

MUNICIPAL MORTGAGE & EQUITY LLC

Form 10-Q

November 09, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended September 30, 2004

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 E. Pratt Street, Suite 300
Baltimore, Maryland**

(Address of principal executive offices)

21202-3140

(Zip Code)

(443) 263-2900

(Registrant's telephone number, including area code)

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

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

The Registrant had 35,015,253 common shares outstanding as of November 3, 2004.

MUNICIPAL MORTGAGE & EQUITY, LLC
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Forward-Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements, which involve certain risks and uncertainties. Assumptions contained in various portions of this Quarterly Report on Form 10-Q 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 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.

PART I.
FINANCIAL INFORMATION

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Item 1. Financial Statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)
(unaudited)

	September 30, 2004	December 31, 2003
	<hr/>	<hr/>
ASSETS		
Investment in tax-exempt bonds, net (Note 2)	\$ 1,220,367	\$ 1,043,973
Loans receivable, net (Note 3)	611,539	497,884
Loans receivable held for sale (Note 3)	43,110	54,492
Investment in partnerships (Note 4)	1,638,319	282,492
Investments in derivative financial instruments (Note 5)	3,086	2,563
Cash and cash equivalents	63,984	50,826
Interest receivable	18,849	16,843
Restricted assets (Note 6)	196,252	75,525
Other assets	72,791	73,961
Land, building and equipment, net	171,497	5,429
Mortgage servicing rights, net	11,392	10,967
Goodwill	106,610	107,505
Other intangibles	23,622	27,159
	<hr/>	<hr/>
Total assets	\$ 4,181,418	\$ 2,249,619
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS EQUITY		
Notes payable (Note 7)	\$ 1,036,019	\$ 646,096
Mortgage notes payable (Note 7)	122,228	
Short-term debt (Note 7)	427,693	371,881
Long-term debt (Note 7)	174,675	190,090
Subordinate debentures (Note 8)	84,000	
Preferred shares subject to mandatory redemption	168,000	168,000
Tax credit equity guarantee liability (Note 9)	159,079	151,326
Distribution payable	16,399	
Investments in derivative financial instruments (Note 5)	12,374	15,287
Accounts payable and accrued expenses	26,326	17,506
Interest payable	15,937	9,581
Unearned revenue and other liabilities	70,934	37,986
	<hr/>	<hr/>
Total liabilities	2,313,664	1,607,753
	<hr/>	<hr/>

Commitments and contingencies (Note 10)

Minority interest in subsidiary companies (Note 1)	1,207,312	31
Shareholders equity:		
Common shares, par value \$0 (38,071,099 shares authorized, including 35,079,216 shares issued and outstanding, and 51,080 deferred shares at September 30, 2004 and 35,926,099 shares authorized, including 32,592,093 shares issued and outstanding, and 39,701 deferred shares at December 31, 2003)	672,663	654,700
Less common shares held in treasury at cost (124,715 shares at September 30, 2004 and December 31, 2003)	(2,615)	(2,615)
Less unearned compensation (deferred shares) (Note 1)	(4,523)	(3,992)
Accumulated other comprehensive loss	(5,083)	(6,258)
	<hr/>	<hr/>
Total shareholders equity	660,442	641,835
	<hr/>	<hr/>
Total liabilities and shareholders equity	\$ 4,181,418	\$ 2,249,619
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)
(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2003	2004	2003
INCOME:				
Interest income				
Interest on bonds and residual interests in bond securitizations	\$ 21,663	\$ 15,894	\$ 62,505	\$ 46,614
Interest on loans	10,872	9,790	32,981	27,594
Interest on short-term investments	1,338	309	4,004	832
Total interest income	33,873	25,993	99,490	75,040
Fee income				
Syndication fees	6,861	5,764	14,802	9,000
Origination and brokerage fees	2,769	862	6,534	3,779
Guarantee fees	2,093	1,891	5,452	2,114
Asset management and advisory fees	1,685	3,191	9,818	5,465
Loan servicing fees	1,059	1,051	3,316	3,254
Other income	1,308	1,692	4,851	6,975
Total fee income	15,775	14,451	44,773	30,587
Net rental income	5,520		11,016	
Total income	55,168	40,444	155,279	105,627
EXPENSES:				
Interest expense	18,802	12,696	54,576	31,788
Interest expense on debentures and preferred shares	4,769	2,994	11,819	2,994
Salaries and benefits	17,824	12,065	53,868	26,702
General and administrative	7,276	3,272	17,627	6,928
Professional fees	2,478	1,105	6,703	2,971
Depreciation and amortization	3,825	3,108	9,700	4,192

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Total expenses	54,974	35,240	154,293	75,575
Net gain on sale of loans	406	1,623	2,816	3,343
Net gain (loss) on sale of tax-exempt investments	(660)	2,194	545	2,188
Net gain on sale of investments in tax credit equity partnerships	125	4,471	2,939	4,747
Net gain on termination of derivatives				741
Net holding gains (losses) on derivatives	(2,062)	3,498	3,436	3,922
Impairments and valuation allowances related to investments	(2,646)		(3,376)	(1,144)
Net losses from equity investments in partnerships	(46,250)	(1,608)	(127,985)	(3,961)
Net (losses) income before income taxes, income allocable to minority interest, discontinued operations and cumulative effect of accounting change	(50,893)	15,382	(120,639)	39,888
Income tax benefit (expense)	(73)	2,622	2,264	3,094
Net (losses) income before income allocable to minority interest, discontinued operations, and cumulative effect of accounting change	(50,966)	18,004	(118,375)	42,982
Net income (expense) allocable to minority interest	51,663	131	128,427	(5,548)
Net income before discontinued operations and cumulative effect of accounting change	697	18,135	10,052	37,434
Discontinued operations	10,865		10,865	25,748
Net income before cumulative effect of accounting change	11,562	18,135	20,917	63,182
Cumulative effect of a change in accounting principle			520	
Net income	\$ 11,562	\$ 18,135	\$ 21,437	\$ 63,182

The accompanying notes are an integral part of these financial statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)
(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2003	2004	2003
Basic earnings per common share:				
Earnings before discontinued operations and cumulative effect of accounting change	\$ 0.02	\$ 0.63	\$ 0.29	\$ 1.32
Discontinued operations	0.31		0.31	0.91
Cumulative effect of a change in accounting principle			0.02	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Basic earnings per common share	\$ 0.33	\$ 0.63	\$ 0.62	\$ 2.23
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted average common shares outstanding	34,927,975	28,842,447	34,343,492	28,353,040
Diluted earnings per common share:				
Earnings before discontinued operations and cumulative effect of accounting change	\$ 0.02	\$ 0.62	\$ 0.29	\$ 1.30
Discontinued operations	0.31		0.31	0.90
Cumulative effect of a change in accounting principle			0.02	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted earnings per common share	\$ 0.33	\$ 0.62	\$ 0.62	\$ 2.20
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted average common shares outstanding	35,267,697	29,224,605	34,696,145	28,711,892

The accompanying notes are an integral part of these financial statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2003	2004	2003
Net income	\$ 11,562	\$ 18,135	\$ 21,437	\$ 63,182
Other comprehensive gain (loss):				
Unrealized gains (losses) on investments:				
Unrealized holding gains (losses) arising during the period	8,519	(15,551)	4,113	5,564
Reclassification adjustment for losses (gains) included in net income	(1,733)	(2,194)	(2,938)	(26,919)
Other comprehensive gain (loss)	6,786	(17,745)	1,175	(21,355)
Comprehensive income	\$ 18,348	\$ 390	\$ 22,612	\$ 41,827

The accompanying notes are an integral part of these financial statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(in thousands, except share data)
(unaudited)

	<u>Common Shares</u>	<u>Treasury Shares</u>	<u>Unearned Compensation</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance, January 1, 2004	\$654,700	\$(2,615)	\$ (3,992)	\$ (6,258)	\$641,835
Net income	21,437				21,437
Unrealized gains on investments, net of reclassifications				1,175	1,175
Distributions	(63,214)				(63,214)
Options exercised	3,576				3,576
Issuance of common shares	52,506				52,506
Deferred shares issued under the Non-Employee Directors Share Plans	245				245
Deferred share grants	3,413		(3,413)		
Amortization of deferred compensation			2,882		2,882
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance, September 30, 2004	\$672,663	\$(2,615)	\$ (4,523)	\$ (5,083)	\$660,442
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
				<u>Common Shares</u>	<u>Treasury Shares</u>
SHARE ACTIVITY:					
Balance, January 1, 2004				32,507,079	124,715
Options exercised				193,300	
Issuance of common shares				2,146,625	
Issuance of common shares under employee share incentive plans				147,198	
Deferred shares issued under the Non-Employee Directors Share Plans				11,379	
				<u> </u>	<u> </u>
Balance, September 30, 2004				35,005,581	124,715
				<u> </u>	<u> </u>

The accompanying notes are an integral part of these financial statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the nine months ended September 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 21,437	\$ 63,182
Adjustments to reconcile net income to net cash provided by operating activities:		
Income allocated to preferred shareholders		5,989
Cumulative effect of a change in accounting principle	(520)	
Net holding gains on trading securities	(3,436)	(3,922)
Impairments and valuation allowances related to investments	3,376	1,144
Change in fair value of tax credit guarantee liability	(2,187)	
Amortization of guarantee liability	(3,748)	(1,076)
Net gain on sales	(6,300)	(11,019)
Loss from investments in partnerships	127,985	3,961
Minority interest income	(128,427)	
Distributions received from investments in partnerships	5,629	7,055
Net amortization of premiums, discounts and fees on investments	(3,794)	(124)
Depreciation, accretion and amortization	14,442	5,874
Discontinued operations	(10,865)	(25,748)
Deferred income taxes	(3,021)	1,778
Tax benefit from deferred share compensation		242
Deferred share compensation expense	2,882	1,428
Common and deferred shares issued under the Non-Employee Directors Share Plans	245	201
Net change in assets and liabilities:		
Increase in interest receivable	(2,006)	(103)
(Increase) decrease in other assets and goodwill	(15,266)	(5,722)
Increase in accounts payable, accrued expenses and other liabilities	31,121	8,071
Decrease in loans held for sale	12,553	
Net cash provided by operating activities	40,100	51,211
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of tax-exempt bonds and residual interests in bond securitizations	(282,603)	(125,039)
Loan originations	(243,900)	(274,154)
Acquisition of HCI		(105,425)
Purchases of property and equipment	(4,507)	(945)
Net investment in restricted assets	7,635	(28,067)
Principal payments received	139,167	299,745
Proceeds from the sale of investments	110,517	64,754

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Net investments in partnerships	(243,048)	(49,798)
Termination of derivative financial instruments		(10,809)
	<u> </u>	<u> </u>
Net cash used in investing activities	(516,739)	(229,738)
	<u> </u>	<u> </u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from credit facilities	924,886	657,199
Repayment of credit facilities	(748,953)	(498,617)
Proceeds from tax credit syndication investors	196,599	15,319
Proceeds from short-term debt	57,220	27,250
Repayment of short-term debt	(1,408)	(55,360)
Proceeds from long-term debt	85,140	18,802
Repayment of long-term debt	(16,555)	(10,711)
Issuance of common shares	52,506	71,871
Proceeds from stock options exercised	3,576	1,180
Distributions to common shares	(63,214)	(37,161)
Distributions to preferred shareholders in a subsidiary company		(8,982)
	<u> </u>	<u> </u>
Net cash provided by financing activities	489,797	180,790
	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	13,158	2,263
Cash and cash equivalents at beginning of period	50,826	43,745
	<u> </u>	<u> </u>
Cash and cash equivalents at end of period	\$ 63,984	\$ 46,008
	<u> </u>	<u> </u>

The accompanying notes are an integral part of these financial statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the nine months ended September 30,	
	2004	2003
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 60,039	\$ 28,863
Income taxes paid	\$ 4	\$ 147
Non-cash activity resulting from consolidation of VIEs under FIN 46 (Note 1):		
Investment in partnerships	\$ 1,265,623	\$
Restricted assets	134,228	
Other assets	17,939	
Land, building and equipment, net	166,360	
Notes payable	208,655	
Mortgage notes payable	123,900	
Accounts payable, accrued expenses and other liabilities	35,277	
Minority interest in subsidiary companies	1,179,915	
Accumulated other comprehensive income	61	

The accompanying notes are an integral part of these financial statements.

MUNICIPAL MORTGAGE & EQUITY, LLC
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 BASIS OF PRESENTATION

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 inves