MUNICIPAL MORTGAGE & EQUITY LLC
Form 10-K
March 12, 2004

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2003

or

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

For the transition period from

Commission file number 001-11981

Municipal Mortgage & Equity, LLC

(Exact Name of Registrant as Specified in Its Charter)

Delaware *(State or Other Jurisdiction of Incorporation or Organization)*	**52-1449733** *(I.R.S. Employer Identification No.)*
621 East Pratt Street, Suite 300 **Baltimore, Maryland** *(Address of Principal Executive Offices)*	**21202-3140** *(Zip Code)*

Registrant s telephone number, including area code:

(443) 263-2900

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares	New York Stock Exchange, Inc.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

The aggregate market value of the common shares, no par value per share (common shares) of the registrant, held by non-affiliates of the registrant was approximately $681,879,587, based upon the closing price of $25.38 on the New York Stock Exchange composite tape on the last business day of the Company s most recently completed second fiscal quarter.

As of March 2, 2004, there were 32,621,422 common shares outstanding.

Portions of the Company s Proxy Statement for the Company s 2004 Annual Meeting of Shareholders to be filed subsequent to the date hereof are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Forward-Looking Information

This Annual Report on Form 10-K contains forward-looking statements, which involve certain risks and uncertainties. Assumptions contained in various portions of this Annual Report on Form 10-K involve judgments with respect to, among other things, future economic market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of Municipal Mortgage & Equity, LLC (**MuniMae** and together with its subsidiaries, the **Company**). Although the Company believes that the assumptions underlying the forward-looking information included herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that such forward-looking information will prove to be accurate. In light of the significant uncertainties inherent in forward-looking information, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

MUNICIPAL MORTGAGE & EQUITY, LLC

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PART I

Item 1. Business.

Municipal Mortgage & Equity, LLC (**MuniMae** and, together with its subsidiaries, the **Company**) provides debt and equity financing to developers of multifamily housing and other real estate investments. The Company invests in tax-exempt bonds, or interests in bonds, issued by state and local governments or their agencies or authorities to finance multifamily housing developments. These tax-exempt bonds are not general obligations of state and local governments, or the agencies or authorities that issue the bonds. The multifamily housing developments, as well as the rents paid by the tenants, typically secure these investments. The Company also invests in other housing-related debt and equity investments, including equity investments in real estate operating partnerships; tax-exempt bonds, or interests in bonds, secured by student housing or assisted living developments; and tax-exempt bonds issued by community development districts (**CDD bonds**) to finance the development of community infrastructure supporting single-family housing or commercial developments and secured by specific payments or assessments pledged by the local improvement district that issues the bonds. Interest income derived from the majority of the Company s bond investments is exempt income for Federal income tax purposes.

The Company is also a tax credit syndicator and a mortgage banker. As a syndicator, the Company acquires and sells to investors interests in partnerships that receive low-income housing tax credits. The Company earns syndication fees on the placement of these interests with investors. The Company also earns fees for providing guarantees on certain tax credit funds and for managing the low-income housing tax credit funds it has syndicated. Mortgage banking activities include the origination, investment in and servicing of investments in multifamily housing, both for its own account and on behalf of third parties. These investments generate taxable income.

MuniMae was organized in 1996 as a Delaware limited liability company. As a limited liability company, the Company combines many of the limited liability, governance and management characteristics of a corporation with the pass-through income features of a partnership. Since MuniMae is classified as a partnership for Federal income tax purposes, MuniMae is not itself subject to Federal and, in most cases, state and local income taxes. Instead, each shareholder must include his or her distributive share of MuniMae s income, deductions and credits on the shareholder s income tax return. Most of the Company s mortgage banking and tax credit syndication activities are conducted through subsidiaries classified as corporations for Federal income tax purposes, which do not have the pass-through income features of a partnership.

The Company posts all reports filed with the Securities and Exchange Commission (**SEC**) on its website at http://www.mmafin.com. The Company also makes available free of charge its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those Reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after they are filed with the SEC. These reports are also available free of charge by contacting Angela Richardson in Investor Relations at 621 E. Pratt Street, Suite 300, Baltimore, Maryland, 21202 or info@mmafin.com and 888-788-3863.

Since the second quarter of 2002, the Company has had only common shares outstanding. For a description of other securities of the Company that were outstanding prior to then, see Part II, Item 5 below.

In 1999, the Company placed a substantial portion of its tax-exempt bonds and residual interests in bond securitizations in an indirect subsidiary of the Company, MuniMae TE Bond Subsidiary, LLC (**TE Bond Sub**). TE Bond Sub sold Series A, Series B and Series A-1 and Series B-1 Cumulative Preferred Shares (collectively, the **TE Bond Sub Preferred Shares**) to institutional investors in May 1999, June 2000 and October 2001, respectively. The TE Bond Sub Preferred Shares have a senior claim to the income derived from the investments owned by TE Bond Sub. Any income from TE Bond Sub available after payment of the cumulative distributions of the TE Bond Sub Preferred Shares is allocated to the

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Company, which holds all of the common equity interests. As a result, the assets of TE Bond Sub and its subsidiaries, while indirectly controlled by MuniMae and thus included in the consolidated financial statements of the Company, are legally owned by TE Bond Sub and are not available to the creditors of the Company. The Company s common equity interest in TE Bond Sub was $267.0 million and $271.4 million at December 31, 2003 and 2002, respectively. The common equity interest in TE Bond Sub held by MuniMae is subject to the claims of the creditors of MuniMae and in certain circumstances could be foreclosed.

The Series A and A-1 Preferred Shares bear interest at 6.875% and 6.30% per annum, respectively, or, if lower, the aggregate net income of TE Bond Sub. The Series A-1 Shares are equal in priority of payment to the Series A Preferred Shares. The Series A and A-1 Preferred Shares have a senior claim to the income derived from the investments owned by TE Bond Sub. The Series B and B-1 Preferred Shares bear interest at 7.75% and 6.80% per annum, respectively, or, if lower, the aggregate net income of TE Bond Sub after payment of distributions to the Series A and Series A-1 Preferred Shares. The Series B-1 Preferred Shares are equal in priority of payment to the Series B Preferred Shares. Cash distributions on the TE Bond Sub Preferred Shares are paid quarterly on each January 31, April 30, July 31 and October 31. The TE Bond Sub Preferred Shares are subject to remarketing on specified dates. On the remarketing date, the remarketing agent will seek to remarket the shares at the lowest distribution rate that would result in a resale of the TE Bond Sub Preferred Shares at a price equal to par plus all accrued but unpaid distributions. The TE Bond Sub Preferred Shares will be subject to mandatory tender on specified dates and on all subsequent remarketing dates at a price equal to par plus all accrued but unpaid distributions.

Acquisition of Housing and Community Investing Business of Lend Lease Corporation Limited

On July 1, 2003, the Company acquired the Housing and Community Investing (**HCI**) business of Lend Lease Corporation Limited for $102 million in cash ($105.3 million including acquisition costs). The acquisition was financed by a $120 million secured term credit facility provided by a syndicate of banks led by the Royal Bank of Canada. HCI is a syndicator of low-income housing tax credit equity investments. The HCI business is owned by MMA Financial TC Corp. (**TC Corp**), a wholly owned subsidiary of the Company, and the Company s results for 2003 reflect six months of activity from TC Corp. In connection with this acquisition, the Company s operating subsidiary, MuniMae Midland, LLC, has been renamed MMA Financial, LLC.

Competition

In seeking out attractive multifamily and other housing-related investment opportunities, the Company competes directly against a large number of lenders including banks, finance companies and other financial intermediaries and providers of related services such as portfolio loan servicing. Certain of the Company s competitors have substantially greater financial and operational resources than the Company. While the Company has historically been able to compete effectively against such competitors on the basis of its service, longstanding relationships with developers and a broad array of product offerings, many of our competitors benefit from substantial economies of scale in their business and have other competitive advantages.

In addition, in seeking permanent financing for their developments, the Company s customers generally evaluate a wide array of taxable and tax-exempt financing options. While tax-exempt financings offer specific attractions for developers, they can be more complicated than taxable financings and can involve ongoing restrictions on the owner s use of the property. As a result, the relative attractiveness of tax-exempt permanent financing may increase or decrease over time based on the availability and cost of taxable financing. In particular, the differential in interest expense between tax-exempt and taxable financing alternatives tends to be lower in a low interest rate environment, which may make the Company s tax-exempt multifamily housing bond financings less attractive to developers than taxable alternatives. While our strategic emphasis will remain on tax-exempt financing, absent a major change in the tax code, the Company expects to continue to expand and diversify its other lines of business.

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Business Segments

The Company has two reportable business segments: (1) an operating segment consisting of subsidiaries taxable as corporations that primarily generate taxable fee income by providing tax credit equity syndication, loan servicing, loan origination and other related services and (2) an investing segment consisting primarily of subsidiaries holding investments producing tax-exempt interest income.

The revenues associated with the investing segment consist primarily of interest earned on tax-exempt bonds, residual interests in bond securitizations, taxable loans and derivative financial instruments. The revenues associated with the operating segment consist primarily of syndication fees, asset management and advisory fees, loan servicing fees and loan origination fees. Segment results include all direct revenues and expenses of each segment and allocations of indirect expenses based on specific methodologies. The Company s reportable segments primarily generate different income streams and are managed separately.

For the years ended December 31, 2003 and 2002, the Company s total income, net income and identifiable assets have been distributed among the following segments:

	For the year ended December 31,							
	2003				2002			
(in thousands)	Investing	Operating	Adjustments(1)	Total	Investing	Operating	Adjustments(1)	Total
Total income	$ 87,170	$ 99,997	$ (15,200)	$ 171,967	$ 66,949	$ 71,394	$ (4,715)	$ 133,628
Net income	75,659	57	(3,221)	72,495	23,402	8,642	(3,095)	28,949
Identifiable assets	1,407,131	842,488		2,249,619	1,004,716	548,202		1,552,918

(1) Represents origination fees on purchased investments that are deferred and amortized into income over the life of the investment and intercompany interest and expense that are eliminated in consolidation.

Employees

As of March 5, 2004, the Company had 371 employees. The Company is not a party to any collective bargaining agreement.

Item 2. Properties.

The Company leases office space as follows:

Baltimore, Maryland. In October 2003, the Company relocated its corporate offices in Baltimore. The new office space contains 21,283 square feet with a four year option to expand into an additional 5,500 square feet of contiguous space. This lease expires in January 2014.

Clearwater, Florida. In January 2001, the Company negotiated a new lease in Clearwater. The office space contains 36,004 square feet and the lease expires in December 2005.

Boston, Massachusetts. In July 2003, the Company assumed a lease for 36,982 square feet of office space for its newly acquired tax credit syndication business. This lease expires July 2007.

The Company also leases office space for its regional offices in Chicago, Illinois, Dallas, Texas, Detroit, Michigan, Washington D.C., Atlanta, Georgia, Providence, Rhode Island and San Francisco, California. The Company believes its facilities are suitable for its requirements and are adequate for its current and contemplated future operations.

Item 3. Legal Proceedings.

The Company is subject to various pending and threatened legal actions arising in the ordinary course of business from the conduct of its activities. An informed assessment of the ultimate outcome or potential liability associated with the Company s pending lawsuits and other potential claims that could arise is not feasible at this time.

Due to the uncertainties of litigation, the Company can give no assurance that it will prevail on all claims made against it in the lawsuits that it currently faces or that additional proceedings will not be

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brought. While the Company believes that it has substantive defenses in the actions and claims described above and intends to defend those actions and claims vigorously, the Company cannot predict the ultimate outcome or the potential future impact. The Company does not presently expect any of these matters to have a material adverse effect on its financial condition or results of operations, but can give no assurance that they will not have such an effect.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of the Company s shareholders during the three months ended December 31, 2003.

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PART II

Item 5. Market For Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The following table sets forth the high and low sale prices per share of the common shares as reported by the New York Stock Exchange for each calendar quarter in 2003 and 2002 and the distributions declared with respect to such shares allocable to such period.

	Common Stock Market Price		Distributions
	High	Low	Declared
2003:			
Fourth Quarter	$24.94	$23.60	$0.4525
Third Quarter	26.05	23.25	0.4500
Second Quarter	26.25	23.53	0.4475
First Quarter	25.99	22.90	0.4450
2002:			
Fourth Quarter	$25.69	$21.75	$0.4425
Third Quarter	26.35	22.11	0.4400
Second Quarter	26.16	24.03	0.4375
First Quarter	26.40	22.95	0.4350

As of March 2, 2004, there were approximately 2,785 holders of record of common shares.

It is the Company s policy to pay distributions to its holders of common shares quarterly in February, May, August and November.

Description of Shares

Since March 2002, the common shares have been the Company s only outstanding shares. The common shares have no par value. At December 31, 2003, 35,926,099 common shares were authorized. The holders of the common shares are entitled to distributions as and when declared by the Board of Directors out of funds legally available for that purpose. As of December 31, 2003, it is the Company s policy to distribute to the holders of the common shares at least 80% of its annual cash available for distribution.

The common shares are not redeemable (except pursuant to certain anti-takeover provisions), and upon liquidation share ratably in any assets remaining after payment of creditors. The holders of the common shares voting as a single class have the right to elect the directors of the Company and have voting rights with respect to a merger or consolidation of the Company (in which it is not the surviving entity) or the sale of substantially all of its assets, the removal of a director, the dissolution of the Company, and certain anti-takeover provisions. Each common share entitles its holder to cast one vote on each matter presented for shareholder vote.

Prior to March 2002, the Company had four types of shares: preferred shares, preferred capital distribution shares (**preferred cd shares**), term growth shares and common shares. The Company s preferred shares, preferred cd shares, term growth shares and common shares differed principally with respect to allocation of income and cash distributions, as provided by the terms of the Company s Operating Agreement. The Company was required to distribute to the holders of preferred shares and preferred cd shares cash flow attributable to such shares as defined in the Company s Operating Agreement. The Company was required to distribute 2.0% of the net cash flow to the holders of term growth shares. The balance of the Company s cash flow was available for distribution to common shares.

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The Company s Operating Agreement provided that the preferred shares and the preferred cd shares were subject to partial redemption when any bond attributable to the shares was sold, or beginning in the year 2000, when any bond attributable to the shares reached par value based on an appraisal.

Between December 2000 and January 2002, all of the bonds attributable to preferred shares and preferred cd shares were either paid off, sold and/or reached par value. As a result, in March 2002, the Company redeemed the last outstanding preferred shares and preferred cd shares. The Operating Agreement also required that the term growth shares be redeemed after the last preferred share was redeemed. As a result, the term growth shares, which had no residual value, were also redeemed in 2002.

The preferred shares and the preferred cd shares were not listed on any national security exchanges and there was no established public trading market for these shares.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information regarding the Company s securities authorized for issuance under the Company s equity compensation plans as of December 31, 2003.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders:			
Non-employee director s share plans	180,000	$ 22.00(2)	15,809
Employee share incentive plans	916,873(3)	$ 18.16(2)	842,025
Equity compensation plans not approved by security holders			
Total	1,096,873		857,834

(1) Does not include any deferred shares, which have already vested, as such shares are already reflected in the Company s common shares outstanding.

(2) Represents the weighted average exercise price of the outstanding stock options.

(3) Includes 204,184 unvested deferred shares and 712,689 stock options.

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Item 6. Selected Financial Data.

The following selected financial data have been summarized or derived from our audited financial statements. Additional financial information is set forth in the audited consolidated financial statements and notes thereto contained in Item 8. Financial Statements and Supplementary Data.

	As of and for the year ended December 31,				
	2003(6)	2002	2001	2000	1999
INCOME STATEMENT DATA (000s):					
Interest income	$ 98,256	$ 96,073	$ 89,864	$ 79,225	$43,826
Fee income	63,418	28,997	28,956	19,308	7,040
Net gain on sales	10,293	8,558	8,222	2,319	2,680
Total income	171,967	133,628	127,042	100,852	53,546
Interest expense	43,508	36,596	30,696	31,152	6,665
Interest expense on preferred shares(1)	6,188				
Operating expenses	58,087	34,658	33,409	24,249	9,815
Amortization of intangibles	6,525	1,314	2,509	1,887	297
Total expenses	114,308	72,568	66,614	57,288	16,777
Net holding gain (losses) on derivatives	6,322	(14,863)	(5,572)		
Impairments and valuation allowances related to investments	(6,983)	(730)	(3,256)	(1,508)	(1,120)
Net losses from equity investments in partnerships	(3,173)	(3,057)	(1,279)		
Income tax (benefit) expense	(138)	(1,484)	(1,383)	(2,006)	(703)
Income allocable to preferred shareholders in a subsidiary company	(5,988)	(11,977)	(10,779)	(8,475)	(3,433)
Discontinued operations	25,748(5)				
Cumulative effect of a change in accounting principle	(1,228)(2)		(12,277)(3)		
Net income	$ 72,495	$ 28,949	$ 25,882	$ 31,575	$31,513
Net income available to common shareholders	$ 72,495	$ 28,796	$ 23,847	$ 29,076	$28,796
NET INCOME PER SHARE:					
Common shares (diluted earnings per share before discontinued operations and cumulative effect of accounting change)	$ 1.61	$ 1.13	$ 1.66	$ 1.62	$ 1.67
Common shares (diluted earnings per share)	$ 2.44	$ 1.13	$ 1.09	$ 1.62	$ 1.67

	As of and for the year ended December 31,				
	2003(6)	2002	2001	2000	1999
BALANCE SHEET DATA (000s):					
Investment in tax-exempt bonds, net	$1,043,973	$ 770,345	$ 616,460	$500,190	$391,544
Loans receivable, net	552,376	461,448	440,031	349,291	286,489
Investments in partnerships	282,492	99,966	5,393		
Residual interests in bond securitizations		11,039	13,295		
Investment in derivative financial instruments	2,563	18,762	2,912		
Total assets	2,249,619	1,552,918	1,289,276	987,882	801,746
Notes payable	646,096	450,924	420,063	329,159	261,956
Short-term debt	371,881	219,945	78,560	41,290	
Long-term debt	190,090	147,357	134,881	70,899	67,000
Preferred shares subject to mandatory redemption(1)	168,000				
Tax credit syndication guarantee liability	151,326				
Investment in derivative financial instruments	15,287	49,359	18,646		