which it sold 2,700,000 shares of its common stock registered for $27.65 per share, and received net proceeds of approximately $73.6 million after deducting the underwriting discount and other offering expenses. The Company used the proceeds to pay down debt and finance its loan and investment portfolio.

In June 2008, the Company s external manager exercised its right to redeem its approximate 3.8 million operating partnership units in the Company s operating partnership for shares of the Company s common stock on a

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(Unaudited)

one-for-one basis. In addition, the special voting preferred shares paired with each operating partnership unit, pursuant to a pairing agreement, were redeemed simultaneously and cancelled by the Company.

In June 2010, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended (the 1933 Act) with respect to an aggregate of $500.0 million of debt securities, common stock, preferred stock, depositary shares and warrants that may be sold by the Company from time to time pursuant to Rule 415 of the 1933 Act. On June 23, 2010, the SEC declared this shelf registration statement effective.

In June 2012, the Company completed a public offering in which it sold 3,500,000 shares of its common stock for $5.40 per share, and received net proceeds of approximately $17.5 million after deducting the underwriting discount and other offering expenses. The Company intends to use the net proceeds from the offering to make investments, to repurchase or pay liabilities and for general corporate purposes, which may include the repayment of indebtedness under its credit facilities. The underwriter did not exercise its over-allotment option for additional shares which expired in July 2012 and $481.1 million currently remains available under the shelf registration.

The Company had 27,749,225 shares of common stock outstanding at June 30, 2012 and 24,298,140 shares of common stock outstanding at December 31, 2011.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification , the authoritative reference for accounting principles generally accepted in the United States (GAAP), for interim financial statements 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 GAAP for complete financial statements, although management believes that the disclosures presented herein are adequate to prevent the accompanying unaudited consolidated interim financial statements presented from being misleading.

The accompanying unaudited consolidated financial statements include the financial statements of the Company, its wholly owned subsidiaries, partnerships or other joint ventures in which the Company owns a voting interest of greater than 50 percent, and Variable Interest Entities (VIEs) of which the Company is the primary beneficiary. VIEs are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, which is the party that (i) has the power to control the activities that most significantly impact the VIE s economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Current accounting guidance requires the Company to present a) assets of a consolidated VIE that can be used only to settle obligations of the consolidated VIE, and b) liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary. As a result of this guidance, the Company has separately disclosed parenthetically the assets and liabilities of its three collateralized debt obligation (CDO) subsidiaries on its Consolidated Balance Sheets. Entities in which the Company owns a voting interest of 20 percent to 50 percent are accounted for primarily under the equity method.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. All significant inter-company transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current period presentation. During the third and fourth quarters of 2011, the Company reclassified two real estate investments from real estate owned to real estate held-for-sale, resulting in a reclassification of the operating activity from property operating income and expenses as well as impairment loss to discontinued operations for all prior periods

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presented. Also, comprehensive income has been presented in a separate Statement of Comprehensive Income and is no longer presented on the Statement of Changes in Stockholders Equity.

The preparation of consolidated interim financial statements in conformity with GAAP 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. Further, in connection with the preparation of the consolidated interim financial statements, the Company evaluated events subsequent to the balance sheet date of June 30, 2012 through the issuance of the Consolidated Financial Statements.

The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2012. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the Company s audited consolidated annual financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Company places its cash and cash equivalents in high quality financial institutions. The consolidated account balances at each institution periodically exceed Federal Deposit Insurance Corporation (FDIC) insurance coverage and the Company believes that this risk is not significant.

Restricted Cash

At June 30, 2012 and December 31, 2011, the Company had restricted cash of $77.7 million and $67.3 million, respectively. Restricted cash primarily represents proceeds from loan repayments on deposit with the trustees for the Company s CDOs which will be used for principal repayments, unfunded loan commitments and interest payments received from loans. As of January 2012, all three of the CDOs have reached their replenishment dates and principal repayments are remitted quarterly to the bond holders and the Company in the month following the quarter. See Note 7 Debt Obligations. The Company s real estate owned assets also have restricted cash balances totaling $1.9 million and $2.0 million as of June 30, 2012 and December 31, 2011, respectively, due to escrow requirements. See Note 6 Real Estate Owned and Held-For-Sale.

Loans, Investments and Securities

At the time of purchase, the Company designates a security as available-for-sale, held-to-maturity, or trading depending on the Company s ability and intent to hold it to maturity. The Company does not have any securities designated as trading as of June 30, 2012. Securities available-for-sale are reported at fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive loss, while securities held-to-maturity are reported at amortized cost. Unrealized losses that are determined to be other-than-temporary are recognized in earnings up to their credit component. The determination of other-than-temporary impairment is a subjective process requiring judgments and assumptions. The process may include, but is not limited to, assessment of recent market events and prospects for near-term recovery, assessment of cash flows, internal review of the underlying assets securing the investments, credit of the issuer and the rating of the security, as well as the Company s ability and intent to hold the investment to maturity. Management closely monitors market conditions on which it bases such decisions.

The Company also assesses certain of its securities, other than those of high credit quality, to determine whether significant changes in estimated cash flows or unrealized losses on these securities, if any, reflect a decline in value which is other-than-temporary and, accordingly, should be written down to their fair value against earnings. On a quarterly basis, the Company reviews these changes in estimated cash flows, which could occur due to actual prepayment and credit loss experience, to determine if an other-than-temporary impairment is deemed to have occurred. The determination of other-than-temporary impairment is a subjective process requiring judgments and

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assumptions and is not necessarily intended to indicate a permanent decline in value. The Company calculates a revised yield based on the current amortized cost of the investment, including any other-than-temporary impairments recognized to date, and the revised yield is then applied prospectively to recognize interest income.

Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and net of the allowance for loan losses when such loan or investment is deemed to be impaired. The Company invests in preferred equity interests that, in some cases, allow the Company to participate in a percentage of the underlying property s cash flows from operations and proceeds from a sale or refinancing. At the inception of each such investment, management must determine whether such investment should be accounted for as a loan, joint venture or as real estate. To date, management has determined that all such investments are properly accounted for and reported as loans.

From time to time the Company may enter into an agreement to sell a loan. These loans are considered held-for-sale and are valued at the lower of the loan s carrying amount or fair value less costs to sell. For the sale of loans, recognition occurs when ownership passes to the buyer.

Impaired Loans, Allowance for Loan Losses, Loss on Sale and Restructuring of Loans and Charge-offs

The Company considers a loan impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. The Company evaluates each loan in its portfolio on a quarterly basis. The Company s loans are individually specific and unique as it relates to product type, geographic location, and collateral type, as well as to the rights and remedies and the position in the capital structure the Company s loans and investments have in relation to the underlying collateral. The Company evaluates all of this information as well as general market trends related to specific classes of assets, collateral type and geographic locations, when determining the appropriate assumptions such as capitalization and market discount rates, as well as the borrower s operating income and cash flows, in estimating the value of the underlying collateral when determining if a loan is impaired. The Company utilizes internally developed valuation models and techniques primarily consisting of discounted cash flow and direct capitalization models in determining the fair value of the underlying collateral on an individual loan. The Company may also obtain a third party appraisal, which may value the collateral through an as-is or stabilized value methodology. Such appraisals may be used as an additional source of valuation information only and no adjustments are made to appraisals. Included in the evaluation of the capitalization and market discount rates, the Company considers not only assumptions specific to the collateral but also considers geographical and industry trends that could impact the collateral s value.

If upon completion of the valuation, the fair value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, an allowance is created with a corresponding charge to the provision for loan losses. The allowance for each loan is maintained at a level that is believed to be adequate by management to absorb probable losses. The Company had an allowance for loan losses of $188.3 million relating to 20 loans with an aggregate carrying value, before loan loss reserves, of approximately $271.7 million at June 30, 2012 and $185.4 million in allowance for loan losses relating to 24 loans with an aggregate carrying value, before loan loss reserves, of approximately $282.9 million at December 31, 2011.

Loan terms may be modified if the Company determines that based on the individual circumstances of a loan and the underlying collateral, a modification would more likely increase the total recovery of the combined principal and interest from the loan. Any loan modification is predicated upon a goal of maximizing the collection of the loan. Typical triggers for a modification would include situations where the projected cash flow is insufficient to cover required debt service, when asset performance is lagging the initial projections, where there is a requirement for rebalancing, where there is an impending maturity of the loan, and where there is an actual loan default. Loan terms that have been modified have included, but are not limited to interest rate, maturity date and in certain cases, principal amount. Length and amounts of each modification have varied based on individual circumstances and are determined on a case by case basis. If the loan modification constitutes a concession whereas the Company does not receive ample consideration in return for the modification, and the borrower is experiencing financial difficulties and cannot repay the loan under the current terms, then the modification is considered by the

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Company to be a troubled debt restructuring. If the Company receives a benefit, either monetary or strategic, and the above criteria are not met, the modification is not considered to be a troubled debt restructuring.

The Company records interest on modified loans on an accrual basis to the extent that the modified loan is contractually current. To date, the Company has not recorded interest income on a modified loan where the Company has not subsequently received the cash.

Loss on restructured loans is recorded when the Company has granted a concession to a borrower in the form of principal forgiveness related to a payoff or the substitution or addition of a new debtor for the original borrower or when the Company incurs costs on behalf of the borrower related to the modification, payoff or the substitution or addition of a new debtor for the original borrower. When a loan is restructured, the Company records its investment at net realizable value, taking into account the cost of all concessions at the date of restructuring. The reduction in the recorded investment is recorded as a charge to the Consolidated Statement of Operations in the period in which the loan is restructured. In addition, a gain or loss may be recorded upon the sale of a loan to a third party as a charge to the Consolidated Statement of Operations in the period in which the loan was sold. No loss on sale and restructuring of loans was recorded for the six months ended June 30, 2012. The Company recorded loss on sale and restructuring of loans of $1.0 million for the six months ended June 30, 2011 as a result of the execution of a forbearance agreement in the first quarter of 2011 on a loan modified in the second quarter of 2011.

Charge-offs to the allowance for loan losses occur when losses are confirmed through the receipt of cash or other consideration from the completion of a sale; when a modification or restructuring takes place in which the Company grants a concession to a borrower or agrees to a discount in full or partial satisfaction of the loan; when the Company takes ownership and control of the underlying collateral in full satisfaction of the loan; when loans are reclassified as other investments; or when significant collection efforts have ceased and it is highly likely that a loss has been realized. For the six months ended June 30, 2012 and 2011, the Company recorded charge-offs to the allowance for loan losses of $12.8 million and $42.4 million, respectively.

Real Estate Owned and Held-For-Sale

Real estate owned, shown net of accumulated depreciation and impairment charges, is comprised of real property acquired by foreclosure or through partial or full settlement of mortgage debt. The real estate acquired is recorded at the estimated fair value at the time of acquisition.

Costs incurred in connection with the foreclosure of the properties collateralizing the real estate loans are expensed as incurred and costs subsequently incurred to extend the life or improve the assets subsequent to foreclosure are capitalized.

The Company allocates the purchase price of operating properties to land, building, tenant improvements, deferred lease cost for the origination costs of the in-place leases, intangibles for the value of the above or below market leases at fair value and to any other identified intangible assets or liabilities. The Company finalizes its purchase price allocation on these assets within one year of the acquisition date. The Company amortizes the value allocated to the in-place leases over the remaining lease term. The value allocated to the above or below market leases are amortized over the remaining lease term as an adjustment to rental income.

Real estate assets, including assets acquired by foreclosure or through partial or full settlement of mortgage debt, that are operated for the production of income are depreciated using the straight-line method over their estimated useful lives. Ordinary repairs and maintenance which are not reimbursed by the tenants are expensed as incurred. Major replacements and betterments which improve or extend the life of the asset are capitalized and depreciated over their estimated useful life.

The Company s properties are individually reviewed for impairment each quarter, if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. The Company recognizes impairment if the undiscounted estimated cash flows to be generated by the assets are less than the carrying amount of those assets. Measurement of impairment is based upon the estimated fair value of the asset.

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Upon evaluating a property for impairment, many factors are considered, including estimated current and expected operating cash flows from the property during the projected holding period, costs necessary to extend the life or improve the asset, expected capitalization rates, projected stabilized net operating income, selling costs, and the ability to hold and dispose of such real estate owned in the ordinary course of business. Valuation adjustments may be necessary in the event that effective interest rates, rent-up periods, future economic conditions, and other relevant factors vary significantly from those assumed in valuing the property. If future evaluations result in a diminution in the value of the property, the reduction will be recognized as an impairment charge at that time.

Real estate is classified as held-for-sale when management commits to a plan of sale, the asset is available for immediate sale, there is an active program to locate a buyer, and it is probable the sale will be completed within one year. Properties classified as held-for-sale are not depreciated and the results of their operations are shown in discontinued operations. Real estate assets that are expected to be disposed of are valued, on an individual asset basis, at the lower of their carrying amount or their fair value less costs to sell.

The Company recognizes sales of real estate properties upon closing. Payments received from purchasers prior to closing are recorded as deposits. Profit on real estate sold is recognized upon closing using the full accrual method when the collectability of the sale price is reasonably assured and the Company is not obligated to perform significant activities after the sale. Profit may be deferred in whole or in part until collectability of the sales price is reasonably assured and the earnings process is complete.

Revenue Recognition

Interest income Interest income is recognized on the accrual basis as it is earned from loans, investments, and securities. In certain instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, a prepayment fee and/or deferred interest upon maturity. In some cases, interest income may also include the amortization or accretion of premiums and discounts arising from the purchase or origination of the loan or security. This additional income, net of any direct loan origination costs incurred, is deferred and accreted into interest income on an effective yield or interest method adjusted for actual prepayment activity over the life of the related loan or security as a yield adjustment. Income recognition is suspended for loans when, in the opinion of management, a full recovery of all contractual principal is not probable. Income recognition is resumed when the loan becomes contractually current and performance is resumed. The Company records interest income on certain impaired loans to the extent cash is received, in which a loan loss reserve has been recorded, as the borrower continues to make interest payments. The Company recorded loan loss reserves related to these loans as it was deemed that full recovery of principal and interest was not probable.

Several of the Company s loans provide for accrual of interest at specified rates, which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management s determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the borrower. If management cannot make this determination, interest income above the current pay rate is recognized only upon actual receipt. The Company currently has no loans in its portfolio accruing such interest. Therefore, interest income is recorded on all of the Company s loans and investments only to the extent that the current pay rate is received.

Given the transitional nature of some of the Company s real estate loans, the Company may require funds to be placed into an interest reserve, based on contractual requirements, to cover debt service costs. The Company will analyze these interest reserves on a periodic basis and determine if any additional interest reserves are needed. Recognition of income on loans with funded interest reserves are accounted for in the same manner as loans without funded interest reserves. The Company will not recognize any interest income on loans in which the borrower has failed to make the contractual interest payment due or has not replenished the interest reserve account. As of June 30, 2012, the Company had total interest reserves of $7.2 million on 38 loans with an aggregate unpaid principal balance of $487.7 million and had three non-performing loans with an aggregate unpaid principal balance of $38.4 million with a funded interest reserve of $0.1 million. Income from non-performing loans is generally recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced.

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Additionally, interest income is recorded when earned from equity participation interests, referred to as equity kickers. These equity kickers have the potential to generate additional revenues to the Company as a result of excess cash flow distributions and/or as appreciated properties are sold or refinanced. The Company did not record interest income from such investments for the three and six month periods ended June 30, 2012 and 2011.

Property operating income   Property operating income represents income associated with the operations of commercial real estate properties classified as real estate owned. The Company recognizes revenue for these activities when the fees are fixed or determinable, or are evidenced by an arrangement, collection is reasonably assured and the services under the arrangement have been provided. For the three and six months ended June 30, 2012, the Company recorded approximately $8.3 million and $17.3 million, respectively, of property operating income relating to its real estate owned properties, as compared to approximately $7.5 million and $12.2 million, respectively, for the three and six months ended June 30, 2011. As of June 30, 2012 and 2011, the Company had two real estate owned properties, a portfolio of multifamily assets that was purchased by the Company out of bankruptcy and a portfolio of hotel assets that was transferred to the Company by the owner, a creditor trust. Both of these portfolios were acquired in the first quarter of 2011. Additionally, real estate investments were reclassified from real estate owned to real estate held-for-sale in 2011, resulting in the reclassification of all of the operating activity from these properties from property operating income and expenses into discontinued operations for all prior periods. See Note 6   Real Estate Owned and Held-For-Sale   for further details.

Other income   Other income represents net interest income and gains and losses recorded on the Company   s linked transactions, as well as loan structuring, defeasance, and miscellaneous asset management fees associated with the Company   s loans and investments portfolio. The Company recognizes these forms of income when the fees are fixed or determinable, are evidenced by an arrangement, collection is reasonably assured and the services under the arrangement have been provided.

Investment in Equity Affiliates

The Company invests in joint ventures that are formed to acquire, develop, and/or sell real estate assets. These joint ventures are not majority owned or controlled by the Company, or are VIEs for which the Company is not the primary beneficiary, and are not consolidated in its financial statements. These investments are recorded under either the equity or cost method of accounting as deemed appropriate. The Company records its share of the net income and losses from the underlying properties of its equity method investments and any other-than-temporary impairment on these investments on a single line item in the Consolidated Statements of Operations as income or losses from equity affiliates.

Stock-Based Compensation

The Company has granted certain of its employees, directors, and employees of ACM, stock awards consisting of shares of the Company s common stock that vest immediately or annually over a multi-year period, subject to the recipient s continued service to the Company. The Company records stock-based compensation expense at the grant date fair value of the related stock-based award with subsequent remeasurement for any unvested shares granted to non-employees of the Company with such amounts expensed against earnings, at the grant date (for the portion that vests immediately) or ratably over the respective vesting periods. Dividends are paid on restricted stock as dividends are paid on shares of the Company s common stock whether or not they are vested. Stock-based compensation is disclosed in the Company s Consolidated Statements of Operations under employee compensation and benefits for employees and under selling and administrative expense for non-employees.

Income Taxes

The Company is organized and conducts its operations to qualify as a 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 taxable income which is distributed to its stockholders, provided that the Company distributes at least 90% of its taxable income and meets certain other requirements. Certain REIT income may be subject to state and local

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income taxes. The Company s assets or operations that would not otherwise comply with the REIT requirements, are owned or conducted by the Company s taxable REIT subsidiaries, the income of which is subject to federal and state income tax. Under current federal tax law, the income and the tax on such income attributable to certain debt extinguishment transactions realized in 2009 and 2010 have been deferred to future periods at the Company s election.

Current accounting guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements. This guidance 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. This guidance also provides clarity on derecognition, classification, interest and penalties, accounting in interim periods and disclosure.

Other Comprehensive Income / (Loss)

The Company divides comprehensive income or loss into net income (loss) and other comprehensive income (loss), which includes unrealized gains and losses on available-for-sale securities. In addition, to the extent the Company s derivative instruments qualify as hedges, net unrealized gains or losses are reported as a component of accumulated other comprehensive income (loss). See Derivatives and Hedging Activities below. At June 30, 2012, accumulated other comprehensive loss was $43.7 million and consisted of $44.4 million of net unrealized losses on derivatives designated as qualifying hedging instruments and a $0.7 million unrealized gain related to available-for-sale securities. At December 31, 2011, accumulated other comprehensive loss was $47.7 million and consisted of $48.8 million of net unrealized losses on derivatives designated as cash flow hedges and a $1.1 million unrealized gain related to available-for-sale securities.

Hedging Activities and Derivatives

Hedging Activities

The Company recognizes all derivatives as either assets or liabilities at fair value and these amounts are recorded in other assets or other liabilities in the Consolidated Balance Sheets. Additionally, the fair value adjustments will affect either accumulated other comprehensive income (loss) until the hedged item is recognized in earnings, or net income (loss) depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. The Company uses derivatives for hedging purposes rather than speculation. The Company utilizes quotations from a third party to assist in the determination of these fair values.

Derivatives

The Company records all derivatives in the Consolidated Balance Sheets 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. 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 risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In the normal course of business, the Company may use a variety of derivative financial instruments to manage, or hedge, interest rate risk. These derivative financial instruments must be effective in reducing its interest rate risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are

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modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income (loss) for each period until the derivative instrument matures or is settled. Any derivative instrument used for risk management that does not meet the hedging criteria is marked-to-market with the changes in value included in net income (loss). In cases where a derivative financial instrument is terminated early, any gain or loss is generally amortized over the remaining life of the hedged item.

In certain circumstances, the Company may finance the purchase of RMBS investments through a repurchase agreement with the same counterparty which may qualify as a linked transaction. If both transactions are entered into contemporaneously or in contemplation of each other, the transactions are presumed to be linked transactions unless certain criteria are met, and the Company accounts for the purchase of such securities and the repurchase agreement on a combined basis as a forward contract derivative at fair value which is reported in other assets on the Consolidated Balance Sheet with changes in the fair value of the assets and liabilities underlying linked transactions and associated interest income and expense reported in other income on the Consolidated Statement of Operations. The analysis of transactions under these rules requires management s judgment and experience. See Note 8 Derivative Financial Instruments for further details.

Variable Interest Entities

The Company has evaluated its loans and investments, mortgage related securities, investments in equity affiliates, junior subordinated notes and CDOs, in order to determine if they qualify as VIEs or as variable interests in VIEs. This evaluation resulted in the Company determining that its bridge loans, junior participation loans, mezzanine loans, preferred equity investments, investments in equity affiliates, junior subordinated notes, CDOs, and investments in debt securities were potential VIEs or variable interests in VIEs. A VIE is defined as an entity in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, which is defined as the party that (i) has the power to control the activities that most significantly impact the VIE s economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. See Note 9 Variable Interest Entities for further details.

Recently Issued Accounting Pronouncements

In December 2011, the FASB issued updated guidance on disclosure about offsetting assets and liabilities which amends U.S. GAAP to conform more to the disclosure requirements of International Financial Reporting Standards (IFRS). This guidance is effective as of the first quarter of 2013 and the Company is currently evaluating the impact it may have on its financial disclosure.

In June 2011, the FASB issued updated guidance on comprehensive income which amends U.S. GAAP to conform to IFRS disclosure requirements. The amendment eliminates the option to present components of other comprehensive income as part of the Statement of Changes in Stockholders Equity and requires a separate Statement of Comprehensive Income or two consecutive statements in the Statement of Operations and in a separate Statement of Comprehensive Income. The guidance also requires the presentation of reclassification adjustments for each component of other comprehensive income on the face of the financial statements rather than in the notes to the financial statements. This guidance was effective as of the first quarter of 2012, except for the disclosure of reclassification adjustments which was postponed for re-deliberation by the FASB, and early adoption was permitted. The Company early adopted the guidance in the fourth quarter of 2011, with the exception of the disclosure of reclassification adjustments postponed for re-deliberation by the FASB. As the guidance only amends existing disclosure requirements, its adoption did not have a material effect on the Company s Consolidated Financial Statements.

In May 2011, the FASB issued updated guidance on fair value measurement which amends U.S. GAAP to conform to IFRS measurement and disclosure requirements. The guidance amends certain fair value measurement principles and enhances disclosure requirements by requiring a description of the process for valuing items categorized as Level 3 in the fair value hierarchy, quantitative disclosure of unobservable inputs used to make these

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measurements and, in certain cases, the sensitivity of the measurements to changes in these inputs. This guidance was effective as of the first quarter of 2012, applied prospectively, and its adoption did not have a material effect on the Company s Consolidated Financial Statements.

In April 2011, the FASB issued updated guidance on the transfer of financial assets which primarily removes certain criteria from the consideration of effective control over assets subject to repurchase agreements when determining the recognition of a sale. The removal of these criteria will generally result in the assets transferred pursuant to the repurchase agreement being accounted for as a secured borrowing, with both the transferred asset and repurchase liability recorded on the transferor s balance sheet. This guidance was effective as of the first quarter of 2012, applied prospectively to transactions which occur subsequent to the effective date, and its adoption did not have a material effect on the Company s Consolidated Financial Statements.

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Note 3 Loans and Investments

The following table sets forth the composition of the Company s loan and investment portfolio at June 30, 2012 and December 31, 2011:

	June 30, 2012	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (1)	Wtd. Avg. Remaining Months to Maturity	First Dollar LTV Ratio (2)	Last Dollar LTV Ratio (3)
Bridge loans	$ 937,421,556	66%	72	5.08%	29.5	0%	78%
Mezzanine loans	128,048,514	9%	25	4.15%	36.3	72%	93%
Junior participation loans	280,788,217	20%	9	3.96%	33.4	59%	80%
Preferred equity investments	80,940,628	5%	12	3.72%	92.8	90%	98%
	1,427,198,915	100%	118	4.70%	34.5	23%	82%
Unearned revenue	(14,128,003)						
Allowance for loan losses	(188,316,915)						
Loans and investments, net	$ 1,224,753,997						

	December 31, 2011	Percent of Total	Loan Count	Wtd. Avg. Pay Rate (1)	Wtd. Avg. Remaining Months to Maturity	First Dollar LTV Ratio (2)	Last Dollar LTV Ratio (3)
Bridge loans	$ 933,033,598	62%	66	4.88%	29.6	0%	80%
Mezzanine loans	187,663,976	12%	27	4.25%	31.7	79%	96%
Junior participation loans	280,945,639	19%	9	3.99%	36.3	60%	81%
Preferred equity investments	100,751,231	7%	17	4.18%	89.0	89%	97%
	1,502,394,444	100%	119	4.59%	35.1	27%	84%
Unearned revenue	(14,571,929)						
Allowance for loan losses	(185,381,855)						
Loans and investments, net	$ 1,302,440,660						

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(1) Weighted Average Pay Rate is a weighted average, based on the unpaid principal balances of each loan in the Company s portfolio, of the interest rate that is required to be paid monthly as stated in the individual loan agreements. Certain loans and investments that require an additional rate of interest Accrual Rate to be paid at the maturity are not included in the weighted average pay rate as shown in the table. At June 30, 2012 and December 31, 2011 the Company had no such loans in its portfolio that were currently accruing such interest.

(2) The First Dollar LTV Ratio is calculated by comparing the total of the Company s senior most dollar and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which the Company will absorb a total loss of its position.

(3) The Last Dollar LTV Ratio is calculated by comparing the total of the carrying value of the Company s loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which the Company will initially absorb a loss.

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Concentration of Credit Risk

The Company operates in one portfolio segment, commercial mortgage loans and investments. Commercial mortgage loans and investments can potentially subject the Company to concentrations of credit risk. The Company is subject to concentration risk in that, as of June 30, 2012, the unpaid principal balance related to 22 loans with five unrelated borrowers represented approximately 29% of total assets. At December 31, 2011 the unpaid principal balance related to 21 loans with five different borrowers represented approximately 26% of total assets. As of June 30, 2012 and December 31, 2011, the Company had 118 and 119 loans and investments, respectively.

As a result of the loan review process, the Company identified loans and investments that it considers higher-risk loans that had a carrying value, before loan loss reserves, of approximately $269.9 million and a weighted average last dollar loan-to-value (LTV) ratio of 93%, compared to lower-risk loans with a carrying value, before loan loss reserves, of $1.1 billion and a weighted average last dollar LTV ratio of 79% at June 30, 2012.

The Company measures its relative loss position for its mezzanine loans, junior participation loans, and preferred equity investments by determining the point where the Company will be exposed to losses based on its position in the capital stack as compared to the fair value of the underlying collateral. The Company determines its loss position on both a first dollar LTV and a last dollar LTV basis. First dollar LTV is calculated by comparing the total of the Company s senior most dollar and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which the Company will absorb a total loss of its position. Last dollar LTV is calculated by comparing the total of the carrying value of the Company s loan and all senior lien positions within the capital stack to the fair value of the underlying collateral to determine the point at which the Company will initially absorb a loss.

As a component of the Company s policies and procedures for loan valuation and risk assessment, each loan and investment is assigned a credit risk rating. Individual ratings range from one to five, with one being the lowest risk and five being the highest. Each credit risk rating has benchmark guidelines which pertain to debt-service coverage ratios, LTV ratios, borrower strength, asset quality, and funded cash reserves. Other factors such as guarantees, market strength, remaining loan term, and borrower equity are also reviewed and factored into determining the credit risk rating assigned to each loan. This metric provides a helpful snapshot of portfolio quality and credit risk. Given the Company s asset management approach, however, the risk rating process does not result in differing levels of diligence contingent upon credit rating. That is because all portfolio assets are subject to the level of scrutiny and ongoing analysis consistent with that of a high-risk loan. All assets are subject to, at minimum, a thorough quarterly financial evaluation in which historical operating performance is reviewed, and forward-looking projections are created. Generally speaking, given the Company s typical loan and investment profile, a risk rating of three suggests that the Company expects the loan to make both principal and interest payments according to the contractual terms of the loan agreement, and is not considered impaired. A risk rating of four indicates the Company anticipates that the loan will require a modification of some kind. A risk rating of five indicates the Company expects the loan to underperform over its term, and that there could be loss of interest and/or principal. Ratings of 3.5 and 4.5 generally indicate loans that have characteristics of both the immediately higher and lower classifications. Further, while the above are the primary guidelines used in determining a certain risk rating, subjective items such as borrower strength, condition of the market of the underlying collateral, additional collateral or other credit enhancements, or loan terms, may result in a rating that is higher or lower than might be indicated by any risk rating matrix.

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A summary of the loan portfolio s weighted average internal risk ratings and LTV ratios by asset class as of June 30, 2012 and December 31, 2011 is as follows:

	As of June 30, 2012				
Asset Class	**Unpaid Principal Balance**	**Percentage of Portfolio**	**Wtd. Avg. Internal Risk Rating**	**First Dollar LTV Ratio**	**Last Dollar LTV Ratio**
Multi-family	$ 643,113,682	45.1%	3.4	21%	82%
Office	438,738,341	30.7%	3.2	30%	80%
Land	138,722,462	9.7%	4.2	0%	88%
Hotel	135,989,533	9.5%	3.8	43%	85%
Commercial	23,584,897	1.7%	3.0	0%	73%
Retail	21,050,000	1.5%	2.9	0%	67%
Condo	26,000,000	1.8%	4.2	36%	67%
Total	$ 1,427,198,915	100.0%	3.4	23%	82%

	As of December 31, 2011				
Asset Class	**Unpaid Principal Balance**	**Percentage of Portfolio**	**Wtd. Avg. Internal Risk Rating**	**First Dollar LTV Ratio**	**Last Dollar LTV Ratio**
Multi-family	$ 673,570,720	44.8%	3.4	21%	82%
Office	497,422,786	33.1%	3.2	39%	83%
Land	136,110,014	9.1%	4.2	0%	96%
Hotel	135,839,357	9.0%	3.8	46%	87%
Commercial	23,751,567	1.6%	3.0	0%	95%
Retail	21,050,000	1.4%	2.9	0%	66%
Condo	14,650,000	1.0%	3.9	64%	87%
Total	$ 1,502,394,444	100.0%	3.4	27%	84%

Geographic Concentration Risk

As of June 30, 2012, 36%, 11%, and 8% of the outstanding balance of the Company s loans and investments portfolio had underlying properties in New York, California, and Florida, respectively. As of December 31, 2011, 37%, 14%, and 7% of the outstanding balance of the Company s loans and investments portfolio had underlying properties in New York, California and Florida, respectively.

Impaired Loans and Allowance for Loan Losses

The Company performs evaluations of the loan portfolio quarterly to assess the performance of its loans and whether a reserve for impairment should be recorded. The Company considers a loan impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement.

During the three months ended June 30, 2012, the Company determined that the fair value of the underlying collateral securing one impaired loan with a carrying value of $20.6 million was less than the net carrying value of the loan, resulting in an $8.6 million provision for loan losses. As a result, combined with accumulated reserves in prior years, this loan was fully reserved as of June 30, 2012. During the six months ended June 30, 2012, the Company determined that the fair value of the underlying collateral securing three impaired loans with an aggregate carrying value of $55.4 million was less than the net carrying value of the loans, resulting in a $16.4 million provision for loan losses. In addition, during the three and six months ended June 30, 2012, the Company recorded $0.6 million and $0.7 million, respectively of net recoveries of previously recorded loan loss reserves. These recoveries were recorded in provision for loan losses on the Consolidated Statement of Operations. The effect of the recoveries resulted in a provision for loan losses, net of recoveries, of $8.0 million and $15.7 million for the three and six months ended June 30, 2012, respectively. Of the $8.6 million and $16.4 million of loan loss reserves recorded during the three and six months ended June 30, 2012, $8.6 million and $13.6 million, respectively, was attributable to a loan on which the Company had previously recorded reserves, while $2.8 million of reserves related to another loan in the Company s portfolio. The Company recorded an $11.4 million and $12.9 million provision for loan losses for the three and six months ended June 30, 2011, respectively, when it performed an evaluation of its loan portfolio and determined that the fair value of the underlying collateral securing three and

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six impaired loans, respectively, with an aggregate carrying value of $50.5 million and $72.3 million, respectively, were less than the net carrying value of the loans. In addition, during the three and six months ended June 30, 2011, the Company recorded $3.8 million and $4.8 million, respectively of net recoveries of previously recorded loan loss reserves. The effect of these recoveries resulted in a provision for loan losses, net of recoveries, of $7.6 million and $8.1 million for the three and six months ended June 30, 2011, respectively. There were no loans for which the value of the collateral securing the loan was less than the carrying value of the loan for which the Company had not recorded a provision for loan loss as of June 30, 2012.

At June 30, 2012, the Company had a total of 20 loans with an aggregate carrying value, before reserves, of $271.7 million for which impairment reserves have been recorded. At December 31, 2011, the Company had a total of 24 loans with an aggregate carrying value, before reserves, of $282.9 million for which impairment reserves have been recorded.

A summary of the changes in the allowance for loan losses is as follows:

	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
Allowance at beginning of the period	$ 185,381,855	$ 205,470,302
Provision for loan losses	16,396,064	12,900,000
Charge-offs	(12,763,663)	(10,724,862)
Charge-offs on loans reclassified to real estate owned, net		(31,710,929)
Recoveries of reserves	(697,341)	(4,703,146)
Allowance at end of the period	$ 188,316,915	$ 171,231,365

A summary of charge-offs and recoveries is as follows:

	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
Charge-offs:		
Multi-family	$ (6,951,004)	$ (21,971,114)
Office	(5,812,659)	(7,114,677)
Hotel		(13,350,000)
Total	$ (12,763,663)	$ (42,435,791)

Recoveries:				
Multi-family	$	(10,000)	$	(821,389)
Office		(687,341)		(3,881,757)
Total	$	(697,341)	$	(4,703,146)
Net Charge-offs	$	(12,066,322)	$	(37,732,645)
Ratio of net charge-offs during the period to average loans and investments outstanding during the period		0.8%		2.4%

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A summary of the Company s impaired loans by asset class is as follows:

	June 30, 2012			Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
Asset Class	**Unpaid Principal Balance**	**Carrying Value (1)**	**Allowance for Loan Losses**	**Average Recorded Investment (2)**	**Interest Income Recognized**	**Average Recorded Investment (2)**	**Interest Income Recognized**
Multi-family	$ 60,239,135	$ 60,153,645	$ 55,418,666	$ 61,930,906	$ 126,996	$ 63,717,216	$ 250,942
Office	38,468,158	33,330,074	28,637,794	41,755,321	387,241	41,785,210	812,136
Land	136,483,194	134,583,223	61,518,270	135,177,024		134,909,285	
Hotel	33,671,507	33,671,507	33,671,515	33,671,507	244,935	33,671,507	491,637
Condo	10,000,000	10,000,000	9,070,670	10,000,000	86,306	10,000,000	172,566
Total	$ 278,861,994	$ 271,738,449	$ 188,316,915	$ 282,534,758	$ 845,478	$ 284,083,218	$ 1,727,281

	December 31, 2011			Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
Asset Class	**Unpaid Principal Balance**	**Carrying Value (1)**	**Allowance for Loan Losses**	**Average Recorded Investment (2)**	**Interest Income Recognized**	**Average Recorded Investment (2)**	**Interest Income Recognized**
Multi-family	$ 67,195,296	$ 67,149,845	$ 57,379,670	$ 122,437,326	$ 381,302	$ 152,597,720	$ 1,287,009
Office	45,102,262	39,972,420	26,560,000	59,219,128	506,554	62,712,473	1,599,669
Land	133,335,376	132,142,122	58,700,000	130,255,660	8,622	130,255,661	16,978
Hotel	33,671,507	33,671,507	33,671,515	33,671,507	242,422	76,171,507	486,209
Condo	10,000,000	10,000,000	9,070,670	10,000,000	77,125	10,000,000	137,125
Total	$ 289,304,441	$ 282,935,894	$ 185,381,855	$ 355,583,621	$ 1,216,025	$ 431,737,361	$ 3,526,990

(1) Represents the unpaid principal balance of impaired loans less unearned revenue and other holdbacks and adjustments by asset class.

(2) Represents an average of the beginning and ending unpaid principal balance of each asset class.

During the quarter ended June 30, 2012, the Company wrote off two preferred equity investments with a total carrying value of $3.4 million and a mezzanine loan with a carrying value of $6.5 million and recorded charge-offs to previously recorded reserves totaling $9.2 million as well as a cash recovery of $0.7 million. During the quarter ended March 31, 2012, the Company wrote off two preferred equity investments with a total carrying value of $3.6 million and recorded charge-offs to previously recorded reserves totaling $3.6 million.

During the quarter ended June 30, 2011, the Company entered into a $32.0 million non-recourse junior loan participation, at a discount, on a mezzanine loan with an unpaid principal balance of $50.0 million. The Company received proceeds of $28.8 million and recorded a non-cash recovery of a previously recorded reserve of $3.2 million as well as a $3.2 million charge to interest expense as a result of the amortization of discount on the participation during the second quarter of 2011. In June 2012, the Company sold the $50.0 million mezzanine loan at par to the same third party for the remaining $18.0 million, which relieved the Company s $32.0 million junior loan participation liability. See Note 7 Debt Obligations. During the quarter ended March 31, 2011, the Company sold a mezzanine loan with a carrying value of $7.0 million, which had been fully reserved for in a prior period, for $0.2 million and wrote down a bridge loan with a carrying value of $44.5 million to $2.9 million, after principal paydowns of $38.0 million, and recorded charge-offs to previously recorded reserves of $10.4 million. The Company also charged-off $31.7 million of loan loss reserves related to two loans with carrying values totaling approximately $77.2 million, net of reserves and assumed debt, on properties that were transferred to the Company by the owner, a creditor trust as well as purchased by the Company out of bankruptcy and recorded to real estate owned, net on the Company s Consolidated Balance Sheet in the first quarter of 2011. See Note 6 Real Estate Owned and Held-For-Sale for further details. Loss on sale and restructuring of loans of $1.0 million was recorded during the six months ended June 30, 2011 as a result of the execution of a forbearance agreement on a loan modified in the second quarter of 2011.

As of June 30, 2012, eight loans with an aggregate net carrying value of approximately $15.2 million, net of related loan loss reserves of $31.1 million, were classified as non-performing, of which one loan with a carrying value of $1.4 million did not have a loan loss reserve. Income from non-performing loans is generally recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes

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contractually current and performance has recommenced. As of December 31, 2011, 12 loans with an aggregate net carrying value of approximately $15.3 million, net of related loan loss reserves of $42.6 million, were classified as non-performing, of which one loan with a carrying value of $1.4 million did not have a loan loss reserve.

A summary of the Company s non-performing loans by asset class as of June 30, 2012 and December 31, 2011 is as follows:

	As of June 30, 2012			As of December 31, 2011		
Asset Class	**Carrying Value**	**Less Than 90 Days Past Due**	**Greater Than 90 Days Past Due**	**Carrying Value**	**Less Than 90 Days Past Due**	**Greater Than 90 Days Past Due**
Multi-family	$ 7,350,404	$	$ 7,350,404	$ 14,328,862	$ 1,392,325	$ 12,936,537
Office	10,322,280	1,881,131	8,441,149	14,948,138	6,506,663	8,441,475
Land	24,999,972		24,999,972	24,999,972		24,999,972
Hotel	3,671,507		3,671,507	3,671,507		3,671,507
Total	$ 46,344,163	$ 1,881,131	$ 44,463,032	$ 57,948,479	$ 7,898,988	$ 50,049,491

At June 30, 2012, the Company did not have any loans contractually past due 90 days or more that are still accruing interest. During the quarter ended June 30, 2012, the Company refinanced and/or modified one loan with a unpaid principal balance of $8.4 million which was not considered by the Company to be a troubled debt restructuring. During the six months ended June 30, 2012, the Company refinanced and/or modified two loans with a combined unpaid principal balance $43.8 million loan which were not considered by the Company to be troubled debt restructurings. In addition, during the three and six months ended June 30, 2012, one loan with an unpaid principal balance of $35.0 million and two loans with a combined unpaid principal balance of $37.8 million, respectively, that were extended during the periods were considered to be a trouble debt restructurings. During the quarter ended June 30, 2011, the Company refinanced and/or modified three loans totaling $112.0 million, none of which were considered by the Company to be troubled debt restructurings. During the six months ended June 30, 2011, the Company refinanced and/or modified nine loans totaling $208.8 million, of which two loans totaling $17.2 million were considered by the Company to be troubled debt restructurings. In addition, the Company had unfunded commitments totaling $0.2 million on modified loans which were considered troubled debt restructurings as of June 30, 2011. The Company had no unfunded commitments on the modified loan which was considered a troubled debt restructuring as of June 30, 2012.

A summary of loan modifications and extensions by asset class that the Company considered to be troubled debt restructurings during the three and six months ended June 30, 2012 were as follows:

For the Three Months Ended June 30, 2012	For the Six Months Ended June 30, 2012

Asset Class	Number of Loans	Original Unpaid Principal Balance	Original Rate of Interest	Extended Unpaid Principal Balance	Extended Rate of Interest	Number of Loans	Original Unpaid Principal Balance	Original Weighted Average Rate of Interest	Modified Unpaid Principal Balance	Modified Weighted Average Rate of Interest
Land		$		$		1	$ 2,818,270		$ 2,818,270	
Hotel	1	35,000,000	2.00%	35,000,000	2.00%	1	35,000,000	2.00%	35,000,000	2.00%
Total	1	$ 35,000,000	2.00%	$ 35,000,000	2,00%	2	$ 37,818,270	1.85%	$ 37,818,270	1.85%

A summary of loan modifications and extensions by asset class that the Company considered to be troubled debt restructurings during the three and six months ended June 30, 2011 were as follows:

	For the Three Months Ended June 30, 2011					For the Six Months Ended June 30, 2011				
Asset Class	Number of Loans	Original Unpaid Principal Balance	Original Rate of Interest	Extended Unpaid Principal Balance	Extended Rate of Interest	Number of Loans	Original Unpaid Principal Balance	Original Weighted Average Rate of Interest	Modified Unpaid Principal Balance	Modified Weighted Average Rate of Interest
Multi-family		$		$		2	$ 17,209,370	2.26%	$ 17,211,171	2.83%

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There were no loans which the Company considered the modifications to be troubled debt restructurings that were subsequently considered non-performing as of June 30, 2012 and 2011 and no additional loans were considered to be impaired due to the Company s troubled debt restructuring analysis for the three and six months ended June 30, 2012 and 2011. These loans were modified to increase the total recovery of the combined principal and interest from the loan. Any loan modification is predicated upon a goal of maximizing the collection of the loan. Loan terms that have been modified have included, but are not limited to interest rate, maturity date and in certain cases, principal amount.

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Note 4 Securities

The following is a summary of the Company s securities classified as available-for-sale at June 30, 2012:

	Face Value	Amortized Cost	Cumulative Unrealized Gain	Carrying Value / Estimated Fair Value
Common equity securities	$	$ 58,789	$ 205,763	$ 264,552
Collateralized debt obligation (CDO) bond	10,000,000	1,000,000	500,000	1,500,000
Commercial mortgage-backed security (CMBS)	2,100,000	2,100,000		2,100,000
Total available-for-sale securities	$ 12,100,000	$ 3,158,789	$ 705,763	$ 3,864,552

The following is a summary of the Company s securities classified as available-for-sale at December 31, 2011:

	Face Value	Amortized Cost	Cumulative Unrealized Gain	Carrying Value / Estimated Fair Value
Common equity securities	$	$ 58,789	$ 117,579	$ 176,368
Collateralized debt obligation (CDO) bond	10,000,000	1,000,000	1,000,000	2,000,000
Commercial mortgage-backed security (CMBS)	2,100,000	2,100,000		2,100,000
Total available-for-sale securities	$ 12,100,000	$ 3,158,789	$ 1,117,579	$ 4,276,368

The following is a summary of the underlying credit rating of the Company s CDO bond and CMBS investments available-for-sale at June 30, 2012 and December 31, 2011:

	At June 30, 2012			At December 31, 2011		
Rating (1)	**#**	**Amortized Cost**	**Percent of Total**	**#**	**Amortized Cost**	**Percent of Total**
CCC-	2	$ 3,100,000	100%	2	$ 3,100,000	100%

(1) Based on the rating published by Standard & Poor s for each security.

The Company owns 2,939,465 shares of common stock of Realty Finance Corporation, formerly CBRE Realty Finance, Inc., a commercial real estate specialty finance company, which it purchased in 2007 for $16.7 million, and which had a fair value of $0.3 million at June 30, 2012. As of June 30, 2012, a net unrealized gain totaling $0.2 million was recorded in accumulated other comprehensive loss related to these securities.

The Company owns a CDO bond security, purchased at a discount in 2008 for $7.5 million, which bears interest at a spread of 30 basis points over LIBOR, has a stated maturity of 39.9 years, but has an estimated remaining life of 3.9 years based on the maturities of the underlying assets. As of the second quarter of 2010, the Company is no longer accreting income on this security which had $2.0 million of original discount and a fair value of $1.5 million at June 30, 2012. As of June 30, 2012, an unrealized gain of $0.5 million was recorded in accumulated other comprehensive loss related to this security.

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The Company owns a CMBS investment, purchased at a premium in 2010 for $2.1 million, which is collateralized by a portfolio of hotel properties. The Company currently has two mezzanine loans with a carrying value before loan loss reserves of $30.0 million related to this portfolio. The CMBS investment bears interest at a spread of 89 basis points over LIBOR, has a stated maturity of 8.0 years, but has an estimated life of 0.1 years based on the extended maturity of the underlying asset and a fair value of $2.1 million at June 30, 2012.

Available-for-sale securities are carried at their estimated fair value with unrealized gains and losses reported in accumulated other comprehensive loss. The Company does not intend to sell its investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its amortized cost basis, which may be at maturity. The Company evaluates these securities periodically to determine whether a decline in their value is other-than-temporary, though such a determination is not intended to indicate a permanent decline in value. The Company s evaluation is based on its assessment of cash flows which is supplemented by third-party research reports, internal review of the underlying assets securing the investments, levels of subordination and the ratings of the securities and the underlying collateral. The Company s estimation of cash flows expected to be generated by the securities portfolio is based upon an internal review of the underlying mortgage loans securing the investments both on an absolute basis and compared to the Company s initial underwriting for each investment and efforts are supplemented by third party research reports, third party market assessments and dialogue with market participants. Management closely monitors market conditions on which it bases such decisions. No impairment was recorded on the Company s available-for-sale securities for the three and six months ended June 30, 2012 and 2011.

For the three and six months ended June 30, 2011, the Company amortized less than $0.1 million of premium into interest income from its CMBS investment and the premium was fully amortized as of December 31, 2011. For the three and six months ended June 30, 2012 and 2011, no discount was accreted from the CDO bond investment.

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The following is a summary of the Company s securities classified as held-to-maturity at June 30, 2012:

	Face Value	Amortized Cost	Carrying Value	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Residential mortgage-backed securities (RMBS)	$ 64,449,021	$ 63,307,214	$ 63,307,214	$ 211,009	$ (20,734)	$ 63,497,489
Commercial mortgage-backed security (CMBS)	727,838	734,515	734,515	2,093		736,608
Total securities held-to-maturity	$ 65,176,859	$ 64,041,729	$ 64,041,729	$ 213,102	$ (20,734)	$ 64,234,097

The following is a summary of the Company s securities classified as held-to-maturity at December 31, 2011:

	Face Value	Amortized Cost	Carrying Value	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Residential mortgage-backed securities (RMBS)	$ 29,192,262	$ 29,199,506	$ 29,199,506	$ 57,704	$ (419)	$ 29,256,791
Commercial mortgage-backed security (CMBS)	734,969	742,602	742,602		(5,179)	737,423
Total securities held-to-maturity	$ 29,927,231	$ 29,942,108	$ 29,942,108	$ 57,704	$ (5,598)	$ 29,994,214

The following is a summary of the underlying credit ratings of the Company s RMBS and CMBS investments held-to-maturity at June 30, 2012 and December 31, 2011:

	At June 30, 2012			At December 31, 2011		
Rating (1)	**#**	**Amortized Cost**	**Percent of Total**	**#**	**Amortized Cost**	**Percent of Total**
AAA	3	$ 1,571,108	2%	2	$ 817,810	3%
AA	1	608,608	1%			
BB	3	13,999,227	22%			
BB-	1	321,061	1%	2	1,462,483	5%
CCC	1	10,352,053	16%			

NR	11		37,189,672	58%	4		27,661,815	92%
	20	$	64,041,729	100%	8	$	29,942,108	100%

(1) Based on the rating published by Standard & Poor s for each security. NR stands for not rated .

During the six months ended June 30, 2012, the Company purchased six RMBS investments, at par, for a total of $27.0 million, eight RMBS investments, at a premium of $0.2 million, for a total of $22.9 million, and an RMBS investment, at a discount of $1.3 million, for $10.9 million, and received total principal paydowns of $26.6 million on the portfolio. During the year ended December 31, 2011, the Company purchased four RMBS investments, at par, for a total of $33.0 million and three RMBS investments, at a premium of less than $0.1 million, for a total of $2.7 million, and received total principal paydowns of $6.5 million on the portfolio. The total carrying value of the RMBS investments was $63.3 million and $29.2 million at June 30, 2012 and December 31, 2011, respectively. The RMBS investments are collateralized by portfolios of residential properties, bear interest at a weighted average fixed rate of 5.80%, have a weighted average stated maturity of 31.0 years, but have weighted average estimated lives of 3.6 years based on the estimated maturity of the RMBS investments, and had a total fair value of $63.5 million at June 30, 2012. Approximately $26.8 million is estimated to mature within one year, $26.2 million is estimated to mature after one year through five years, and $10.3 million is estimated to mature after ten

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years. The RMBS investments were financed with two repurchase agreements with financial institutions which generally finance between 80% to 90% of the value of each individual investment. During the six months ended June 30, 2012, the Company financed $49.9 million of the RMBS investments and paid down the total debt by $20.7 million due to the principal paydowns received on the RMBS investments. During the year ended December 31, 2011, the Company financed $30.0 million of the RMBS investments and paid down the total debt by $3.9 million due to the principal paydowns received on the RMBS investments. The total debt balance was $55.4 million and $26.1 million at June 30, 2012 and December 31, 2011, respectively. See Note 7 Debt Obligations for further details.

The Company purchased a CMBS investment, at par, in the fourth quarter of 2011 for $0.7 million, which is collateralized by a portfolio of commercial properties. The CMBS investment bears interest at a fixed rate of 2.95%, has a stated maturity of 15.4 years, but has an estimated life of 3.4 years based on the extended maturity of the underlying assets and a fair value of $0.7 million at June 30, 2012.

Securities held-to-maturity are carried at cost, net of unamortized premiums and discounts. The Company does not intend to sell its investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its cost basis, which may be at maturity. The Company evaluates these securities periodically to determine whether a decline in their value is other-than-temporary, though such a determination is not intended to indicate a permanent decline in value. The Company s evaluation is based on its assessment of cash flows which is supplemented by third-party research reports, internal review of the underlying assets securing the investments, levels of subordination and the ratings of the securities and the underlying collateral. The Company s estimation of cash flows expected to be generated by the securities portfolio is based upon an internal review of the underlying mortgage loans securing the investments both on an absolute basis and compared to the Company s initial underwriting for each investment and efforts are supplemented by third party research reports, third party market assessments and dialogue with market participants. Management closely monitors market conditions on which it bases such decisions. As of June 30, 2012, no impairment was recorded on the Company s securities held-to-maturity.

For the three and six months ended June 30, 2012, $0.1 million of premium was amortized and less than $0.1 million of discount was accreted from the Company s held-to-maturity investments.

The weighted average yield on the Company s CDO bond, CMBS and RMBS investments available-for-sale and held-to-maturity based on their face values was 3.70% and 0.40%, including the amortization of premium and the accretion of discount, for the three months ended June 30, 2012 and 2011, respectively, and 4.62% and 0.37%, including the amortization of premium and the accretion of discount, for the six months ended June 30, 2012 and 2011, respectively.

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Note 5 Investment in Equity Affiliates

The following is a summary of the Company s investment in equity affiliates at June 30, 2012 and December 31, 2011:

Equity Affiliates	Investment in Equity Affiliates at June 30, 2012	Investment in Equity Affiliates at December 31, 2011	Unpaid Principal Balance to Equity Affiliates at June 30, 2012
930 Flushing & 80 Evergreen	$ 370,726	$ 229,476	$ 23,584,897
450 West 33rd Street			
St. John s Development			25,000,000
Lightstone Value Plus REIT L.P	55,988,409	55,988,409	
JT Prime	851,000	851,000	
West Shore Café	1,908,680	2,053,079	5,500,000
Ritz-Carlton Club	400,602	750,000	
Lexford Portfolio	100	100	78,190,000
Issuers of Junior Subordinated Notes	578,000	578,000	
Total	$ 60,097,517	$ 60,450,064	$ 132,274,897

The Company accounts for the 450 West 33rd Street and Lightstone Value Plus REIT L.P. investments under the cost method of accounting and the remaining investments under the equity method.

The following represents the change in the Company s investments in equity affiliates:

930 Flushing & 80 Evergreen

In June 2003, ACM invested approximately $0.8 million in exchange for a 12.5% preferred interest in a joint venture that owns and operates two commercial properties. The Company purchased this investment from ACM in August 2003. In 2007, the Company had contributed an additional $1.2 million to this joint venture. The Company had a $4.8 million bridge loan and a $3.5 million mezzanine loan outstanding to affiliated entities of the joint venture. The loans required monthly interest payments based on one month LIBOR and matured in November 2006 and June 2006, respectively. The bridge loan was extended for two one-year periods and during the second quarter of 2008, the Company was repaid in full. In addition, in August 2005, the joint venture refinanced one of these properties with a $25.0 million amortizing bridge loan provided by the Company. The loan matures in April 2016, has a fixed rate of 6.45%, and has an outstanding principal balance of $23.8 million at December 31, 2011. Proceeds from this loan were used to pay off senior debt as well as the Company s $3.5 million mezzanine loan. Excess proceeds were distributed to each of the members in accordance with the operating agreement of which the Company received $1.3 million, which was recorded as a return of capital in 2005. During 2008, the Company received a $0.2 million return of capital from contribution made in 2007. In addition, during 2010, the Company contributed an additional $0.1 million of capital, resulting in a balance of $0.6 million at December 31, 2010. In the fourth quarter of 2011, the Company recorded $0.3 million of losses from the entity against the equity investment, which was also recorded in loss from equity affiliates in the Company s 2011 Consolidated Statement of Operations, reducing the balance of the investment to $0.2 million at December 31, 2011. In the second quarter of 2012, the Company contributed an additional $0.2 million of capital and during the three and six months ended June 30, 2012, the Company recorded less than $0.1 million of losses from the entity against the equity investment, which was also

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recorded in loss from equity affiliates in the Company s 2012 Consolidated Statement of Operations. The balance of the investment was $0.4 million at June 30, 2012.

450 West 33rd Street

In May 2007, the Company, as part of an investor group for the 450 West 33rd Street partnership, transferred control of the underlying property (an office building) to Broadway Partners for a value of approximately $664.0 million. The investor group, on a pro-rata basis, retained an approximate 2% ownership interest in the property and 50% of the property s air rights which resulted in the Company retaining an investment in equity affiliates of approximately $1.1 million related to its 29% interest in the 2% retained ownership. In accordance with this transaction, the joint venture members agreed to guarantee $258.1 million of the $517.0 million of new debt outstanding on the property. The guarantee expires at the earlier of maturity or prepayment of the debt and was allocated to the members in accordance with their ownership percentages. The guarantee is callable, on a pro-rata basis, if the market value of the property declines below the $258.1 million of guaranteed debt. The Company s portion of the guarantee is $76.3 million. The transaction was structured to provide for a tax deferral for an estimated period of seven years. The Company recorded deferred revenue of approximately $77.1 million as a result of the guarantee on a portion of the new debt, and $19.0 million as prepaid management fees related to the incentive compensation management fee on the deferred revenue recognized on the transfer of control of the 450 West 33rd Street property. See Note 16 Management Agreement for further details. In July 2007, the Company purchased a $50.0 million mezzanine loan secured by th