

MUNICIPAL MORTGAGE & EQUITY LLC

Form 10-Q

August 06, 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 June 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 34,853,634 common shares outstanding as of July 30, 2004.

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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 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.

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**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)

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
<b>ASSETS</b>		
Investment in tax-exempt bonds, net (Note 2)	\$ 1,180,237	\$ 1,043,973
Loans receivable, net (Note 3)	574,956	497,884
Loans receivable held for sale (Note 3)	39,740	54,492
Investment in partnerships (Note 4)	1,587,008	282,492
Investments in derivative financial instruments (Note 5)	3,320	2,563
Cash and cash equivalents	99,962	50,826
Interest receivable	18,205	16,843
Restricted assets (Note 6)	194,843	75,525
Other assets	66,786	73,961
Land, building and equipment	177,284	5,429
Mortgage servicing rights, net	11,622	10,967
Goodwill	108,578	107,505
Other intangibles	24,801	27,159
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$4,087,342</b>	<b>\$ 2,249,619</b>
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Notes payable (Note 7)	\$ 1,010,878	\$ 646,096
Mortgage notes payable (Note 7)	122,578	
Debentures (Note 8)	60,000	
Short-term debt (Note 7)	409,493	371,881
Long-term debt (Note 7)	179,988	190,090
Preferred shares subject to mandatory redemption	168,000	168,000
Tax credit equity guarantee liability (Note 9)	150,475	151,326
Investments in derivative financial instruments (Note 5)	10,545	15,287
Accounts payable and accrued expenses	16,989	17,506
Interest payable	13,533	9,581
Unearned revenue and other liabilities	79,074	37,986
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>2,221,553</b>	<b>1,607,753</b>
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
<b>Commitments and contingencies (Note 10)</b>		

<b>Minority interest in subsidiary companies (Note 1)</b>	1,192,038	31
<b>Shareholders equity:</b>		
Common shares, par value \$0 (38,071,099 shares authorized, including 34,905,251 shares issued and outstanding, and 43,933 deferred shares at June 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)	692,034	654,700
Less common shares held in treasury at cost (124,715 at June 30, 2004 and December 31, 2003)	(2,615)	(2,615)
Less unearned compensation (deferred shares) (Note 1)	(3,799)	(3,992)
Accumulated other comprehensive loss	(11,869)	(6,258)
	<u>673,751</u>	<u>641,835</u>
<b>Total shareholders equity</b>	<u>673,751</u>	<u>641,835</u>
<b>Total liabilities and shareholders equity</b>	<u>\$4,087,342</u>	<u>\$ 2,249,619</u>

*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)

	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>INCOME:</b>				
Interest income				
Interest on bonds and residual interests in bond securitizations	\$ 21,340	\$14,366	\$ 40,842	\$30,721
Interest on loans	11,388	7,894	22,109	17,804
Interest on short-term investments	1,859	332	2,666	524
	<u>34,587</u>	<u>22,592</u>	<u>65,617</u>	<u>49,049</u>
<b>Total interest income</b>				
Fee income				
Syndication fees	4,190	1,825	7,941	3,236
Origination and brokerage fees	2,848	2,219	3,765	2,917
Loan servicing fees	1,139	1,070	2,258	2,202
Asset management and advisory fees	1,967	1,198	8,133	2,274
Guarantee fees	1,506	112	3,359	223
Other income	1,705	3,197	3,542	5,283
	<u>13,355</u>	<u>9,621</u>	<u>28,998</u>	<u>16,135</u>
<b>Total fee income</b>				
Net rental income	5,496		5,496	
	<u>53,438</u>	<u>32,213</u>	<u>100,111</u>	<u>65,184</u>
<b>Total income</b>				
<b>EXPENSES:</b>				
Interest expense	21,279	8,724	36,743	19,092
Interest expense on preferred shares	3,035		6,081	
Salaries and benefits	20,421	8,671	33,480	14,637
General and administrative	6,992	1,972	11,017	3,628
Professional fees	2,731	877	4,225	1,866
Depreciation and amortization	3,597	414	5,209	803
	<u>58,055</u>	<u>20,658</u>	<u>96,755</u>	<u>40,026</u>
<b>Total expenses</b>				

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Net gain on sale of loans	1,730	540	2,410	1,720
Net gain (loss) on sale of tax-exempt investments	1,013	(6)	1,205	(6)
Net gain on sale of investments in tax credit equity partnerships	379	178	2,814	276
Net gain on termination of derivatives		741		741
Net holding gains (losses) on derivatives	7,853	(2,449)	5,498	424
Impairments and valuation allowances related to investments	(430)	(1,144)	(730)	(1,144)
Net losses from equity investments in partnerships	(71,224)	(1,606)	(81,735)	(2,353)
<b>Net income (loss) before income taxes, income allocable to minority interest, discontinued operations and cumulative effect of accounting change</b>	<b>(65,296)</b>	<b>7,809</b>	<b>(67,182)</b>	<b>24,816</b>
Income tax benefit (expense)	(173)	540	2,337	472
<b>Net income (loss) before income allocable to minority interest, discontinued operations and cumulative effect of accounting change</b>	<b>(65,469)</b>	<b>8,349</b>	<b>(64,845)</b>	<b>25,288</b>
Net income (expense) allocable to minority interests	76,659	(2,995)	76,764	(5,989)
<b>Net income before discontinued operations and cumulative effect of accounting change</b>	<b>11,190</b>	<b>5,354</b>	<b>11,919</b>	<b>19,299</b>
Discontinued operations		25,748		25,748
<b>Net income before cumulative effect of accounting change</b>	<b>11,190</b>	<b>31,102</b>	<b>11,919</b>	<b>45,047</b>
Cumulative effect of a change in accounting principle			520	
<b>Net income</b>	<b>\$ 11,190</b>	<b>\$ 31,102</b>	<b>\$ 12,439</b>	<b>\$ 45,047</b>

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)

	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Basic earnings per common share:</b>				
Earnings before discontinued operations and cumulative effect of accounting change	\$ 0.32	\$ 0.19	\$ 0.35	\$ 0.69
Discontinued operations		0.89		0.91
Cumulative effect of a change in accounting principle			0.02	
	<hr/>	<hr/>	<hr/>	<hr/>
Basic earnings per common share	\$ 0.32	\$ 1.08	\$ 0.37	\$ 1.60
	<hr/>	<hr/>	<hr/>	<hr/>
Weighted average common shares outstanding	34,800,580	28,857,305	34,047,243	28,104,281
<b>Diluted earnings per common share:</b>				
Earnings before discontinued operations and cumulative effect of accounting change	\$ 0.32	\$ 0.18	\$ 0.35	\$ 0.68
Discontinued operations		0.88		0.90
Cumulative effect of a change in accounting principle			0.02	
	<hr/>	<hr/>	<hr/>	<hr/>
Diluted earnings per common share	\$ 0.32	\$ 1.06	\$ 0.37	\$ 1.58
	<hr/>	<hr/>	<hr/>	<hr/>
Weighted average common shares outstanding	35,140,968	29,213,062	34,406,363	28,451,480

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

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

	<b>For the three months ended</b>		<b>For the six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Net income	\$11,190	\$ 31,102	\$12,439	\$ 45,047
Other comprehensive loss:				
Unrealized gains (losses) on investments:				
Unrealized holding gains (losses) arising during the period	(202)	16,540	(4,406)	21,116
Reclassification adjustment for gains included in net income	(1,013)	(24,726)	(1,205)	(24,726)
Other comprehensive loss	(1,215)	(8,186)	(5,611)	(3,610)
<b>Comprehensive income</b>	<b>\$ 9,975</b>	<b>\$ 22,916</b>	<b>\$ 6,828</b>	<b>\$ 41,437</b>

*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)

	<b>Common Shares</b>	<b>Treasury Shares</b>	<b>Unearned Compensation</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total</b>
<b>Balance, January 1, 2004</b>	\$654,700	\$(2,615)	\$(3,992)	\$ (6,258)	\$641,835
Net income	12,439				12,439
Unrealized gains on investments, net of reclassifications				(5,611)	(5,611)
Distributions	(30,689)				(30,689)
Options exercised	1,410				1,410
Issuance of common shares	52,482				52,482
Deferred shares issued under the Non-Employee Directors Share Plans	104				104
Deferred share grants	1,588		(1,588)		
Amortization of deferred compensation			1,781		1,781
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Balance, June 30, 2004</b>	<b>\$692,034</b>	<b>\$(2,615)</b>	<b>\$(3,799)</b>	<b>\$(11,869)</b>	<b>\$673,751</b>

	<b>Common Shares</b>	<b>Treasury Shares</b>
<b>SHARE ACTIVITY:</b>		
<b>Balance, January 1, 2004</b>	32,507,079	124,715
Options exercised	76,050	
Issuance of common shares	2,145,669	
Issuance of common shares under employee share incentive plans	91,440	
Deferred shares issued under the Non-Employee Directors Share Plans	4,231	
	<u>          </u>	<u>          </u>
<b>Balance, June 30, 2004</b>	<b>34,824,469</b>	<b>124,715</b>

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



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

	<b>For the six months ended</b>	
	<b>June 30,</b>	
	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 12,439	\$ 45,047
Adjustments to reconcile net income to net cash provided by operating activities:		
Income allocated to preferred shareholders		5,679
Cumulative effect of a change in accounting principle	(520)	
Net holding gains on trading securities	(5,498)	(424)
Impairments and valuation allowances related to investments	730	1,144
Amortization of guarantee liability	(2,149)	
Net gain on sales	(6,429)	(2,731)
Loss from investments in partnerships	81,735	2,353
Minority interest income	(76,764)	
Distributions received from investments in partnerships	3,694	5,224
Net amortization of premiums, discounts and fees on investments	978	(185)
Depreciation, accretion and amortization	8,376	1,048
Discontinued operations		(25,748)
Deferred income taxes	2,527	1,283
Tax benefit from deferred share compensation		330
Deferred share compensation expense	1,781	883
Common and deferred shares issued under the Non-Employee Directors Share Plans	104	135
Net change in assets and liabilities:		
Increase in interest receivable	(1,362)	(1,095)
(Increase) decrease in other assets and goodwill	(14,202)	11,306
Increase in accounts payable, accrued expenses and other liabilities	11,399	10,353
Decrease in on loans held for sale	15,361	31,730
	<hr/>	<hr/>
<b>Net cash provided by operating activities</b>	<b>27,146</b>	<b>54,602</b>
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of tax-exempt bonds and residual interests in bond securitizations	(182,928)	(73,769)
Loan originations	(164,956)	(123,427)
Purchases of property and equipment	(8,076)	(394)
Net investment in restricted assets	10,484	(29,211)
Principal payments received	89,930	134,661
Termination of derivative financial instruments		(10,809)

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Proceeds from the sale of investments	38,479	44,558
Net investment in partnerships	(132,383)	(5,574)
	<u>          </u>	<u>          </u>
<b>Net cash used in invested activities</b>	<b>(349,450)</b>	<b>(63,965)</b>
	<u>          </u>	<u>          </u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Borrowings from credit facilities	630,521	350,710
Repayment of credit facilities	(477,502)	(364,685)
Proceeds from tax credit syndication investors	107,708	
Proceeds from short-term debt	38,200	27,250
Repayment of short-term debt	(588)	(35,525)
Proceeds from long-term debt	61,140	
Repayment of long-term debt	(11,242)	(5,351)
Issuance of common shares	52,482	71,871