ARBOR REALTY TRUST INC
Form 10-Q
November 04, 2011
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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 September 30, 2011

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 £

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 o

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 £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes £ 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: 24,137,382 outstanding (excluding 2,391,355 shares held in the treasury) as of November 4, 2011.

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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, 2010. 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, 2010.

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

		September 30, 2011 (Unaudited)		December 31, 2010
Assets:				
Cash and cash equivalents	$	59,352,275	$	101,124,564
Restricted cash (includes $32,899,731 and $21,085,664 from consolidated VIEs, respectively)		34,781,481		21,085,664
Loans and investments, net (includes $1,152,174,495 and $1,301,435,584 from consolidated VIEs, respectively)		1,329,692,540		1,414,225,388
Available-for-sale securities, at fair value (includes $2,000,000 and $1,000,000 from consolidated VIEs, respectively)		4,276,368		3,298,418
Securities held-to-maturity, net		3,579,824		
Investment in equity affiliates		60,069,451		65,838,885
Real estate owned, net (includes $83,099,540 and $2,707,479 from consolidated VIEs, respectively)		148,768,296		22,839,480
Real estate held-for-sale, net (includes $3,250,000 and $0 from consolidated VIEs, respectively)		43,385,946		41,440,000
Due from related party (includes $1,217 and $335,048 from consolidated VIEs, respectively)		576,533		335,048
Prepaid management fee related party		19,047,949		19,047,949
Other assets (includes $11,230,574 and $13,645,594 from consolidated VIEs, respectively)		45,917,423		41,972,532
Total assets	$	1,749,448,086	$	1,731,207,928
Liabilities and Equity:				
Repurchase agreements and credit facilities	$	14,908,319	$	990,997
Collateralized debt obligations (includes $1,012,766,005 and $1,070,852,555 from consolidated VIEs, respectively)		1,012,766,005		1,070,852,555
Junior subordinated notes to subsidiary trust issuing preferred securities		158,143,112		157,806,238
Notes payable		85,457,708		51,457,708
Mortgage notes payable real estate owned		74,501,004		20,750,000
Mortgage note payable held-for-sale		41,440,000		41,440,000
Due to related party		2,050,004		17,436,986
Due to borrowers (includes $769,229 and $1,155,095 from consolidated VIEs, respectively)		4,190,652		2,559,388
Deferred revenue		77,123,133		77,123,133
Other liabilities (includes $31,060,722 and $34,940,192 from consolidated VIEs, respectively)		81,197,998		84,375,680
Total liabilities		1,551,777,935		1,524,792,685
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; 26,528,737 shares issued, 24,822,152 shares outstanding at September 30, 2011 and 25,756,810 shares issued, 24,776,213 shares outstanding at December 31, 2010	265,287	257,568
Additional paid-in capital	455,139,695	450,686,382
Treasury stock, at cost 1,706,585 shares at September 30, 2011 and 980,597 shares at December 31, 2010	(13,627,700)	(10,669,585)
Accumulated deficit	(193,230,327)	(180,689,667)
Accumulated other comprehensive loss	(52,810,939)	(55,169,317)
Total Arbor Realty Trust, Inc. stockholders equity	195,736,016	204,415,381
Noncontrolling interest in consolidated entity	1,934,135	1,999,862
Total equity	197,670,151	206,415,243
Total liabilities and equity	$ 1,749,448,086	$ 1,731,207,928

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Nine Months Ended September 30, 2011 and 2010

(Unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest income	$ 18,524,388	$ 24,878,523	$ 55,104,727	$ 74,963,895
Interest expense	11,407,229	15,209,936	40,240,929	49,474,664
Net interest income	7,117,159	9,668,587	14,863,798	25,489,231
Other revenue:				
Property operating income	7,807,389	581,073	21,253,281	1,157,089
Other income	27,003	21,876	90,435	1,044,500
Total other revenue	7,834,392	602,949	21,343,716	2,201,589
Other expenses:				
Employee compensation and benefits	2,323,734	1,853,626	6,697,221	5,754,048
Selling and administrative	2,292,628	1,985,471	5,074,246	5,513,868
Property operating expenses	7,290,519	672,196	17,625,837	1,390,266
Depreciation and amortization	1,790,745	247,056	4,102,328	366,768
Other-than-temporary impairment				7,004,800
Provision for loan losses (net of recoveries)	10,223,403	11,347,964	18,318,801	61,177,964
Loss on restructured loans		5,363,332	1,000,000	6,188,571
Management fee - related party	2,050,000	1,900,000	6,050,000	5,800,000
Total other expenses	25,971,029	23,369,645	58,868,433	93,196,285
Loss from continuing operations before gain on extinguishment of debt, loss on sale of securities, net, income (loss) from equity affiliates and provision for income taxes	(11,019,478)	(13,098,109)	(22,660,919)	(65,505,465)
Gain on extinguishment of debt	5,100,462	11,790,000	7,919,662	229,321,130
Loss on sale of securities, net				(6,989,583)
Income (loss) from equity affiliates	3,717,323	25,588	3,766,134	(47,335)
(Loss) income before provision for income taxes	(2,201,693)	(1,282,521)	(10,975,123)	156,778,747
Provision for income taxes				(1,800,000)
(Loss) income from continuing operations	(2,201,693)	(1,282,521)	(10,975,123)	154,978,747
Loss on impairment of real estate held-for-sale			(750,000)	
Loss on operations of real estate held-for-sale	(186,491)	(71,473)	(643,073)	(763,334)
Loss from discontinued operations	(186,491)	(71,473)	(1,393,073)	(763,334)
Net (loss) income	(2,388,184)	(1,353,994)	(12,368,196)	154,215,413
Net income attributable to noncontrolling interest	54,045	54,067	161,619	161,682
Net (loss) income attributable to Arbor Realty Trust, Inc.	$ (2,442,229)	$ (1,408,061)	$ (12,529,815)	$ 154,053,731
Basic (loss) earnings per common share:				

(Loss) income from continuing operations, net of noncontrolling interest	$	(0.09)	$	(0.05)	$	(0.44)	$	6.08
Loss from discontinued operations		(0.01)		(0.01)		(0.06)		(0.03)
Net (loss) income attributable to Arbor Realty Trust, Inc.	$	(0.10)	$	(0.06)	$	(0.50)	$	6.05
Diluted (loss) earnings per common share:								
(Loss) income from continuing operations, net of noncontrolling interest	$	(0.09)	$	(0.05)	$	(0.44)	$	6.06
Loss from discontinued operations		(0.01)		(0.01)		(0.06)		(0.03)
Net (loss) income attributable to Arbor Realty Trust, Inc.	$	(0.10)	$	(0.06)	$	(0.50)	$	6.03
Dividends declared per common share	$		$		$		$	
Weighted average number of shares of common stock outstanding:								
Basic		25,239,590		25,477,410		25,214,832		25,447,740
Diluted		25,239,590		25,477,410		25,214,832		25,558,270

See Notes to Consolidated Financial Statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Nine Months Ended September 30, 2011

(Unaudited)

	Comprehensive (Loss) Income (1)	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, 2011		25,756,810	$ 257,568	$ 450,686,382	(980,597)	$ (10,669,585)	$ (180,689,667)	$ (55,169,317)	$ 204,415,381	$ 1,999,862	$ 206,415,243
Issuance of common stock for management fee		666,927	6,669	3,968,213					3,974,882		3,974,882
Purchase of treasury stock					(725,988)	(2,958,115)			(2,958,115)		(2,958,115)
Stock-based compensation		105,000	1,050	485,100					486,150		486,150
Distributions preferred stock of private REIT							(10,845)		(10,845)		(10,845)
Net (loss) income	$ (12,368,196)						(12,529,815)		(12,529,815)	161,619	(12,368,196)
Distribution to non-controlling interest										(227,346)	(227,346)
Unrealized gain on securities available-for-sale	1,000,000							1,000,000	1,000,000		1,000,000
Unrealized loss on derivative financial instruments	(19,559,103)							(19,559,103)	(19,559,103)		(19,559,103)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	20,917,481							20,917,481	20,917,481		20,917,481
Balance September 30, 2011	$ (10,009,818)	26,528,737	$ 265,287	$ 455,139,695	(1,706,585)	$ (13,627,700)	$ (193,230,327)	$ (52,810,939)	$ 195,736,016	$ 1,934,135	$ 197,670,151

(1) Comprehensive income for the nine months ended September 30, 2010 was $137,743,261.

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2011 and 2010

(Unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating activities:		
Net (loss) income	$ (12,368,196)	$ 154,215,413
Adjustments to reconcile net (loss) income to net cash (used in) / provided by operating activities:		
Depreciation and amortization	4,130,960	377,837
Stock-based compensation	486,150	310,500
Other-than-temporary impairment		7,004,800
Impairment loss on real estate held-for-sale	750,000	
Gain on extinguishment of debt	(7,919,662)	(229,321,130)
Loss on sale of securities		6,989,583
Provision for loan losses (net of recoveries)	18,318,801	61,177,964
Loss on restructured loans		6,188,571
Amortization and accretion of interest and fees	8,358,378	6,162,557
Change in fair value of non-qualifying swaps	172,055	242,449
(Income) loss from equity affiliates	(3,766,134)	47,335
Changes in operating assets and liabilities:		
Other assets	(1,272,360)	(106,063)
Distributions of operations from equity affiliates	73,339	67,628
Other liabilities	7,114	1,045,407
Change in restricted cash	489,660	
Due to/from related party	(12,153,585)	290,478
Net cash (used in) / provided by operating activities	$ (4,693,480)	$ 14,693,329
Investing activities:		
Loans and investments funded, originated and purchased, net	(99,819,165)	(16,804,362)
Payoffs and paydowns of loans and investments	80,236,090	125,174,049
Deposits received relating to loan held-for-sale		3,000,000
Proceeds from sale of loans	6,160,000	14,500,000
Due to borrowers and reserves	(1,303,036)	568,828
Change in restricted cash	(1,050,000)	
Deferred fees	1,929,467	512,322
Purchase of securities held-to-maturity, net	(4,618,943)	(4,481,719)
Principal collection on available-for-sale securities		172,267
Principal collection on securities held-to-maturity, net	1,039,119	99,499
Proceeds from sale of available-for-sale securities		36,308,162
Proceeds from sale of securities held-to-maturity, net		14,370,469
Investment in real estate, net	(898,694)	(59,475)
Proceeds from investments in real estate, net	931,524	
Proceeds from sale of real estate, net	1,600,000	
Contributions to equity affiliates		(2,557,540)
Distributions from equity affiliates	4,560,979	435,939

Net cash (used in) / provided by investing activities	$	(11,232,659)	$	171,238,439
Financing activities:				
Proceeds from loan participations, repurchase agreements, credit facilities and notes payable		46,598,105		26,000,000
Paydowns of mortgage notes payable real estate owned		(1,600,000)		
Payoffs and paydowns of repurchase agreements and notes payable		(1,880,783)		(160,522,077)
Payoff of junior subordinated notes to subsidiary trust issuing preferred securities				(10,500,122)
Proceeds from collateralized debt obligations		7,800,000		5,500,000
Payoffs and paydowns of collateralized debt obligations		(57,409,630)		(50,328,430)
Change in restricted cash		(12,793,387)		(25,019,942)
Payments on swaps to hedge counterparties		(15,930,000)		(19,310,000)
Receipts on swaps from hedge counterparties		13,190,000		10,490,000
Purchases of treasury stock		(2,958,115)		
Distributions paid to noncontrolling interest		(227,346)		(156,245)
Distributions paid on preferred stock of private REIT		(10,845)		(10,845)
Payment of deferred financing costs		(624,149)		(429,381)
Net cash used in financing activities	$	(25,846,150)	$	(224,287,042)
Net decrease in cash and cash equivalents	$	(41,772,289)	$	(38,355,274)
Cash and cash equivalents at beginning of period		101,124,564		64,624,275
Cash and cash equivalents at end of period	$	59,352,275	$	26,269,001

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (*Continued*)

For the Nine Months Ended September 30, 2011 and 2010

(Unaudited)

	Nine Months Ended September 30,			
	2011		2010	
Supplemental cash flow information:				
Cash used to pay interest	$	32,148,025	$	41,290,321
Cash used for taxes	$	290,133	$	731,316
Supplemental schedule of non-cash investing and financing activities:				
Loans transferred to real estate owned, net	$	83,099,540	$	20,750,000
Assumption of mortgage notes payable real estate owned	$	55,351,004	$	20,750,000
Issuance of common stock for management incentive fee	$	3,974,882	$	
Investment transferred to real estate held-for-sale, net	$	1,945,946	$	5,537,501
Borrower advances made by related party	$	500,000	$	
Extinguishment of notes payable	$		$	159,417,756
Extinguishment of trust preferred securities	$		$	102,110,610
Re-issuance of CDO debt	$		$	42,304,391
Accrual of interest on reissued collateralized debt obligations	$		$	22,941,851
Available-for-sale securities exchanged	$		$	400,000
Investments transferred to available-for-sale securities, at fair value	$		$	35,814,344
Unearned discounts recorded on restructured loans	$		$	7,658,597

See Notes to Consolidated Financial Statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011

(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, par value $0.01 per share, and 100 million shares of preferred stock, par value $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 estimated offering expenses. The Company used the proceeds to pay down 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, the (Warrant Agreement) 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 the other estimated 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

September 30, 2011

(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.

The Company had 24,822,152 shares of common stock outstanding at September 30, 2011 and 24,776,213 shares of common stock outstanding at December 31, 2010.

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. One of the Company s real estate investments was reclassified from real estate owned to real estate held-for-sale at September 30, 2011, which resulted in a reclassification of its operating activity from property operating income and expenses as well as impairment loss to discontinued operations for all prior periods presented.

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 preparation of the Consolidated Interim Financial Statements, the Company evaluated events subsequent to the balance sheet date of September 30, 2011 through the issuance of the Consolidated Financial Statements.

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The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2011. 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, 2010.

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 September 30, 2011 and December 31, 2010, the Company had restricted cash of $34.8 million and $21.1 million, respectively. Restricted cash primarily represents proceeds from loan repayments on deposit with the trustees for the Company s CDOs which will be used to purchase replacement loans as collateral for the CDO that has not reached its replenishment date, unfunded loan commitments, interest payments received from loans and principal repayments for the CDOs that have reached their replenishment dates and are remitted quarterly to the bond holders and the Company in the month following the quarter. See Note 7 Debt Obligations. One of the Company s real estate owned assets also has a restricted cash balance of $1.9 million as of September 30, 2011 due to a first mortgage escrow requirement. 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 September 30, 2011. 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 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

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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 Restructured 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 $170.4 million relating to 23 loans with an aggregate carrying value, before reserves, of approximately $291.9 million at September 30, 2011 and $205.5 million in allowance for loan losses relating to 30 loans with an aggregate carrying value, before reserves, of approximately $530.6 million at December 31, 2010.

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 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 are recorded when the Company has granted a concession to the borrower in the form of principal forgiveness related to the 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

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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 Statement of Operations in the period in which the loan is restructured. The Company recorded a loss on restructured loans of $1.0 million for the nine months ended September 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. For the three and nine months ended September 30, 2010, the Company recorded a loss on restructured loans of $5.4 million and $6.2 million, respectively.

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 nine months ended September 30, 2011 and 2010, the Company recorded charge-offs to the allowance for loan losses of $53.5 million and $92.0 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. 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

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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 September 30, 2011, the Company had total interest reserves of $7.1 million on 31 loans with an aggregate unpaid principal balance of $547.0 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.

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 nine month periods ended September 30, 2011 and 2010, respectively.

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 nine months ended

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September 30, 2011, the Company recorded approximately $7.8 million and $21.3 million, respectively, of property operating income relating to its real estate owned properties, as compared to approximately $0.6 million and $1.2 million, respectively, for the three and nine months ended September 30, 2010. As of September 30, 2011, the Company had three real estate owned properties including 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, another real estate investment was reclassified from real estate owned to real estate held-for-sale in the third quarter of 2011, which resulted in a reclassification of its operating activity from property operating income and expenses into discontinued operations for all prior periods. As of September 30, 2010, the Company had one real estate owned property. See Note 6 Real Estate Owned and Held-For-Sale for further details.

Other income Other income represents 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 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, independent directors, and employees of ACM, restricted 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 vest immediately) or ratably over the respective vesting periods. Dividends are paid on the 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 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

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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 September 30, 2011, accumulated other comprehensive loss was $52.8 million and consisted of $53.9 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. At December 31, 2010, accumulated other comprehensive loss was $55.2 million and consisted of $55.3 million of net unrealized losses on derivatives designated as cash flow hedges and a $0.1 million unrealized gain related to available-for-sale securities.

Derivatives and 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 on 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 utilizes quotations from a third party to assist in the determination of these fair values.

The Company records all derivatives on 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 a 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 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. 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. 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). The Company uses derivatives for hedging purposes rather than speculation. See Note 8 Derivative Financial Instruments for further details.

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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 June 2011, the FASB issued updated guidance on comprehensive income which amends U.S. GAAP to conform to the disclosure requirements of International Financial Reporting Standards (IFRS). 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. This guidance is effective as of the first quarter of 2012, though early adoption is permitted, and its adoption is not expected to 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 amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value, changes certain fair value measurement principles and enhances disclosure requirements. This guidance is effective as of the first quarter of 2012, applied prospectively, and its adoption is not expected to have a material effect on the Company s Consolidated Financial Statements.

In April 2011, the FASB issued updated guidance on a creditor s determination of whether a restructuring will be a troubled debt restructuring, which establishes new guidelines in evaluating whether a loan modification meets the criteria of a troubled debt restructuring. This guidance is effective as of the third quarter of 2011, applied retrospectively to the beginning of the fiscal year as required, and its adoption did not have a material effect on the Company s Consolidated Financial Statements.

In December 2010, the FASB issued updated guidance on business combinations, which clarifies that when pro forma financial information is required, it is to be presented as if the business combination occurred at the beginning of the prior year. The guidance also requires a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination. The guidance is effective for business combinations in fiscal years beginning on or after December 15, 2010 and the adoption of this guidance on January 1, 2011 did not have a material effect on the Company s Consolidated Financial Statements.

In July 2010, the FASB issued updated guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses which requires a greater level of information disclosed about the credit quality of loans and allowance for loan losses, as well as additional information related to credit quality indicators, past due information, and information related to loans modified in a troubled debt restructuring. This guidance is effective as of the fourth quarter of 2010, except for the information related to loans modified in a troubled debt restructuring which was postponed by the FASB to the third quarter of 2011. As the guidance only amends existing disclosure requirements, its adoption resulted in additional disclosures and did not have a material effect on the Company s Consolidated Financial Statements.

In January 2010, the FASB issued updated guidance on fair value measurements and disclosures, which requires disclosure of details of significant asset or liability transfers in and out of Level 1 and Level 2 measurements within the fair value hierarchy and inclusion of gross purchases, sales, issuances, and settlements in

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the roll forward of assets and liabilities valued using Level 3 inputs within the fair value hierarchy. The guidance also clarifies and expands existing disclosure requirements related to the disaggregation of fair value disclosures and inputs used in arriving at fair values for assets and liabilities using Level 2 and Level 3 inputs within the fair value hierarchy. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, and its adoption did not have a material effect on the Company s Consolidated Financial Statements. The gross presentation of the Level 3 roll forward is required for interim and annual reporting periods beginning after December 15, 2010 and its adoption on January 1, 2011 did not have a material effect on the Company s Consolidated Financial Statements.

Note 3 Loans and Investments

The following table sets forth the composition of the Company s loan and investment portfolio at September 30, 2011 and December 31, 2010:

		September 30, 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	$	906,000,710	60%	56	4.57%	29.9	0%	83%
Mezzanine loans		189,861,183	13%	27	4.61%	35.3	79%	98%
Junior participation loans		328,006,333	22%	11	4.37%	40.3	64%	84%
Preferred equity investments		90,336,631	5%	17	2.79%	63.1	89%	98%
		1,514,204,857	100%	111	4.42%	34.8	29%	86%
Unearned revenue		(14,140,462)						
Allowance for loan losses		(170,371,855)						
Loans and investments, net	$	1,329,692,540						

		December 31, 2010	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	$	1,070,013,851	66%	54	4.14%	33.0	0%	88%
Mezzanine loans		233,406,411	14%	30	4.83%	32.4	78%	97%
Junior participation loans		240,971,047	15%	12	5.15%	41.5	61%	86%
Preferred equity investments		89,472,959	5%	17	5.68%	72.3	90%	98%
		1,633,864,268	100%	113	4.47%	36.3	30%	89%

Unearned revenue		(14,168,578)
Allowance for loan losses		(205,470,302)
Loans and investments, net	$	1,414,225,388

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(1) The 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 September 30, 2011 and December 31, 2010 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 September 30, 2011, the unpaid principal balance related to 27 loans with five unrelated borrowers represented approximately 29% of total assets. At December 31, 2010 the unpaid principal balance related to 32 loans with five unrelated borrowers represented approximately 32% of total assets. As of September 30, 2011 and December 31, 2010, the Company had 111 and 113 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 $319.3 million and a weighted average last dollar loan-to-value (LTV) ratio of 97%, compared to lower-risk loans with a carrying value, before loan loss reserves, of $1.2 billion and a weighted average last dollar LTV ratio of 83% at September 30, 2011.

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 September 30, 2011 and December 31, 2010 is as follows:

	As of September 30, 2011				
Asset Class	**Unpaid Principal Balance**	**Percentage of Portfolio**	**Wtd. Avg. Internal Risk Rating**	**First Dollar LTV Ratio**	**Last Dollar LTV Ratio**
Multi-family	$ 608,019,984	40.2%	3.5	22%	84%
Office	533,624,566	35.2%	3.2	44%	85%
Hotel	135,951,991	9.0%	3.8	45%	88%
Land	162,823,319	10.8%	4.1	0%	91%
Commercial	54,834,997	3.6%	3.6	0%	92%
Condo	14,650,000	1.0%	3.9	67%	90%
Retail	4,300,000	0.2%	3.5	0%	50%
Total	$ 1,514,204,857	100.0%	3.5	29%	86%

	As of December 31, 2010				
Asset Class	**Unpaid Principal Balance**	**Percentage of Portfolio**	**Wtd. Avg. Internal Risk Rating**	**First Dollar LTV Ratio**	**Last Dollar LTV Ratio**
Multi-family	$ 615,788,256	37.7%	3.6	26%	87%
Office	563,914,007	34.5%	3.3	47%	87%
Hotel	220,277,021	13.5%	3.9	25%	95%
Land	164,161,755	10.0%	4.1	0%	94%
Commercial	55,073,229	3.4%	3.6	0%	92%
Condo	14,650,000	0.9%	3.9	66%	90%
Total	$ 1,633,864,268	100.0%	3.6	30%	89%

Geographic Concentration Risk

As of September 30, 2011, 41%, 16%, and 7% 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, 2010, 38%, 15%, and 12% 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 September 30, 2011, the Company determined that the fair value of the underlying collateral securing two impaired loans with an aggregate carrying value of $38.6 million was less than the net carrying value of the loans, resulting in an $11.5 million provision for loan losses. During the nine months ended September 30, 2011, the Company determined that the fair value of the underlying collateral securing seven impaired loans with an aggregate carrying value of $67.7 million was less than the net carrying value of the loans, resulting in a $24.4 million provision for loan losses. In addition, during the three and nine months ended September 30, 2011, the Company recorded $1.3 million and $6.1 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 $10.2 million and $18.3 million for the three and nine months ended September 30, 2011, respectively. Of the $11.5 million and $24.4 million of loan loss reserves recorded during the three and nine months ended September 30, 2011, $5.0 million and $17.9 million, respectively, was attributable to loans on which the Company had previously recorded reserves, while $6.5 million of reserves related to another loan in the Company s portfolio. The Company recorded a $15.2 million and $65.8 million provision for loan losses for the three and nine months ended September 30, 2010, respectively, when it performed an evaluation of its loan portfolio and determined that the fair value of the underlying collateral securing 11 and 21 impaired loans, respectively, with an

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aggregate carrying value of $188.3 million and $340.6 million, respectively, were less than the net carrying value of the loans. In addition, the Company recorded $3.8 million in net recoveries of previously recorded loan loss reserves related to two of the Company s assets during the third quarter of 2010. Of the $3.8 million in recoveries, $3.5 million was related to one asset in which the property was sold and the Company provided financing to the new operator, and as a result of this restructuring, the Company recorded a net recovery of $3.5 million. The Company also recorded a recovery of $0.8 million received in the second quarter of 2010 for a fully reserved loan. The effect of these recoveries resulted in a provision for loan losses, net of recoveries, of $11.3 million and $61.2 million for the three and nine months ended September 30, 2010, 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.

At September 30, 2011, the Company had a total of 23 loans with an aggregate carrying value, before reserves, of $291.9 million for which impairment reserves have been recorded. At December 31, 2010, the Company had a total of 30 loans with an aggregate carrying value, before reserves, of $530.6 million for which impairment reserves have been recorded.

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

	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Allowance at beginning of the period	$ 205,470,302	$ 326,328,039
Provision for loan losses	24,400,000	65,761,004
Charge-offs	(21,809,775)	(92,048,619)
Charge-offs on loans reclassified to real estate owned, net	(31,710,929)	
Market value adjustments		(7,658,597)
Recoveries of reserves	(5,977,743)	(4,583,040)
Allowance at end of the period	$ 170,371,855	$ 287,798,787

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

	For the Nine Months Ended September 30, 2011	September 30, 2010
Charge-offs:		
Multi-family	$ (33,056,027)	$ (39,788,626)
Office	(7,114,677)	

Hotel		(13,350,000)		(8,000,000)
Land				(38,600,926)
Condo				(5,429,330)
Retail				(229,737)
Total	$	(53,520,704)	$	(92,048,619)
Recoveries:				
Multi-family	$	(2,095,986)	$	(4,212,776)
Office		(3,881,757)		
Retail				(370,264)
Total	$	(5,977,743)	$	(4,583,040)
Net Charge-offs	$	(47,542,961)	$	(87,465,579)
Ratio of net charge-offs during the period to average loans and investments outstanding during the period		3.0%		4.6%

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

	September 30, 2011			Three Months Ended September 30, 2011		Nine Months Ended September 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	$ 79,690,663	$ 79,650,620	$ 45,429,670	$ 97,156,956	$ 238,622	$ 135,131,427	$ 1,525,631
Office	40,714,887	35,667,408	23,500,000	37,467,245	646,366	65,960,115	2,246,035
Hotel	33,671,507	35,771,507	33,671,515	33,671,507	244,841	76,171,507	731,050
Land	131,836,199	130,851,691	58,700,000	131,045,930		131,045,930	16,978
Condo	10,000,000	10,000,000	9,070,670	10,000,000	87,208	10,000,000	224,333
Total	$ 295,913,256	$ 291,941,226	$ 170,371,855	$ 309,341,638	$ 1,217,037	$ 418,308,979	$ 4,744,027

	As of December 31, 2010			Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
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	$ 190,572,190	$ 189,163,526	$ 77,681,683	$ 240,124,087	$ 1,274,671	$ 225,841,623	$ 5,715,139
Office	91,205,342	86,132,382	27,996,434	41,372,842	511,347	38,250,888	1,505,373
Hotel	118,671,507	116,643,603	32,021,515	221,207,960	2,869,174	181,958,344	6,416,753
Land	130,255,661	128,686,443	58,700,000	135,037,626	2,361,744	166,491,482	6,950,101
Commercial				38,297,088		38,297,088	
Condo	10,000,000	10,000,000	9,070,670	10,000,000	76,250	12,934,614	264,081
Retail				4,657,818		4,662,818	29,425
Total	$ 540,704,700	$ 530,625,954	$ 205,470,302	$ 690,697,421	$ 7,093,186	$ 668,436,857	$ 20,880,872

(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 September 30, 2011, the Company received $9.4 million in principal payoffs on three bridge loans, a mezzanine loan and a preferred equity investment with a combined carrying value of $19.8 million, recording charge-offs to previously recorded reserves of $10.4 million. The Company also received a paydown of $1.9 million on a mezzanine loan with a carrying value of $4.2 million and recorded a charge-off to previously recorded reserves of $0.7 million, resulting in a remaining balance of $1.6 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. 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. A loss on restructured loans of $1.0 million was recorded during the nine months ended September 30, 2011 as a result of the execution of a forbearance agreement in the first quarter of 2011on a loan modified in the second quarter of 2011.

During the quarter ended September 30, 2010, the Company received $21.4 million in principal payoffs on three bridge loans with an aggregate carrying value of $34.4 million recording a loss on the restructuring of approximately $1.6 million and a charge-off to previously recorded reserves of $11.5 million; wrote down four bridge loans with an aggregate carrying value of $96.9 million, after principal paydowns of $7.3 million, to $78.3 million, recording a loss on the restructuring of approximately $3.8 million and a charge-off to previously recorded reserves of $7.4 million; wrote off a mezzanine loan to previously recorded reserves of $26.8 million; and recorded

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market value adjustments of $7.7 million on two loans due to a modification of loan valuation assumptions. During the quarter ended June 30, 2010, the Company sold one of its bridge loans for $35.0 million and recorded a charge-off to previously recorded reserves of $35.4 million to remove the amount of allowance for loan losses that had previously been recorded related to this loan, received $19.9 million in principal payoffs on two bridge loans and a mezzanine loan with an aggregate carrying value of $20.7 million and wrote down a mezzanine loan with a carrying value, after principal paydowns, of $15.4 million to $10.0 million, recording a loss on the restructuring of approximately $0.8 million and a charge-off to previously recorded reserves of $5.4 million, respectively. The Company also reclassified a $5.6 million loan loss reserve related to a junior participation loan on a property that was acquired through deed-in-lieu of foreclosure and recorded to real estate owned, net on the Company s Consolidated Balance Sheet. See Note 6 Real Estate Owned and Held-For-Sale for further details. There were no charge-offs, reclassifications to real estate owned, recoveries of reserves, or loss on restructured loans for the quarter ended March 31, 2010.

In October 2011, the Company sold a $30.0 million portion of a $67.0 million loan to a third party for $25.3 million of cash.

As of September 30, 2011, ten loans with an aggregate net carrying value of approximately $13.9 million, net of related loan loss reserves of $36.1 million, were classified as non-performing and all ten loans had loan loss reserves. Income 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. As of December 31, 2010, nine loans with an aggregate net carrying value of approximately $25.6 million, net of related loan loss reserves of $54.2 million, were classified as non-performing for which income recognition had been suspended. The Company had previously established loan loss reserves on all of these loans.

A summary of the Company s non-performing loans by asset class as of September 30, 2011 and December 31, 2010 is as follows:

	As of September 30, 2011			As of December 31, 2010		
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	$ 12,937,986	$	$ 12,937,986	$ 41,236,389	$ 1,363,097	$ 39,873,292
Office	8,441,636	5,641,636	2,800,000	9,806,298		9,806,298
Hotel	3,671,507		3,671,507	3,671,507		3,671,507
Land	24,999,972		24,999,972	24,999,972		24,999,972
Total	$ 50,051,101	$ 5,641,636	$ 44,409,465	$ 79,714,166	$ 1,363,097	$ 78,351,069

At September 30, 2011, the Company did not have any loans contractually past due 90 days or more that are still accruing interest. During the quarter ended September 30, 2011, the Company refinanced and/or modified four loans totaling $88.0 million, of which three loans totaling

$20.3 million were considered by the Company to be troubled debt restructurings. During the nine months ended September 30, 2011, the Company refinanced and/or modified 11 loans totaling $224.0 million, of which four loans totaling $32.4 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 classified as troubled debt restructurings.

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

	For the three Months Ended September 30, 2011					For the Nine Months Ended September 30, 2011				
Asset Class	Number of Loans	Original Unpaid Principal Balance	Original Weighted Average Rate of Interest	Modified Unpaid Principal Balance	Modified Weighted Average 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	3	$ 20,345,960	6.04%	$ 17,752,682	3.47%	4	$ 32,390,148	4.99%	$ 29,798,671	3.71%
Office										
Land										
Condo										
Retail										
Total	3	$ 20,345,960	6.04%	$ 17,752,682	3.47%	4	$ 32,390,148	4.99%	$ 29,798,671	3.71%

There were no loans which the Company considered the modifications to be troubled debt restructurings that were subsequently considered non-performing as of September 30, 2011 and no additional loans were considered to be impaired due to the Company s troubled debt restructuring analysis for the nine months ended September 30, 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 September 30, 2011:

	Face Value	Amortized Cost	Beginning Carrying Value	Amortization of Premium	Unrealized Gain / (Loss)	Estimated Fair Value
Common equity securities	$	$ 58,789	$ 176,368	$	$	$ 176,368
Collateralized debt obligation (CDO) bond	10,000,000	1,000,000	1,000,000		1,000,000	2,000,000
Commercial mortgage-backed security (CMBS)	2,100,000	2,100,000	2,122,050	(22,050)		2,100,000
Total available-for-sale securities	$ 12,100,000	$ 3,158,789	$ 3,298,418	$ (22,050)	$ 1,000,000	$ 4,276,368

The following is a summary of the Company s securities classified as available-for-sale at December 31, 2010:

	Face Value	Amortized Cost	Beginning Carrying Value	Other-Than-Temporary Impairment	Unrealized Gain / (Loss)	Estimated Fair Value
Common equity securities	$	$ 88,184	$ 88,184	$ (29,395)	$ 117,579	$ 176,368
Collateralized debt obligation (CDO) bond	10,000,000	7,975,405	7,975,405	(6,975,405)		1,000,000
Commercial mortgage-backed security (CMBS)	2,100,000	2,122,050	2,122,050			2,122,050
Total available-for-sale securities	$ 12,100,000	$ 10,185,639	$ 10,185,639	$ (7,004,800)	$ 117,579	$ 3,298,418

The following is a summary of the underlying credit ratings of the Company s CDO bond and CMBS investments available-for-sale at September 30, 2011 and December 31, 2010:

At September 30, 2011		At December 31, 2010	
Amortized	Percent	Amortized	Percent

Rating (1)	#		Cost	of Total	#		Cost	of Total
BB-		$			1	$	7,975,405	79%
CCC-	2		3,100,000	100%	1		2,122,050	21%
	2	$	3,100,000	100%	2	$	10,097,455	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 $0.2 million at September 30, 2011. As of September 30, 2011, a net unrealized gain totaling $0.1 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 40.8 years, but has an estimated remaining life of 4.6 years based on the maturities of the underlying assets. As of the second quarter of 2010, the Company was no longer accreting income on the security which had $2.0 million of original discount and a fair

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value of $2.0 million at September 30, 2011. As of September 30, 2011, an unrealized gain of $1.0 million was recorded in accumulated other comprehensive loss related to this security.

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 8.7 years, but has an estimated life of 0.8 years based on the extended maturity of the underlying asset and a fair value of $2.1 million at September 30, 2011.

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. As of September 30, 2011, the CDO bond security available-for-sale has been in a loss position as compared to its original purchase price for more than twelve months. Based on the Company s analysis in 2010, the Company concluded that this CDO bond investment was other-than-temporarily impaired and recorded a $7.0 million impairment charge in the second quarter of 2010 to the Company s Consolidated Statement of Operations which was reclassified from accumulated other comprehensive loss. The Company also concluded that the common stock securities were other-than-temporarily impaired and recorded a less than $0.1 million impairment charge to the Consolidated Statement of Operations in the second quarter of 2010. No impairment was recorded on the Company s available-for-sale securities for the three and nine months ended September 30, 2011.

In June 2010, the Company sold three investment grade commercial real estate CDO bonds with an aggregate face value of $44.7 million and an amortized cost of $40.4 million, for $29.9 million, and recorded an aggregate realized loss on sale of securities of $10.5 million in its Consolidated Statement of Operations. Additionally, in June 2010, the Company sold two CMBS investments, with an aggregate face value of $6.5 million and an amortized cost of $6.3 million, for $6.5 million, and recorded an aggregate realized gain on sale of securities of $0.2 million in its Consolidated Statement of Operations. Upon the sale of these securities in the second quarter of 2010, the Company reclassified $11.6 million from accumulated other comprehensive loss into loss on sale of securities based on the specific amounts recorded to accumulated other comprehensive loss for each investment. In the first quarter of 2010, the Company also sold two CMBS investments with a combined amortized cost of $11.1 million for $14.4 million and recorded a gain on sale of securities of $3.3 million.

For the three and nine months ended September 30, 2011, the Company amortized less than $0.1 million of premium into interest income from its CMBS investment while no discount was accreted from its CDO bond investment. For the nine months ended September 30, 2010, the Company accreted approximately $0.8 million of discount into interest income from its CDO bond investments, representing accretion on approximately $7.5 million of total original discount, and approximately $0.1 million of discounts into interest income from its CMBS investments. There was no accretion of discount recorded for the three months ended September 30, 2010.

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The following is a summary of the Company s securities classified as held-to-maturity at September 30, 2011:

	Face Value	Amortized Cost	Carrying Value	Unrealized Gain / (Loss)	Estimated Fair Value
Residential mortgage-backed securities (RMBS)	$ 3,572,836	$ 3,579,824	$ 3,579,824	$	$ 3,579,824
Total securities held-to-maturity	$ 3,572,836	$ 3,579,824	$ 3,579,824	$	$ 3,579,824

The Company s had no securities classified as held-to-maturity at December 31, 2010.

The following is a summary of the underlying credit ratings of the Company s RMBS investments held-to-maturity at September 30, 2011:

		At September 30, 2011	
Rating (1)	#	Amortized Cost	Percent of Total
BB-	1	$ 964,606	27%
NR	1	2,615,218	73%
	2	$ 3,579,824	100%

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

The Company purchased an RMBS investment, at a premium in the third quarter of 2011 for $1.6 million, which is collateralized by a portfolio of residential properties. During the three months ended September 30, 2011, the Company received principal paydowns of $0.7 million, reducing the carrying value to $1.0 million at September 30, 2011. The RMBS investment bears interest at a rate of 5.86%, has a stated maturity of 25.0 years, but has an estimated life of three months based on the estimated maturity of the RMBS investment and a fair value of $1.0 million at September 30, 2011. The Company also purchased an RMBS investment, at par, in the third quarter of 2011 for $3.0 million, which is collateralized by a portfolio of residential properties. During the three months ended September 30, 2011, the Company received principal paydowns of $0.4 million, reducing the carrying value to $2.6 million at September 30, 2011. The RMBS investment bears interest at a rate of 5.93%, has a stated maturity of 39.0 years, but has an estimated life of eight months based on the estimated maturity of the RMBS investment and a fair value of $2.6 million at September 30, 2011. The two RMBS investments were financed with a repurchase agreement with a financial institution for $1.4 million and $2.7 million, respectively, which represents 85% and 90% of the investments, respectively. During the three months ended September 30, 2011, the Company paid down the debt by $0.6 million and $0.3 million, respectively, due to the principal paydowns received on the RMBS investments, reducing the debt amounts to $0.8 million and $2.4 million, respectively, at September 30, 2011.

See Note 7 Debt Obligations for further details.

In October 2011, the Company purchased two RMBS investments, at par, for $10.0 million and $15.0 million, respectively, that bear interest at a rate of 5.68% and 7.21%, respectively, and were financed with a repurchase agreement for $8.5 million and $12.0 million, respectively, which represents 85% and 80% of the investments face value, respectively.

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

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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 September 30, 2011 no impairment was recorded on the Company s securities held-to-maturity.

For the three and nine months ended September 30, 2011, no premium was amortized from the Company s RMBS investments.

The weighted average yield on the Company s CDO bond, CMBS and RMBS investments based on their face values was 1.67%, including the amortization of premium and 0.73%, including the accretion of discount, for the three months ended September 30, 2011 and 2010, respectively, and 0.88%, including the amortization of premium and 3.63%, including the accretion of discount, for the nine months ended September 30, 2011 and 2010, 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 September 30, 2011 and December 31, 2010:

Equity Affiliates	Investment in Equity Affiliates at September 30, 2011	Investment in Equity Affiliates at December 31, 2010	Outstanding Loan Balance to Equity Affiliates at September 30, 2011
930 Flushing & 80 Evergreen	$ 554,476	$ 554,476	$ 23,834,997
450 West 33rd Street.			50,000,000
1107 Broadway		5,720,000	
Alpine Meadows			31,000,000
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	2,097,566	2,147,000	5,000,000
Issuers of Junior Subordinated Notes	578,000	578,000	
Total	$ 60,069,451	$ 65,838,885	$ 134,834,997

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

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

1107 Broadway

In 2005, the Company invested $10.0 million in exchange for a 20% ownership interest in 200 Fifth LLC, which owned two properties in New York City. In May 2007, the Company, as part of an investor group in the 200 Fifth LLC holding partnership, sold the 200 Fifth Avenue property for net proceeds of approximately $450.0 million and the investor group, on a pro-rata basis, retained an adjacent building located at 1107 Broadway. The partnership used the net proceeds from the sale to repay the $402.5 million outstanding debt on both the 200 Fifth Avenue and the 1107 Broadway properties, and used the remaining proceeds as a return of invested capital to the partners. As a result of the transaction, the Company received $9.5 million in proceeds as a return on invested capital and was repaid in full on its $137.0 million mezzanine debt, including all applicable interest.

In October 2007, the partnership sold 50% of its economic interest in the 1107 Broadway property. The partnership was recapitalized with financing of approximately $343.0 million, of which approximately $203.0 million was funded with the unfunded portion to be used to develop the property. The Company received net proceeds of approximately $39.0 million from this transaction as a return on invested capital. The investor group, on a pro-rata basis, retained a 50% economic interest in the property, representing approximately $29.0 million of capital. The Company recorded a $5.7 million investment in equity affiliate, a deferred gain of $5.7 million and a $2.2 million deferred tax asset, related to its 10% retained interest in the 1107 Broadway property. In 2010, the Company received a tax refund of $0.3 million and recorded a $1.9 million valuation allowance against the remaining deferred tax asset.

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In September 2011, the partnership s interest in the property was sold by the partnership and the Company received $4.5 million related to its interest. As a result, in the third quarter of 2011, the Company eliminated the investment of $5.7 million as well as the $5.7 million deferred gain related to this asset, and recorded a gain in income from equity affiliates of $3.6 million as well as other liabilities of $0.8 million for estimated additional costs to be incurred in connection with the closing of the transaction.

West Shore Café

In August 2010, the Company invested approximately $2.1 million in exchange for a 50% non-controlling interest with a 20% preferred return subject to certain conditions in the West Shore Café, a restaurant / inn on an approximate 12,463 square foot lakefront property in Lake Tahoe, California. The Company also provided a $5.5 million first mortgage loan, $5.0 million of which was funded as of September 30, 2011, that matures in August 2013 and bears interest at a yield of 10.5%. During the nine months ended September 30, 2011, the Company received distributions of approximately $0.1 million related to the preferred return, which were recorded as a return of investment.

Alpine Meadows

In the third quarter of 2011, the Company entered into an agreement in which it will receive approximately $28.4 million of net proceeds and the title to a parcel of land for the satisfaction of the Company s $31.0 million Alpine Meadows loan and corresponding equity investment. The Company expects this transaction to close in the fourth quarter of 2011 and will record the land at its estimated fair value.

Note 6 Real Estate Owned and Held-For-Sale

The Company had a $29.8 million loan secured by a portfolio of multifamily assets in various locations of the United States that had a maturity date of June 2010 and a weighted average interest rate of approximately 4.26%. In prior years, the Company established an $18.4 million provision for loan loss related to this portfolio reducing its carrying value to $11.4 million as of December 31, 2010. In March 2011, the Company purchased the portfolio of multifamily assets securing this loan out of bankruptcy and assumed a $55.4 million first mortgage loan secured by the portfolio of assets. As of the date of this transaction, as well as at December 31, 2010, the loan was past due and non-performing. The Company recorded this transaction as real estate owned in its first quarter 2011 Consolidated Financial Statements at a fair value of $65.3 million and the carrying value of the loan represented the fair value of the underlying collateral at the time of the transfer. For the first quarter of 2011, the Company did not record any property operating income or expenses from this portfolio because ownership did not pass to the Company until the end of the quarter and the Company believes that any operating activity that occurred was immaterial to the Company s interim Consolidated Financial Statements. In the second quarter of 2011, one of the properties in the portfolio was sold to a third party for $1.6

million and the proceeds were used to pay down the first lien mortgage. No gain or loss was recorded on the transaction as the asset was sold for its historical cost basis. For the three and nine months ended September 30, 2011, the Company recorded property operating income of $2.5 million and $5.0 million, respectively, property operating expense of $2.4 million and $4.3 million, respectively, and depreciation of $0.8 million and $1.5 million, respectively. At September 30, 2011, this investment s balance sheet was comprised of land and building, net of accumulated depreciation, totaling approximately $63.5 million, cash of $0.4 million, restricted cash of $1.9 million due to a first mortgage escrow requirement, other assets of $0.3 million, other liabilities of $1.1 million and a mortgage note payable of $53.8 million. The Company will finalize the purchase price allocation within one year of the acquisition date.

The Company had an $85.0 million loan secured by a portfolio of six hotel assets in Florida that had a maturity date of July 2014 and a weighted average interest rate of approximately 3.75%. During 2010, the Company established a $13.4 million provision for loan loss related to this portfolio reducing its carrying value to $71.6 million as of December 31, 2010. In February 2011, the portfolio of hotel assets securing this loan were transferred to the Company by the owner, a creditor trust. As of the date of this transaction, as well as at December 31, 2010, the loan was contractually current. The Company recorded this transaction as real estate owned in its first quarter

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2011 Consolidated Financial Statements at a fair value of $67.3 million and the carrying value of the loan represented the fair value of the underlying collateral at the time of the transfer. For the three and nine months ended September 30, 2011, the Company recorded property operating income of $4.7 million and $14.4 million, respectively, property operating expense of $4.3 million and $11.5 million, respectively, and depreciation of $0.8 million and $2.1 million, respectively. The operating results of the hotels are seasonal with the majority of revenues earned in the first two quarters of the calendar year. At September 30, 2011, this investment s balance sheet was comprised of land and building, net of accumulated depreciation, totaling approximately $65.7 million, cash of $0.2 million, other assets of $2.0 million, receivable from related party of $1.1 million and other liabilities of $1.5 million. The Company will finalize the purchase price allocation within one year of the acquisition date.

The Company had a $5.6 million junior participating interest in a first mortgage loan secured by an apartment building in Tucson, Arizona that had a maturity date of July 2012 and bore interest at a fixed rate of 10%. During 2009, the Company established a $5.6 million provision for loan loss related to this property equal to the carrying value of the loan and in the second quarter of 2010, the Company purchased the property securing this loan by deed-in-lieu of foreclosure and assumed the $20.8 million interest in a first mortgage loan. The Company recorded this transaction as real estate owned in its Consolidated Financial Statements at a fair value of $20.8 million and the carrying value of the loan represented the fair value of the underlying collateral at the time of the transfer. For the three and nine months ended September 30, 2011, the Company recorded property operating income of $0.6 million and $1.8 million, respectively, property operating expense of $0.6 million and $1.8 million, respectively, and depreciation of $0.2 million and $0.6 million, respectively. For the three and nine months ended September 30, 2010, the Company recorded property operating income of $0.6 million and $1.2 million, respectively, property operating expense of $0.7 million and $1.4 million, respectively, and depreciation of $0.2 million and $0.4 million, respectively. At September 30, 2011, this investment s balance sheet was comprised of land and building, net of accumulated depreciation, totaling approximately $19.6 million, cash of $0.1 million, other assets of $0.7 million, mortgage note payable of $20.8 million and other liabilities of $0.3 million.

The Company had a $4.0 million bridge loan secured by a hotel located in St. Louis, Missouri that matured in 2009 and bore interest at a variable rate of LIBOR plus 5.00%. In April 2009, the borrower delivered a deed-in-lieu of foreclosure to the Company. As a result, during the second quarter of 2009 the Company recorded this investment on its balance sheet as real estate owned at a fair value of $2.9 million. The carrying value represented the fair value of the underlying collateral at the time of the transfer. During the second quarter of 2011, through site visits and discussion with market participants, the Company determined that the asset exhibited indicators of impairment and performed an impairment analysis. As a result of the impairment analysis based on the indicators of value from the market participants, the Company recorded an impairment loss of $0.8 million in the Consolidated Statement of Operations. During the third quarter of 2011, the Company entered into negotiations to sell the property to a third party at which time it was determined that the property met the held-for-sale requirements pursuant to the accounting guidance. The Company will continue to receive cash flows from this property until a sale is completed within one year. As a result, the Company reclassified this investment from real estate owned to real estate held-for-sale at a value of $1.9 million and reclassified property operating income and expenses and impairment loss for current and prior periods to discontinued operations in the Company s Consolidated Financial Statements. For the three and nine months ended September 30, 2011, loss from discontinued operations consisted of property operating income of $0.1 million and $0.3 million, respectively, property operating expense of $0.2 million and $0.9 million, respectively, and depreciation of less than $0.1 million for both periods. For the three and nine months ended September 30, 2010, loss from discontinued operations consisted of property operating income of $0.2 million and $0.7 million, respectively, property operating expense of $0.4 million and $1.2 million, respectively, and depreciation of less than $0.1 million for both periods. At September 30, 2011, this investment s balance sheet was comprised of land and building, net of accumulated depreciation, totaling approximately $1.9 million, other assets of $0.1 million and other liabilities of $0.6 million.

The Company had a $9.9 million bridge loan secured by a motel located in Long Beach, California that matured in 2008 and bore interest at a variable rate of LIBOR plus 4.00%. During 2008 and 2009, the Company recorded a $4.3 million provision for loan loss related to this property reducing the carrying amount to $5.6 million. In August 2009, the Company was the winning bidder at a foreclosure sale of the property securing this loan which was recorded as real estate owned. The carrying value represented the then fair value of the underlying collateral at

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the time of the sale. During the third quarter of 2010, the Company agreed to sell the property to a third party at which time it was determined that the property met the held-for-sale requirements pursuant to the accounting guidance. As a result, the Company reclassified this investment from real estate owned to real estate held-for-sale at a value of $5.5 million and reclassified property operating income and expenses for current and prior periods to discontinued operations in the Company s Consolidated Financial Statements. For the three and nine months ended September 30, 2010, loss from discontinued operations consisted of property operating income of $0.2 million and $0.4 million, respectively, property operating expense of $0.1 million and $0.7 million, respectively, and depreciation of less than $0.1 million for both periods. In addition, discontinued operations have not been segregated in the Company s Consolidated Statements of Cash Flows. The Company sold the property to the third party receiving net proceeds of approximately $6.8 million and recording a gain to income from discontinued operations of $1.3 million in October 2010.

The Company had a $5.0 million mezzanine loan secured by an office building located in Indianapolis, Indiana that was scheduled to mature in June 2012 and bore interest at a fixed rate of 10.72%. During the first quarter of 2008, the Company established a $1.5 million provision for loan loss related to this property reducing the carrying value to $3.5 million at March 31, 2008. In April 2008, the Company was the winning bidder at a UCC foreclosure sale of the entity which owns the equity interest in the property securing this loan, subject to a $41.4 million first mortgage on the property. As a result, during the second quarter of 2008, the Company recorded this investment on its Consolidated Balance Sheet as real estate owned at fair value, which included the Company s $3.5 million carrying value of the mezzanine loan and the $41.4 million first lien mortgage note payable. During the third quarter of 2009, the Company mutually agreed with the first mortgage lender to appoint a receiver to operate the property and the Company is working to assist in the transfer of title to the first mortgage lender. As a result, the Company reclassified this investment from real estate owned to real estate held-for-sale at a fair value of $41.4 million, reclassified property operating income and expenses for the current and prior periods to discontinued operations in the Company s Consolidated Financial Statements, and recorded an impairment loss of $4.9 million in 2009. The Company had originally planned to transfer the property to the first mortgage lender within one year of the date of its designation as held-for-sale, however, due to circumstances beyond the Company s control, the transfer has not been completed within the one year time frame. The Company believes it is reasonable to expect the transfer to be completed in 2011. Based on the facts and circumstances related to this property, the Company will continue to account for this investment as real estate held-for-sale. As of September 30, 2011, this real estate held-for-sale investment consisted of land and building, net of accumulated depreciation, of approximately $41.4 million. At September 30, 2011, the Company also had a mortgage note payable held-for-sale of $41.4 million and other liabilities of $1.2 million. The Company did not record interest expense related to the note payable, as the interest expense is non-recourse and the Company is in the process of cooperating with the receiver and the first lien holder in order for the first lien holder to take title to the office building. For the three and nine months ended September 30, 2011 and 2010, the receiver s issued financial statements reported net income for the office building investment. The Company believes these amounts are not realizable at this time and, as such, did not record any income or loss on this held-for-sale investment.

As of September 30, 2011, the Company s six hotel properties and eight multifamily properties classified as real estate owned had weighted average occupancy rates of 54.5% and 81.6%, respectively.

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Note 7 Debt Obligations

The Company utilizes repurchase agreements, collateralized debt obligations, junior subordinated notes, a warehouse credit facility, a note payable, loan participations and mortgage notes payable to finance certain of its loans and investments. Borrowings underlying these arrangements are primarily secured by a significant amount of the Company s loans and investments.

Repurchase Agreements and Credit Facilities

The following table outlines borrowings under the Company s repurchase agreements and credit facilities as of September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Repurchase agreement, financial institution, rolling monthly term, interest is variable based on one-month LIBOR; the weighted average note rate was 1.51%	$ 3,187,214	$ 3,579,824	$	$
Repurchase agreement, financial institution, expiration June 2011, interest was variable based on one-month LIBOR; the weighted average note rate was 2.80%			990,997	523,938
Warehousing credit facility, financial institution, $50.0 million committed line, expiration July 2013, interest is variable based on one-month LIBOR, the weighted average note rate was 3.03%	11,721,105	18,567,000		
Total repurchase agreements and credit facilities	$ 14,908,319	$ 22,146,824	$ 990,997	$ 523,938

At September 30, 2011 and December 31, 2010, the weighted average note rate for the Company s repurchase agreements and credit facilities was 2.71% and 2.80%, respectively. There were no interest rate swaps on this repurchase agreement at September 30, 2011 and December 31, 2010.

In July 2011, the Company financed the purchase of two RMBS investments with a repurchase agreement with a financial institution for $1.4 million and $2.7 million, respectively. During the three months ended September 30, 2011, the Company paid down the debt by $0.6 million and $0.3 million, respectively, due to principal paydowns received on the RMBS investments, reducing the debt amounts to $0.8 million and $2.4 million, respectively, at September 30, 2011. See Note 4 Securities for further details. The facility represents 85% and 90% of the investments, respectively, has a rolling monthly term, and bears interest at a rate of 125 basis points over LIBOR. The facility also includes a minimum net worth covenant of $100.0 million and the committed amount reflects the two investments currently financed in the facility. In October 2011, the Company purchased another two RMBS investments for $10.0 million and $15.0 million, respectively, which were financed with this facility for $8.5 million and $12.0 million, respectively, representing 85% and 80% of the investments face value, respectively.

In July 2011, the Company entered into a two year, $50.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties. The facility bears interest at a rate of 275 basis points over LIBOR, required a 1.00% commitment fee upon closing, matures in July 2013 with a one year extension option that requires two 5% paydowns and has warehousing and non-use fees. The facility also has a maximum advance rate of 75% and contains several restrictions including full repayment of an advance if a loan becomes 60 days past due, is in default or is written down by the Company. The facility also includes various financial covenants including a minimum liquidity requirement of $20.0 million, minimum tangible net worth which includes junior subordinated notes as equity of $150.0 million, maximum total liabilities less subordinate debt of $2.0 billion, as well as certain other debt service coverage ratios and debt to equity ratios. The facility also has a compensating

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balance requirement of $50.0 million to be maintained by the Company and its affiliates. At September 30, 2011, the outstanding balance of this facility was $11.7 million.

The Company also had a repurchase agreement that bore interest at 250 basis points over LIBOR. In June 2009, the Company amended this facility extending the maturity to June 2010, with a one year extension option. In June 2010, the Company exercised the option, extending the maturity to June 2011. In addition, the amendment included the removal of all financial covenants and a reduction of the committed amount reflecting the one asset financed in the facility. In June 2011, the Company repaid the facility in full.

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Collateralized Debt Obligations

The following table outlines borrowings and the corresponding collateral under the Company s collateralized debt obligations as of September 30, 2011:

	Debt		**Collateral**						
			Loans		**Securities**			**Cash**	
(Amounts in thousands)	**Face Value**	**Carrying Value**	**Unpaid Principal (1)**	**Carrying Value (1)**	**Face Value**	**Carrying Value**	**Fair Value (2)**	**Restricted Cash (3)**	**Collateral At-Risk (4)**
CDO I Issued four investment grade tranches January 19, 2005. Reinvestment period through April 2009. Stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 4.92%	$ 167,429,796	$ 173,562,984	$ 329,814,066	$ 277,063,804	$	$	$	$ 4,241,612	$ 142,245,638
CDO II Issued nine investment grade tranches January 11, 2006. Reinvestment period through April 2011. Stated maturity date of April 2038. Interest is	288,247,147	294,549,213	460,603,946	407,227,369	10,000,000	2,000,000	2,000,000	79,004	131,935,284

variable based on three-month LIBOR; the weighted average note rate was 2.78%									
CDO III Issued 10 investment grade tranches December 14, 2006. Reinvestment period through January 2012. Stated maturity date of January 2042. Interest is variable based on three-month LIBOR; the weighted average note rate was 1.21%	535,340,000	544,653,808	608,002,846	554,232,862				1,947,996	204,471,638
Total CDOs	$ 991,016,943	$ 1,012,766,005	$ 1,398,420,858	$ 1,238,524,035	$ 10,000,000	$ 2,000,000	$ 2,000,000	$ 6,268,612	$ 478,652,560

The following table outlines borrowings and the corresponding collateral under the Company s collateralized debt obligations as of December 31, 2010:

	Debt		Collateral						
			Loans		Securities			Cash	
(Amounts in thousands)	Face Value	Carrying Value	Unpaid Principal (1)	Carrying Value (1)	Face Value	Carrying Value	Fair Value (2)	Restricted Cash (3)	Collatera At-Risk (4
CDO I Issued four investment grade tranches January 19, 2005. Reinvestment period through April 2009. Stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 4.52%	$ 220,475,564	$ 226,770,198	$ 413,724,169	$ 337,901,200	$	$	$	$ 474,669	$ 171,330,7
CDO II Issued nine investment grade tranches January 11, 2006. Reinvestment period through April 2011. Stated maturity date of April 2038. Interest is variable based on	295,530,671	301,999,004	446,125,317	404,475,017	10,000,000	1,000,000	1,000,000	1,529,307	141,439,5

three-month LIBOR; the weighted average note rate was 2.77%									
CDO III Issued 10 investment grade tranches December 14, 2006. Reinvestment period through January 2012. Stated maturity date of January 2042. Interest is variable based on three-month LIBOR; the weighted average note rate was 1.77%	532,540,000	542,083,353	609,849,262	561,766,846				49,810	174,133,
Total CDOs	$ 1,048,546,235	$ 1,070,852,555	$ 1,469,698,748	$ 1,304,143,063	$ 10,000,000	$ 1,000,000	$ 1,000,000	$ 2,053,786	$ 486,903,

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(1) Amounts include loans to real estate assets consolidated by the Company that were reclassified to real estate owned and held-for-sale, net on the Consolidated Financial Statements.

(2) The security with a fair value of $2,000,000 was rated a CCC- at September 30, 2011 and a BB- at December 31, 2010 by Standard & Poor s.

(3) Represents restricted cash held for reinvestment and/or principal repayments in the CDOs. Does not include restricted cash related to interest payments, delayed fundings and expenses.

(4) Amounts represent the face value of collateral in default, as defined by the CDO indenture, as well as assets deemed to be credit risk . Credit risk assets are reported by each of the CDOs and are generally defined as one that, in the CDO collateral manager s reasonable business judgment, has a significant risk of declining in credit quality or, with a passage of time, becoming a defaulted asset.

At September 30, 2011 and December 31, 2010, the aggregate weighted average note rate for the Company s collateralized debt obligations, including the cost of interest rate swaps on assets financed in these facilities, was 2.29% and 2.63%, respectively. Excluding the effect of swaps, the weighted average note rate at September 30, 2011 and December 31, 2010 was 0.93%.

As of April 15, 2009, CDO I has reached the end of its replenishment date and will no longer make $2.0 million amortization payments to investors that were made quarterly prior to the replenishment date. Investor capital is repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed are recorded as a reduction of the CDO liability.

As of April 15, 2011, CDO II has reached the end of its replenishment date and will no longer make $1.2 million amortization payments to investors that were made quarterly prior to the replenishment date. Investor capital is repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed are recorded as a reduction of the CDO liability.

CDO III has a $100.0 million revolving note class that provides a revolving note facility. The outstanding note balance for CDO III was $544.7 million at September 30, 2011 which included $100.0 million outstanding under the revolving note facility. CDO III is not required to make any amortization payments prior to the end of its replenishment period in January 2012.

In the third quarter of 2011, the Company purchased $10.7 million of investment grade rated Class B, C and D notes originally issued by its CDO I and CDO II issuing entities for a price of $5.6 million from third party investors and recorded a net gain on extinguishment of debt of $5.1 million in its 2011 Consolidated Statement of Operations.

In the second quarter of 2011, the Company purchased $3.5 million of investment grade rated Class C and F notes originally issued by its CDO III issuing entity for a price of $1.6 million from third party investors and recorded a net gain on extinguishment of debt of $1.9 million in its 2011 Consolidated Statement of Operations.

In the first quarter of 2011, the Company purchased a $1.5 million investment grade rated Class F note originally issued by its CDO III issuing entity for a price of $0.6 million from a third party investor and recorded a net gain on extinguishment of debt of $0.9 million in its 2011 Consolidated Statement of Operations.

During the three and nine months ended September 30, 2010, the Company had purchased approximately $21.0 million and $67.7 million, respectively, of investment grade rated Class A2, B, C, D, E, F and G notes originally issued by its three CDO issuing entities for a price of $9.2 million and $22.8 million, respectively, from third party investors and recorded a net gain on extinguishment of debt of $11.8 million and $44.8 million, respectively, in its 2010 Consolidated Statements of Operations.

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The following table sets forth the face amount and gain on extinguishment of the Company s CDO bonds repurchased in the following periods by bond class:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2011		2010		2011		2010	
Class:	**Face Amount**	**Gain**	**Face Amount**	**Gain**	**Face Amount**	**Gain**	**Face Amount**	**Gain**
A2	$	$	$	$	$	$	$ 7,375,000	$ 4,683,125
B	4,500,000	1,636,875	21,000,000	11,790,000	4,500,000	1,636,875	35,500,000	20,182,344
C	3,788,190	2,034,637			5,418,190	2,792,587	12,350,132	9,823,405
D	2,433,912	1,428,950			2,433,912	1,428,950	822,216	680,384
E							1,636,457	1,374,624
F					3,370,000	2,061,250	5,936,662	4,828,921
G							4,030,552	3,254,671
Total	$ 10,722,102	$ 5,100,462	$ 21,000,000	$ 11,790,000	$ 15,722,102	$ 7,919,662	$ 67,651,019	$ 44,827,474

In February 2010, the Company re-issued its own CDO bonds it had acquired throughout 2009 with an aggregate face amount of approximately $42.8 million as part of an exchange for the retirement of $114.1 million of its junior subordinated notes. This transaction resulted in the recording of $65.2 million of additional CDO debt, of which $42.3 million represents the portion of the Company s CDO bonds that were exchanged and $22.9 million represents the estimated interest due on the reissued bonds through their maturity, of which $21.7 million remains at September 30, 2011. See Junior Subordinated Notes below for further details.

The Company intends to own these portfolios of real estate-related assets until their maturities and accounts for these transactions on its Consolidated Balance Sheet as financing facilities. The Company s CDOs are VIEs for which the Company is the primary beneficiary and are consolidated in the Company s Financial Statements accordingly. The investment grade tranches are treated as secured financings, and are non-recourse to the Company.

Junior Subordinated Notes

The following table outlines borrowings under the Company s junior subordinated notes as of September 30, 2011 and December 31, 2010:

	September 30, 2011 Debt Carrying Value	December 31, 2010 Debt Carrying Value
Junior subordinated notes, maturity March 2034, unsecured, face amount of $28.0 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	$ 25,183,833	$ 25,126,543
Junior subordinated notes, maturity April 2035, unsecured, face amount of $7.0 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	6,272,828	6,260,453
Junior subordinated notes, maturity March 2034, unsecured, face amount of $28.0 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	25,183,833	25,126,543
Junior subordinated notes, maturity March 2034, unsecured, face amount of $27.3 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	24,553,547	24,497,690
Junior subordinated notes, maturity June 2036, unsecured, face amount of $14.6 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	13,112,684	13,086,871
Junior subordinated notes, maturity April 2037, unsecured, face amount of $15.7 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	14,090,731	14,062,800
Junior subordinated notes, maturity April 2037, unsecured, face amount of $31.5 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	28,307,492	28,251,162
Junior subordinated notes, maturity April 2035, unsecured, face amount of $21.2 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	19,073,294	19,034,178
Junior subordinated notes, maturity June 2036, unsecured, face amount of $2.6 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	2,364,870	2,359,998
Total junior subordinated notes	$ 158,143,112	$ 157,806,238

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The carrying value under these facilities was $158.1 million at September 30, 2011 and $157.8 million at December 31, 2010, which is net of a deferred amount of $17.7 million and $18.1 million, respectively. The current weighted average note rate was 0.50% at September 30, 2011 and December 31, 2010, however, based upon the accounting treatment for the restructuring mentioned below, the effective rate was 3.85% at September 30, 2011 and December 31, 2010. The impact of these variable interest entities with respect to consolidation is discussed in Note 9 Variable Interest Entities.

In February 2010, the Company retired $114.1 million of its junior subordinated notes, with a carrying value of $102.1 million, in exchange for the re-issuance of its own CDO bonds it had acquired throughout 2009 with an aggregate face amount of $42.8 million, CDO bonds of other issuers it had acquired in the second quarter of 2008 with an aggregate face amount of $25.0 million and a carrying value of $0.4 million, and $10.5 million in cash. This transaction resulted in the recording of $65.2 million of additional CDO debt, of which $42.3 million represents the portion of the Company s CDO bonds that were exchanged and $22.9 million represents the estimated interest due on the bonds through their maturity, a reduction to securities available-for-sale of $0.4 million representing the fair value of CDO bonds of other issuers, and a gain on extinguishment of debt of $26.3 million, or $1.03 per basic and diluted common share, in the first quarter of 2010.

In 2009, the Company retired $265.8 million of its then outstanding trust preferred securities, primarily consisting of $258.4 million of junior subordinated notes issued to third party investors and $7.4 million of common equity issued to the Company in exchange for $289.4 million of newly issued unsecured junior subordinated notes, representing 112% of the original face amount. The notes bear a fixed interest rate of 0.50% per annum until March 31, 2012 or April 30, 2012 (the Modification Period). Thereafter, interest is to be paid at the rates set forth in the existing trust agreements until maturity, equal to three month LIBOR plus a weighted average spread of 2.90%, which was reduced to 2.77% after the exchange in February 2010 mentioned above. The 12% increase to the face amount due upon maturity, which had a balance of $17.7 million at September 30, 2011, is being amortized into expense over the life of the notes.

During the Modification Period, the Company will be permitted to make distributions of up to 100% of taxable income to common shareholders. The Company has agreed that such distributions will be paid in the form of the Company s stock to the maximum extent permissible under the Internal Revenue Service rules and regulations in effect at the time of such distribution, with the balance payable in cash. This requirement regarding distributions in stock can be terminated by the Company at any time, provided that the Company pays the note holders the original rate of interest from the time of such termination.

The junior subordinated notes are unsecured, have original maturities of 25 to 28 years, pay interest quarterly at a fixed rate or floating rate of interest based on three-month LIBOR and, absent the occurrence of special events, are not redeemable during the first two years.

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Notes Payable

The following table outlines borrowings under the Company s notes payable as of September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Note payable relating to investment in equity affiliates, $50.2 million, expiration July 2016, interest is fixed, the weighted average note rate was 4.06%	$ 50,157,708	$ 55,988,411	$ 50,157,708	$ 55,988,411
Junior loan participation, maturity of July 2012, secured by the Company s interest in a mezzanine loan with a principal balance of $32.0 million, participation interest was based on a portion of the interest received from the loan which has a variable rate of LIBOR plus 4.35%	32,000,000	32,000,000		
Junior loan participation, maturity of August 2012, secured by the Company s interest in a mezzanine loan with a principal balance of $11.8 million. The participation has a 0% rate of interest	2,000,000	2,000,000		
Junior loan participation, secured by the Company s interest in a first mortgage loan with a principal balance of $1.3 million, participation interest was based on a portion of the interest received from the loan which has a fixed rate of 9.57%	1,300,000	1,300,000	1,300,000	1,300,000
Total notes payable	$ 85,457,708	$ 91,288,411	$ 51,457,708	$ 57,288,411

At September 30, 2011 and December 31, 2010, the aggregate weighted average note rate for the Company s notes payable was 4.12% and 3.95%, respectively. There were no interest rate swaps on the notes payable at September 30, 2011 and December 31, 2010.

In 2008, the Company recorded a $49.5 million note payable after receiving cash related to a transaction with Lightstone Value Plus REIT, L.P. to exchange the Company s profits interest in Prime Outlets Member, LLC (POM) for operating partnership units in Lightstone Value Plus REIT, L.P. The note, which was paid down to $48.5 million as of December 31, 2008, was initially secured by the Company s interest in POM, matures in July 2016 and bears interest at a fixed rate of 4.06% with payment deferred until the closing of the transaction. Upon the closing of the POM transaction in March 2009, the note balance was increased to $50.2 million and is secured by the Company s investment in common and preferred operating partnership units in Lightstone Value Plus REIT, L.P. In March 2009, the Company also recorded a gain on exchange of profits interest of $56.0 million. At September 30, 2011, the outstanding balance of this note was $50.2 million.

In April 2011, the Company entered into a non-recourse junior loan participation in the amount of $32.0 million on a $50.0 million mezzanine loan. The loan was participated out to a subordinate lender at a discount and the Company received $28.8 million of proceeds. The subordinate lender will receive its proportionate share of the interest received from the loan, which has a variable rate of LIBOR plus 4.35% and a maturity of July 2012. The Company also has the right to sell its $18.0 million senior participation to the subordinate lender, at face value, in the event of default or if the loan is not repaid by July 9, 2012. The outstanding balance of this junior loan participation was $32.0 million at September 30, 2011. In June 2011, the Company entered into a non-recourse junior loan participation in the amount of $2.0 million on an $11.8 million mezzanine loan. The participation has a 0% rate of interest and a maturity of August 2012. The outstanding balance of this junior loan participation was $2.0 million at September 30, 2011. The Company also has a junior loan participation with an outstanding balance at September 30, 2011of $1.3 million on a $1.3 million bridge loan. Participations have a maturity date equal to the

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corresponding mortgage loan and are secured by the participant s interest in the mortgage loan. Interest expense is based on the portion of the interest received from the loan that is paid to the junior participant. The Company s obligation to pay interest on the participation is based on the performance of the related loan.

In the first quarter of 2010, the Company entered into an agreement with Wachovia Bank, National Association, owned by Wells Fargo, National Association (Wachovia) whereby the Company could retire all of its $335.6 million of debt outstanding at the time the parties began to negotiate the agreement for a discounted payoff amount of $176.2 million, representing 52.5% of the face amount of the debt. The $335.6 million of indebtedness was comprised of $286.1 million of term debt and a $49.5 million working capital facility. Upon closing on the discounted payoff agreement on June 30, 2010, the Company recorded a $158.4 million gain to its 2010 Consolidated Statement of Operations, net of $0.4 million of stock warrant expense and $0.6 million of other various expenses and commissions. Estimated state income taxes were approximately $1.8 million, reduced to $0.9 million in the fourth quarter of 2010, and recorded in provision for income taxes resulting in a net gain of approximately $157.5 million.

Mortgage Notes Payable Real Estate Owned

During the first quarter of 2011, the Company assumed a $55.4 million interest-only first lien mortgage in connection with the acquisition of real property pursuant to bankruptcy proceedings for an entity in which the Company had a $29.8 million loan secured by a portfolio of multifamily assets. The real estate investment was classified as real estate owned in the Company s Consolidated Balance Sheet in March 2011. The mortgage bears interest at a variable rate of one-month LIBOR plus 1.23% and has a maturity date of March 2014 with a one year and three month extension option. In June 2011, one of the properties in the portfolio was sold to a third party for $1.6 million and the proceeds were used to pay down the first lien mortgage to a balance of $53.8 million at September 30, 2011.

During the second quarter of 2010, the Company assumed a $20.8 million interest-only first lien mortgage related to a deed in lieu of foreclosure agreement for an entity in which the Company had a $5.6 million junior participation loan secured by an apartment building. The real estate investment was classified as real estate owned in April 2010. The mortgage bears interest at a fixed rate of 6.23% and has a maturity date of December 2013 with a five year extension option.

The total outstanding balance of these mortgages was approximately $74.5 million and $20.8 million at September 30, 2011 and December 31, 2010, respectively.

Mortgage Note Payable - Held-For-Sale

During the second quarter of 2008, the Company assumed a $41.4 million interest-only first lien mortgage related to the foreclosure of an entity in which the Company had a $5.0 million mezzanine loan. The real estate investment was originally classified as real estate owned and was reclassified as real estate held-for-sale at September 30, 2009. The mortgage bears interest at a fixed rate of 6.13% and has a maturity date of June 2012. The outstanding balance of this mortgage was $41.4 million at September 30, 2011 and December 31, 2010.

Debt Covenants

The Company s debt facilities contain various financial covenants and restrictions, including minimum net worth, minimum liquidity and maximum debt balance requirements, as well as certain other debt service coverage ratios and debt to equity ratios. The Company was in compliance with all financial covenants and restrictions at September 30, 2011.

The Company s CDO vehicles contain interest coverage and asset over collateralization covenants that must be met as of the waterfall distribution date in order for the Company to receive such payments. If the Company fails these covenants in any of its CDOs, all cash flows from the applicable CDO would be diverted to repay principal and interest on the outstanding CDO bonds and the Company would not receive any residual

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payments until that CDO regained compliance with such tests. The Company s CDOs were in compliance with all such covenants as of September 30, 2011, as well as on the most recent determination date in October 2011. In the event of a breach of the CDO covenants that could not be cured in the near-term, the Company would be required to fund its non-CDO expenses, including management fees and employee costs, distributions required to maintain REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CDO not in breach of a CDO covenant test, (iii) income from real property and loan assets, (iv) sale of assets, (v) or accessing the equity or debt capital markets, if available. The Company has the right to cure covenant breaches which would resume normal residual payments to it by purchasing non-performing loans out of the CDOs. However, the Company may not have sufficient liquidity available to do so at such time.

The chart below is a summary of the Company s CDO compliance tests as of the most recent determination date in October 2011:

Cash Flow Triggers	**CDO I**	**CDO II**	**CDO III**
Overcollateralization (1)			
Current	207.53%	181.78%	108.47%
Limit	184.00%	169.50%	105.60%
Pass / Fail	Pass	Pass	Pass
Interest Coverage (2)			
Current	290.91%	579.76%	548.96%
Limit	160.00%	147.30%	105.60%
Pass / Fail	Pass	Pass	Pass

(1) The overcollateralization ratio divides the total principal balance of all collateral in the CDO by the total principal balance of the bonds associated with the applicable ratio. To the extent an asset is considered a defaulted security, the asset s principal balance for purposes of the overcollateralization test is the lesser of the asset s market value or the principal balance of the defaulted asset multiplied by the asset s recovery rate which is determined by the rating agencies. Rating downgrades of CDO collateral will generally not have a direct impact on the principal balance of a CDO asset for purposes of calculating the CDO s overcollateralization test unless the rating downgrade is below a significantly low threshold (e.g. CCC-) as defined in each CDO vehicle.

(2) The interest coverage ratio divides interest income by interest expense for the classes senior to those retained by the Company.

As of the determination dates in October 2011, July 2011, April 2011, January 2011 and October 2010, the Company s overcollateralization ratios were 207.53%, 196.92%, 185.59%, 185.88% and 184.24%, respectively, for CDO I; 181.78%, 181.74%, 181.74%, 171.81% and 171.00%, respectively, for CDO II; and 108.47%, 109.50%, 109.89%, 109.50% and 109.47%, respectively, for CDO III. The ratio will fluctuate based on the performance of the underlying assets, transfers of assets into the CDOs prior to the expiration of their respective replenishment dates, purchase or disposal of other investments, and loan payoffs.

Also, no payment due under the Junior Subordinated Indentures may be paid if there is a default under any senior debt and the senior lender has sent notice to the trustee. The Junior Subordinated Indentures are also cross-defaulted with each other.

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Note 8 Derivative Financial Instruments

The Company recognizes all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measures those instruments at fair value. Additionally, the fair value adjustments will affect either accumulated other comprehensive loss until the hedged item is recognized in earnings, or net income (loss) attributable to Arbor Realty Trust, Inc., depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. The ineffective portion of a derivative s change in fair value is recognized immediately in earnings.

In connection with the Company s interest rate risk management, the Company periodically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts. Specifically, the Company s derivative financial instruments are used to manage differences in the amount, timing, and duration of its expected cash receipts and its expected cash payments principally related to its investments and borrowings. The Company s objectives in using interest rate derivatives are to add stability to interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The Company has entered into various interest rate swap agreements to hedge its exposure to interest rate risk on (i) variable rate borrowings as it relates to fixed rate loans; (ii) the difference between the CDO investor return being based on the three-month LIBOR index while the supporting assets of the CDO are based on the one-month LIBOR index; and (iii) use of a LIBOR rate caps in loan agreements.

Derivative financial instruments must be effective in reducing the Company s interest rate risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are 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 for each period until the derivative instrument matures or is settled. 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. 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. The Company does not use derivatives for trading or speculative purposes.

The following is a summary of the derivative financial instruments held by the Company as of September 30, 2011 and December 31, 2010 (dollars in thousands):

			Notional Value					Fair Value	
Designation\ Cash Flow	**Derivative**	**Count**	**September 30, 2011**	**Count**	**December 31, 2010**	**Expiration Date**	**Balance Sheet Location**	**September 30, 2011**	**December 31, 2010**

Non-Qualifying	Basis Swaps	9	$	927,975	9	$	1,056,851	2012	2015	Other Assets	$	1,143	$	1,306
Non-Qualifying	LIBOR Caps	2	$	13,000	1	$	7,000	2012	2013	Other Assets	$	3	$	12
Qualifying	LIBOR Cap	1	$	73,301		$		2013		Other Assets	$	2	$	
Qualifying	Interest Rate Swaps	25	$	548,520	30	$	639,696	2011	2017	Other Liabilities	$	(50,612)	$	(50,803)

The fair value of Non-Qualifying Basis Swap Hedges was $1.1 million and $1.3 million as of September 30, 2011 and December 31, 2010, respectively, and was recorded in other assets in the Consolidated Balance Sheets.

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These basis swaps are used to manage the Company s exposure to interest rate movements and other identified risks but do not meet hedge accounting requirements. The Company is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in benchmark interest rates and uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. These interest rate swaps designated as fair value hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. The fair value of the Non-Qualifying LIBOR Cap Hedges was less than $0.1 million at September 30, 2011 and December 31, 2010, and is recorded in other assets in the Consolidated Balance Sheets. The Company entered into these hedges in the fourth quarter of 2010 and the first quarter of 2011 due to loan agreements which required LIBOR Caps of 1% to 2%. In addition, during the nine months ended September 30, 2011, the notional value on two basis swaps decreased by approximately $128.9 million pursuant to the contractual terms of the respective swap agreements. During the nine months ended September 30, 2010, the notional value of one basis swap decreased by approximately $4.9 million pursuant to the contractual terms of the swap agreement. For the three months ended September 30, 2011 and 2010, the change in fair value of the Non-Qualifying Swaps was $0.4 million and $(1.0) million, respectively, and for the nine months ended September 30, 2011 and 2010, the change in fair value of the Non-Qualifying Swaps was $(0.2) million and $(0.2) million, respectively, and was recorded in interest expense on the Consolidated Statements of Operations.

The fair value of Qualifying Interest Rate Swap Cash Flow Hedges as of September 30, 2011 and December 31, 2010 was $(50.6) million and $(50.8) million, respectively, and was recorded in other liabilities in the Consolidated Balance Sheets. The change in the fair value of Qualifying Interest Rate Swap Cash Flow Hedges was recorded in accumulated other comprehensive loss in the Consolidated Balance Sheets. These interest rate swaps are used to hedge the variable cash flows associated with existing variable-rate debt, and amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate debt. During the nine months ended September 30, 2011, the Company entered into a LIBOR Cap with a notional value of approximately $73.3 million that qualifies as a cash flow hedge. The fair value of the Qualifying LIBOR Cap Hedge was less than $0.1 million at September 30, 2011 and is recorded in other assets in the Consolidated Balance Sheet. The Company entered into this hedge in the first quarter of 2011 due to a loan agreement which required a LIBOR Cap of 2%. In addition, during the nine months ended September 30, 2011, the notional value on two interest rate swaps decreased by approximately $14.2 million pursuant to the contractual terms of the respective swap agreements and five interest rate swaps matured with a combined notional value of approximately $78.2 million. During the nine months ended September 30, 2010, the Company entered into two new interest rate swaps that qualify as cash flow hedges with a combined notional value of approximately $7.5 million, the notional value of one interest rate swap decreased by approximately $17.1 million pursuant to the contractual terms of the swap agreement, and four interest rate swaps matured with a combined notional of approximately $22.5 million. As of September 30, 2011, the Company expects to reclassify approximately $(19.8) million of other comprehensive loss from Qualifying Cash Flow Hedges to interest expense over the next twelve months assuming interest rates on that date are held constant.

Gains and losses on terminated swaps are being deferred and recognized in earnings over the original life of the hedged item. These swap agreements must be effective in reducing the variability of cash flows of the hedged items in order to qualify for the aforementioned hedge accounting treatment. As of September 30, 2011 and December 31, 2010, the Company has a net deferred loss of $3.3 million and $4.5 million, respectively, in accumulated other comprehensive loss. The Company recorded $0.4 million as additional interest expense related to the amortization of the loss for the three months ended September 30, 2011 and 2010, respectively, and less than $0.1 million as a reduction to interest expense related to the accretion of the net gains for the three months ended September 30, 2011 and 2010. The Company recorded $1.3 million as additional interest expense related to the amortization of the loss for the nine months ended September 30, 2011 and 2010, respectively, and $0.1 million and $0.2 million as a reduction to interest expense related to the accretion of the net gains for the nine months ended September 30, 2011 and 2010, respectively. The Company expects to record approximately $1.0 million of net deferred loss to interest expense over the next twelve months.

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The following table presents the effect of the Company s derivative financial instruments on the Statements of Operations as of September 30, 2011 and 2010 (dollars in thousands):

		Amount of Gain or (Loss) Recognized in Other Comprehensive Loss (Effective Portion) For the Nine Months Ended		Amount of Loss Reclassified from Accumulated Other Comprehensive Loss into Interest Expense (Effective Portion) For the Nine Months Ended		Amount of Gain Recognized in Interest Expense (Ineffective Portion) For the Nine Months Ended	
Designation \Cash Flow	**Derivative**	**September 30, 2011**	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**
Non-Qualifying	Basis Swaps / Caps	$	$	$	$	$ 152	$ 160
Qualifying	Interest Rate Swaps / Cap	$ 1,358	$ (16,502)	$ (20,918)	$ (23,452)	$	$

The cumulative amount of other comprehensive loss related to net unrealized losses on derivatives designated as Cash Flow Hedges as of September 30, 2011 and December 31, 2010 of approximately $(53.9) million and approximately $(55.3) million, respectively, is a combination of the fair value of qualifying cash flow hedges of $(50.6) million and $(50.8) million, respectively, deferred losses on terminated interest swaps of $(4.2) million and $(5.5) million as of September 30, 2011 and December 31, 2010, respectively, and deferred net gains on termination of interest swaps of $0.9 million and $1.0 million as of September 30, 2011 and December 31, 2010, respectively.

The Company has agreements with certain of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. As of September 30, 2011 and December 31, 2010, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was $(23.6) million and $(21.1) million, respectively. As of September 30, 2011 and December 31, 2010, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $24.0 million and $21.3 million, which is recorded in other assets in the Company s Consolidated Balance Sheets.

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Note 9 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 mortgage related securities are potential 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. The Company s involvement with VIEs primarily affects its financial performance and cash flows through amounts recorded in interest income, interest expense, provision for loan losses and through activity associated with its derivative instruments.

Consolidated VIEs

The Company consolidates its three CDO subsidiaries, which qualify as VIEs, of which the Company is the primary beneficiary. These CDOs invest in real estate and real estate-related securities and are financed by the issuance of CDO debt securities. The Company, or one of its affiliates, is named collateral manager, servicer, and special servicer for all CDO collateral assets which the Company believes gives it the power to direct the most significant economic activities of the entity. The Company also has exposure to CDO losses to the extent of its equity interests and also has rights to waterfall payments in excess of required payments to CDO bond investors. As a result of consolidation, equity interests in these CDOs have been eliminated, and the balance sheet reflects both the assets held and debt issued by the CDOs to third parties. The Company s operating results and cash flows include the gross amounts related to CDO assets and liabilities as opposed to the Company s net economic interests in the CDO entities.

Assets held by the CDOs are restricted and can be used only to settle obligations of the CDOs. The liabilities of the CDOs are non-recourse to the Company and can only be satisfied from each CDO s respective asset pool. Assets and liabilities related to the CDOs are disclosed parenthetically, in the aggregate, in the Company s Consolidated Balance Sheets. See Note 7 Debt Obligations for further details.

The Company is not obligated to provide, has not provided, and does not intend to provide financial support to any of the consolidated CDOs.

Unconsolidated VIEs

The Company determined that it is not the primary beneficiary of 38 VIEs as of September 30, 2011 because it does not have the ability to direct the activities of the VIEs that most significantly impact each entity s economic performance. VIEs, of which the Company is not the primary beneficiary, have an aggregate carrying amount of $577.8 million and exposure to real estate debt of approximately $4.1 billion at September 30, 2011.

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The following is a summary of the Company s variable interests in identified VIEs, of which the Company is not the primary beneficiary, as of September 30, 2011:

Type	Origination Date		Carrying Amount (1)	Property	Location
Loan and investment	Dec 03	$	50,000,000	Office	New York
Loan	Aug 05		17,050,000	Office	New York
Loan	Jan 06		1,355,892	Multifamily	New York
Loan	Mar 06		9,882,130	Office	Pennsylvania
Loan	Jun 06		105,851,719	Land	California
Loan	Aug 06		5,452,137	Multifamily	Indiana
Loan	Sep 06		2,800,000	Office	Rhode Island
Loan	Oct 06		1,361,777	Multifamily	South Carolina
Loan	Oct 06		2,047,849	Multifamily	North Carolina
Loan	May 08		12,491,446	Multifamily	Florida
Loan	Dec 06		62,703,196	Multifamily	New York
Loan	Jan 07		4,048,666	Multifamily	Texas
Loan	Mar 07		1,875,476	Office	South Carolina
Loan	Mar 07		67,036,477	Office	New York
Loan	Feb 07		46,862,722	Multifamily	Florida
Loan	Mar 07		1,994,965	Multifamily	Florida
Loan	Mar 07		3,671,507	Hotel	Arizona
Loan	Mar 07		4,779,630	Multifamily	Michigan
Loan	Jul 07		9,886,150	Multifamily	Texas
Loan	Jul 07		8,560,842	Multifamily	Texas
Loan	Jul 07		4,207,264	Multifamily	Texas
Loan	Feb 08		51,107,239	Multifamily	California
Loan	May 06		10,000,000	Condo	California
Loan	Aug 07		5,957,969	Multifamily	Florida
Loan	Dec 06		32,008,519	Multifamily	Various
Loan	Dec 06		24,999,972	Land	Florida
Loan	Jun 06		1,874,332	Multifamily	Texas
Loan	Aug 10		7,077,671	Hotel	California
Loan	Dec 10		6,852,792	Multifamily	Texas
Loan	Jan 11		1,934,221	Multifamily	Texas
Loan	Apr 11		1,887,532	Multifamily	New York
Loan	Feb 06		1,903,094	Multifamily	Indiana
Investment	May 08		2,000,000	CDO bond	N/A
Investment	Dec 10		2,100,000	CMBS	N/A
Investment	Jul 11		964,606	RMBS	N/A
Investment	Jul 11		2,615,218	RMBS	N/A
Investment	Apr 05		187,000	Junior subordinated notes (2)	N/A

Investment	Jun 06		391,000	Junior subordinated notes (2)	N/A
Total		$	577,781,011		

(1) Represents the carrying amount of loans and investments before reserves. The Company s maximum exposure to loss would not exceed the carrying amount of its investment. At September 30, 2011, $213.4 million of loans to VIEs had corresponding loan loss reserves of approximately $108.8 million and $42.7 million of loans to VIEs were related to loans classified as non-performing. See Note 3 Loans and Investments for further details.

(2) These entities that issued the junior subordinated notes are VIEs. It is not appropriate to consolidate these entities as equity interests are variable interests only to the extent that the investment is considered to be at risk. Since the Company s investments were funded by the entities that issued the junior subordinated notes, it is not considered to be at risk.

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Note 10 Fair Value

Fair Value of Financial Instruments

Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions. The following table summarizes the carrying values and the estimated fair values of the Company s financial instruments as of September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Loans and investments, net	$ 1,329,692,540	$ 1,094,120,025	$ 1,414,225,388	$ 1,185,144,418
Available-for-sale securities, net	4,276,368	4,276,368	3,298,418	3,298,418
Securities held-to-maturity	3,579,824	3,579,824		
Derivative financial instruments	1,147,926	1,147,926	1,317,895	1,317,895
Financial liabilities:				
Repurchase agreements and credit facilities	$ 14,908,319	$ 14,685,166	$ 990,997	$ 984,662
Collateralized debt obligations	1,012,766,005	605,405,365	1,070,852,555	613,631,643
Junior subordinated notes	158,143,112	48,433,065	157,806,238	48,328,132
Notes payable	85,457,708	78,548,104	51,457,708	44,612,375
Mortgage notes payable - real estate owned	74,501,004	67,287,664	20,750,000	20,280,173
Mortgage note payable - held-for-sale	41,440,000	41,002,929	41,440,000	40,781,746
Derivative financial instruments	50,611,786	50,611,786	50,802,533	50,802,533

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instrument:

Loans and investments, net: Fair values of loans and investments that are not impaired are estimated using discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality. Fair values of loans and investments that are impaired are estimated by the Company using significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. For such loans that are impaired, carrying value approximates fair value.

Available-for-sale securities, net: Fair values are approximated based on current market quotes received from financial sources that trade such securities and are based on prevailing market data and, in some cases, are derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions. The fair values of certain CMBS securities are estimated by the Company using significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management.

Securities held-to-maturity: Fair values of RMBS securities are estimated by the Company using significant judgments and are derived from proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions.

Derivative financial instruments: Fair values are approximated based on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future

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market conditions. These items are included in other assets and other liabilities on the Consolidated Balance Sheets. The Company incorporates credit valuation adjustments in the fair values of its derivative financial instruments to reflect counterparty nonperformance risk.

Repurchase agreements, credit facilities, notes payable and mortgage notes payable: Fair values are estimated using discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates for financings with similar characteristics and credit quality.

Collateralized debt obligations: Fair values are estimated based on broker quotations, representing the discounted expected future cash flows at a yield which reflects current market interest rates and credit spreads.

Junior subordinated notes: Fair values are estimated based on broker quotations, representing the discounted expected future cash flows at a yield which reflects current market interest rates and credit spreads.

Fair Value Measurement

Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability s fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments complexity.

Assets and liabilities disclosed at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

- Level 1 Inputs are unadjusted and quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level 1 fair value generally are government and agency securities, equities listed in active markets, investments in publicly traded mutual funds with quoted market prices and listed derivatives.

- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument s anticipated life. Level 2 inputs include quoted market prices in markets that are not active for an identical or similar asset or liability, and quoted market prices in active markets for a similar asset or liability. Fair valued assets and liabilities that are generally included in this category are non-government securities, municipal bonds, certain hybrid financial instruments, certain mortgage and asset-backed securities, certain corporate debt, certain commitments and guarantees, certain private equity investments and certain derivatives.

- Level 3 Inputs reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date. These valuations are based on significant unobservable inputs that require a considerable amount of judgment and assumptions. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Generally, assets and liabilities carried at fair value and included in this category are certain mortgage and asset-backed securities, certain corporate debt, certain private equity investments, certain municipal bonds, certain commitments and guarantees and certain derivatives.

Determining which category an asset or liability falls within the hierarchy requires significant judgment and the Company evaluates its hierarchy disclosures each quarter.

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The Company measures certain financial assets and financial liabilities at fair value on a recurring basis, including available for sale securities and derivative financial instruments. The fair value of these financial assets and liabilities was determined using the following inputs as of September 30, 2011:

						Fair Value Measurements Using Fair Value Hierarchy		
		Carrying Value		**Fair Value**		**Level 1**	**Level 2**	**Level 3**
Financial assets:								
Available-for-sale securities (1)	$	4,276,368	$	4,276,368	$	176,368	$	$ 4,100,000
Derivative financial instruments		1,147,926		1,147,926			1,147,926	
Financial liabilities:								
Derivative financial instruments	$	50,611,786	$	50,611,786	$		$ 50,611,786	$

(1) For the nine months ended September 30, 2011, the Company s equity securities available-for-sale were measured using Level 1 inputs and the Company s CDO bond and CMBS investments available-for-sale were measured using Level 3 inputs.

Available-for-sale securities: Fair values are approximated based on current market quotes received from financial sources that trade such securities. The fair values of available-for-sale securities traded in active markets are approximated using Level 1 inputs, while the fair values of available-for-sale securities that are approximated using current, non-binding market quotes received from financial sources that trade such investments are valued using Level 3 inputs. The fair values of certain CMBS securities are estimated by the Company using Level 3 inputs that require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management.

Derivative financial instruments: Fair values are approximated on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions. These items are included in other assets and other liabilities on the Consolidated Balance Sheet. The Company incorporates credit valuation adjustments in the fair values of its derivative financial instruments to reflect counterparty nonperformance risk.

The following roll forward table reconciles the beginning and ending balances of financial assets measured at fair value on a recurring basis using Level 3 inputs:

		Available-for-sale Securities
Balance as of December 31, 2010	$	3,122,050
Adjustments to fair value:		
Amortization of premium (1)		(22,050)
Unrealized gain (2)		1,000,000
Balance as of September 30, 2011	$	4,100,000

(1) Amortization of premium is recorded in interest expense on the Consolidated Statements of Operations.

(2) Unrealized gain is recorded in accumulated other comprehensive loss on the Consolidated Balance Sheet.

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The Company measures certain financial assets at fair value on a nonrecurring basis, such as impaired loans. The fair value of these financial assets was determined using the following inputs as of September 30, 2011:

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy Level 1	Level 2	Level 3
Financial assets:					
Impaired loans, net (1)	$ 121,569,371	$ 129,690,181	$	$	$ 129,690,181
Real estate held-for-sale Investment (2)	$ 1,945,946	$ 1,945,946	$	$	$ 1,945,946

(1) The Company had an allowance for loan losses of $170.4 million relating to 23 loans with an aggregate carrying value, before loan loss reserves, of approximately $291.9 million at September 30, 2011.

(2) During the second quarter of 2011, the Company recorded an impairment loss of $0.8 million in the Consolidated Statement of Operations related to its hotel investment located in St. Louis, which at the time was classified as a real estate owned asset. During the third quarter of 2011, the Company entered into negotiations to sell the property to a third party at which time it was determined that the property met the held-for-sale requirements pursuant to the accounting guidance. As a result, the Company reclassified this investment from real estate owned to real estate held-for-sale at a value of $1.9 million. This reclassification did not result in a charge to earnings as the property s carrying value at the time of the reclassification approximated its estimated fair value, less costs to sell.

Loan impairment assessments: 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 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 performs evaluations of its loans to determine if the value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, which may result in an allowance and corresponding charge to the provision for loan losses. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. The table above includes all impaired loans, regardless of the period in which impairment was recognized.

Real estate held-for-sale investment assessments: Real estate investments held-for-sale are carried at the lower of cost or fair value, less costs to sell. Measurement of fair value requires significant judgments, which include assumptions regarding cash flows, capitalization rates, occupancy rates, availability of financing, exit plan, and other factors deemed necessary by management as well as discussions with active market participants.

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Note 11 Commitments and Contingencies

Contractual Commitments

As of September 30, 2011, the Company had the following material contractual obligations (dollars in thousands):

Contractual Obligations	Payments Due by Period (1) 2011	2012	2013	2014	2015	Thereafter	Total
Repurchase agreements and credit facilities	$ 3,187	$	$ 11,721	$	$	$	$ 14,908
Notes payable	1,300	34,000				50,158	85,458
Collateralized debt obligations (2)	56,087	233,402	160,972	193,547	81,625	287,133	1,012,766
Junior subordinated notes (3)						175,858	175,858
Mortgage notes payable real estate owned (4)			20,750	53,751			74,501
Mortgage note payable held-for-sale (5)		41,440					41,440
Totals	$ 60,574	$ 308,842	$ 193,443	$ 247,298	$ 81,625	$ 513,149	$ 1,404,931

(1) Represents principal amounts due based on contractual maturities.

(2) Comprised of $173.6 million of CDO I debt, $294.5 million of CDO II debt and $544.7 million of CDO III debt with a weighted average remaining maturity of 1.89, 3.01 and 2.70 years, respectively, as of September 30, 2011. The balance of estimated interest due through maturity on CDO bonds reissued in 2010, which is included in the carrying values of the CDOs, totaled $21.7 million at September 30, 2011. During the nine months ended September 30, 2011, the Company repurchased, at a discount, $15.7 million of investment grade notes originally issued by the Company s CDO I, CDO II and CDO III issuers and recorded a reduction of the outstanding debt balance of $15.7 million.

(3) Represents the face amount due upon maturity. The carrying value is $158.1 million, which is net of a deferred amount of $17.7 million at September 30, 2011.

(4) Represents a $20.8 million mortgage note payable with a contractual maturity in 2013, related to a real estate investment acquired through deed in lieu of foreclosure in April 2010 and a $55.4 million mortgage note payable with a contractual maturity in 2014,

related to a real estate investment purchased out of bankruptcy in the first quarter of 2011, which was paid down in the second quarter of 2011 and had a balance of $53.8 million at September 30, 2011.

(5) Represents a mortgage note payable with a contractual maturity in 2012, related to a real estate investment held-for-sale that is expected to be transferred to the first mortgage lender in 2011.

In accordance with certain loans and investments, the Company has outstanding unfunded commitments of $20.6 million as of September 30, 2011, that the Company is obligated to fund as the borrowers meet certain requirements. Specific requirements include, but are not limited to, property renovations, building construction, and building conversions based on criteria met by the borrower in accordance with the loan agreements. In relation to the $20.6 million outstanding balance at September 30, 2011, the Company s restricted cash balance and CDO III revolver capacity contained approximately $18.4 million available to fund the portion of the unfunded commitments for loans financed by the Company s CDO vehicles.

Litigation

The Company currently is neither subject to any material litigation nor, to management s knowledge, is any material litigation currently threatened against the Company other than the following:

On June 15, 2011, three related lawsuits were filed by the Extended Stay Litigation Trust (the Trust), a post-bankruptcy litigation trust alleged to have standing to pursue claims previously held by Extended Stay, Inc.

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and the Homestead Village L.L.C. family of companies (together ESI) (formerly Chapter 11 debtors, together the Debtors) which have now emerged from bankruptcy. Two of the lawsuits were filed in the United States Bankruptcy Court for the Southern District of New York, and the third in the Supreme Court of the State of New York, New York County. There are 73 defendants in the aggregate in the three lawsuits, including 55 corporate and partnership entities and 18 individuals. A subsidiary of the Company and certain other entities that are affiliates of the Company are included as defendants.

As a factual basis and background for the litigation, the Trust makes certain allegations surrounding the June 2007 sale of ESI from affiliates of Blackstone Capital. In connection with the buyout, the Company s subsidiary, Arbor ESH II, LLC, made a $115.0 million investment in the Series A1 Preferred Units of a holding company of Extended Stay, Inc. The New York State Court action and one of the two federal court actions name as defendants, Arbor ESH II, LLC, Arbor Commercial Mortgage, LLC and ABT-ESI LLC, an entity in which the Company has a membership interest, among the broad group of defendants. These two actions were commenced by substantially identical complaints. The defendants are alleged in these complaints, among other things, to have breached fiduciary and contractual duties by causing or allowing the Debtors to pay illegal dividends or other improper distributions of value at a time when the Debtors were insolvent. These two complaints also allege that the defendants aided and abetted, induced, or participated in breaches of fiduciary duty, waste, and unjust enrichment (Fiduciary Duty Claims) and also name as defendants a director of the Company, and a former general counsel of Arbor Commercial Mortgage, LLC, each of whom had served on the Board of Directors of ESI for a period of time. The Company is defending these two defendants and paying the costs of such defense. On the basis of the foregoing allegations, the Trust has asserted claims under a number of common law theories, seeking the return of assets transferred by the Debtors prior to the Debtors bankruptcy filing.

In the third action, filed in Bankruptcy Court, the same plaintiff, the Trust, has named Arbor Commercial Mortgage, LLC and ABT-ESI LLC, together with a number of other defendants and asserts claims, including constructive and fraudulent conveyance claims under state and federal statutes, as well as a claim under the Federal Debt Collection Procedure Act.

The complaints seek among other things, damages of not less than $2.1 billion, plus punitive damages, on a joint and several basis, from each defendant in connection with the Fiduciary Duty Claims and the return of in excess of $50.0 million which is alleged to have been wrongfully received by the holders of the Series A1 Preferred Units, including Arbor ESH II, LLC. The Company intends to vigorously defend against all of the referenced actions.

Note 12 Equity

Common Stock

The Company s charter provides for the issuance of up to 500 million shares of common stock, par value $0.01 per share, and 100 million shares of preferred stock, par value $0.01 per share.

The Company paid an incentive management fee for the twelve month period ending December 31, 2010 to ACM in a combination of cash and shares of common stock during the first quarter of 2011. The Company issued 666,927 shares of common stock in March 2011 for the portion of the incentive management fee paid in common stock.

In June 2010, the Company filed a shelf registration statement on Form S-3 with the SEC under 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 2011, the Board of Directors authorized a stock repurchase plan that enables the Company to buy up to 1.5 million shares of its common stock. At management s discretion, shares may be acquired from time to time on the open market, through privately negotiated transactions or pursuant to a Rule 10b5-1 plan. A Rule 10b5-1 plan permits the Company to repurchase shares at times when it might otherwise be prevented from doing so. As

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of September 30, 2011, the Company repurchased 725,988 shares of its common stock under the stock repurchase plan at a total cost of $3.0 million and an average cost of $4.07 per share. The Company subsequently repurchased the remaining shares available under the stock repurchase plan in the fourth quarter of 2011.

The Company had 24,822,152 and 24,776,213 shares of common stock outstanding at September 30, 2011 and December 31, 2010, respectively.

Deferred Compensation

On July 22, 2011, the Company issued an aggregate of 105,000 shares of restricted common stock under the 2003 Stock Incentive Plan, as amended and restated in 2009 (the Plan) to the non-management members of the Board of Directors. The 105,000 common shares underlying the restricted stock awards granted were fully vested as of the date of grant and the Company recorded approximately $0.5 million to selling and administrative expense in its Consolidated Statement of Operations in the third quarter of 2011. On April 1, 2010, the Company issued an aggregate of 90,000 shares of restricted common stock under the Plan to the independent members of the Board of Directors. The 90,000 common shares underlying the restricted stock awards granted were fully vested as of the date of grant and the Company recorded $0.3 million to selling and administrative expense in its Consolidated Statement of Operations in the second quarter of 2010.

Warrants

In connection with a debt restructuring with Wachovia Bank in the third quarter of 2009, the Company issued Wachovia 1.0 million warrants at an average strike price of $4.00. 500,000 warrants were exercisable immediately at a price of $3.50, 250,000 warrants are exercisable after July 23, 2010 at a price of $4.00 and 250,000 warrants are exercisable after July 23, 2011 at a price of $5.00. All of the warrants expire on July 23, 2015 and no warrants have been exercised to date. The warrants were valued at approximately $0.6 million upon issuance using the Black-Scholes method. In the first quarter of 2010, the Company partially amortized approximately $0.1 million into interest expense in the Company s Consolidated Statement of Operations. The remaining portion totaling $0.4 million was expensed in the second quarter of 2010 upon closing a discounted payoff agreement with Wachovia Bank.

Noncontrolling Interest

Noncontrolling interest in a consolidated entity on the Company s Consolidated Balance Sheet as of September 30, 2011 and December 31, 2010 was $1.9 million and $2.0 million, respectively, representing a third party s interest in the equity of a consolidated subsidiary that owns an investment and carries a note payable related to the exchange of POM profits interest transaction discussed in Note 7 Debt Obligations . For the three months ended September 30, 2011 and 2010, the Company recorded income of $0.1 million as well as distributions of $0.1 million attributable to noncontrolling interest. For the nine months ended September 30, 2011 and 2010, the Company recorded income of $0.2 million as well as distributions of $0.2 million, attributable to noncontrolling interest.

Note 13 Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to Arbor Realty Trust, Inc. by the weighted average number of shares of common stock outstanding during each period inclusive of unvested restricted stock with full dividend participation. Diluted EPS is calculated by dividing income by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period using the treasury stock method. The Company s common stock equivalents include the dilutive effect of warrants outstanding and the potential settlement of incentive management fees in common stock.

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The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per share computations for the three months ended September 30, 2011 and 2010.

	For the Three Months Ended September 30, 2011		For the Three Months Ended September 30, 2010	
	Basic	**Diluted (1)**	**Basic**	**Diluted (1)**
Loss from continuing operations, net of noncontrolling interest	$ (2,255,738)	$ (2,255,738)	$ (1,336,588)	$ (1,336,588)
Loss from discontinued operations	(186,491)	(186,491)	(71,473)	(71,473)
Loss attributable to Arbor Realty Trust, Inc.	$ (2,442,229)	$ (2,442,229)	$ (1,408,061)	$ (1,408,061)
Weighted average number of common shares outstanding	25,239,590	25,239,590	25,477,410	25,477,410
Dilutive effect of warrants				
Weighted average number of common shares outstanding	25,239,590	25,239,590	25,477,410	25,477,410
Loss from continuing operations, net of noncontrolling interest, per common share	$ (0.09)	$ (0.09)	$ (0.05)	$ (0.05)
Loss from discontinued operations per common share	(0.01)	(0.01)	(0.01)	(0.01)
Net loss attributable to Arbor Realty Trust, Inc. per common share	$ (0.10)	$ (0.10)	$ (0.06)	$ (0.06)

(1) For the three months ended September 30, 2011 and 2010, the Company had a net loss and thus did not have a dilutive effect from one million warrants.

The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per share computations for the nine months ended September 30, 2011 and 2010.

	For the Nine Months Ended September 30, 2011		For the Nine Months Ended September 30, 2010	
	Basic	**Diluted (1)**	**Basic**	**Diluted**
(Loss) income from continuing operations, net of noncontrolling interest	$ (11,136,742)	$ (11,136,742)	$ 154,817,065	$ 154,817,065
Loss from discontinued operations	(1,393,073)	(1,393,073)	(763,334)	(763,334)
	$ (12,529,815)	$ (12,529,815)	$ 154,053,731	$ 154,053,731

Net (loss) income attributable to Arbor Realty Trust, Inc.								
Weighted average number of common shares outstanding		25,214,832		25,214,832		25,447,740		25,447,740
Dilutive effect of warrants								110,530
Weighted average number of common shares outstanding		25,214,832		25,214,832		25,447,740		25,558,270
(Loss) income from continuing operations, net of noncontrolling interest, per common share	$	(0.44)	$	(0.44)	$	6.08	$	6.06
Loss from discontinued operations per common share		(0.06)		(0.06)		(0.03)		(0.03)
Net (loss) income attributable to Arbor Realty Trust, Inc. per common share	$	(0.50)	$	(0.50)	$	6.05	$	6.03

(1) For the nine months ended September 30, 2011, the Company had a net loss and thus did not have a dilutive effect from one million warrants.

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Note 14 Related Party Transactions

Due from related party was approximately $0.6 million at September 30, 2011, and consisted primarily of escrows held by an affiliate of ACM related to a real estate owned transaction. At December 31, 2010, due from related party was approximately $0.3 million which consisted of escrows held by ACM related to real estate transactions.

At September 30, 2011, due to related party was $2.1 million and consisted primarily of base management fees due to ACM, of which $0.6 million will be remitted by the Company in the fourth quarter of 2011. At December 31, 2010, due to related party was $17.4 million and consisted primarily of an incentive management fee for the twelve month period ended December 31, 2010 of approximately $18.8 million, offset by a $3.6 million related party receivable, and base management fees of $2.3 million due to ACM, all of which were remitted by the Company in the first quarter of 2011.

During the second quarter of 2011, the Company originated a mortgage loan to a third party borrower secured by property purchased from ACM, the Company s manager. The loan had an unpaid principal balance of $6.2 million, a maturity date of May 2014 and a variable interest rate of LIBOR plus 6.00%. Upon approving the transaction, the independent directors committee of the Board of Directors required the Company to sell the loan in 90 days and ACM agreed to guarantee the loan until it was sold. In the third quarter of 2011, the loan was sold to an affiliated entity of Mr. Ivan Kaufman for $6.2 million.

During the second quarter of 2011, the Company originated a loan to a third party borrower for a portfolio of properties with an unpaid principal balance of $24.4 million as of September 30, 2011, of which one property in the portfolio was previously financed with a $11.7 million loan that was purchased by ACM, the Company s manager. The $11.7 million loan was repaid as part of the $24.4 million loan on the portfolio. The new loan has a maturity date of May 2016 and a variable interest rate of LIBOR plus 4.75%.

During the first quarter of 2011, the Company originated four mortgage loans totaling $28.4 million to borrowers which were secured by property purchased from ACM, the Company s manager, or its affiliate. Two of the loans totaling $22.4 million have maturity dates of March 2014 and a combined weighted average variable interest rate of 6.23% as of September 30, 2011 and were secured by the same property. The third was a $2.0 million bridge loan with a maturity date of February 2013 and an interest rate of one-month LIBOR plus 6.00%. The fourth was a $4.0 million bridge loan with a maturity date in April 2013 and an interest rate of one-month LIBOR plus 6.00%.

In October 2010, the Company purchased, at par, a $4.7 million bridge loan from ACM. The loan was originated by ACM in June 2010 to a joint venture that acquired a condo development property in Brooklyn, New York. The loan bears interest at a rate of one-month LIBOR plus 8% with a LIBOR floor of 0.5% and a LIBOR cap of 1.5% and has a maturity date of June 2012. In addition, ACM contributed $0.9 million for a 50% non-controlling interest in an entity, which owns 28% of this joint venture. In the third quarter of 2011, ACM sold its investment in this joint venture to an affiliated entity of Mr. Ivan Kaufman for $0.9 million. Interest income recorded from this loan for the three and nine months ended September 30, 2011 was approximately $0.1 million and $0.3 million, respectively.

The Company is dependent upon its manager (ACM), with whom it has a conflict of interest, to provide services to the Company that are vital to its operations. The Company s chairman, chief executive officer and president, Mr. Ivan Kaufman, is also the chief executive officer and president of ACM, and, the Company s chief financial officer, Mr. Paul Elenio, is the chief financial officer of ACM. In addition, Mr. Kaufman and his affiliated entities (the Kaufman Entities) together beneficially own approximately 92% of the outstanding membership interests of ACM and certain of the Company s employees and directors also hold an ownership interest in ACM. Furthermore, one of the Company s directors is general counsel to ACM and another of the Company s directors also serves as the trustee of one of the Kaufman Entities that holds a majority of the outstanding membership interests in ACM and co-trustee of another Kaufman Entity that owns an equity interest in ACM. ACM currently

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holds approximately 5.3 million of the Company s common shares, representing 21.6% of the voting power of the Company s outstanding stock as of September 30, 2011. The Company s Board of Directors approved a resolution under the Company s charter allowing Ivan Kaufman and ACM, (which Mr. Kaufman has a controlling equity interest in), to own more than a 7% ownership interest in the Company.

Note 15 Distributions

Under the terms of the Company s junior subordinated note agreements, annual dividends are limited to 100% of taxable income to common shareholders and are required to be paid in the form of the Company s stock to the maximum extent permissible (currently 90%), with the balance payable in cash. The Company will be permitted to pay 100% of its taxable income in cash if the Company pays the note holders the original rate of interest upon early termination of the agreement or at its expiration in April 2012. See Note 7 Debt Obligations for further details. The Board of Directors has elected not to pay a common stock dividend for the quarter ended September 30, 2011.

The Company is organized and conducts its operations to qualify as a REIT for federal income tax purposes. As a REIT, the Company 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. Also, under current federal tax law, the income and the tax on such income attributable to certain debt extinguishment transactions realized in 2009 or 2010 have been deferred to future periods at the Company s election. As of September 30, 2011 and 2010, the Company was in compliance with all REIT requirements and, therefore, has not provided for income tax expense for the three and nine months ended September 30, 2011 and 2010, with the exception of $1.8 million of estimated state income taxes due to the gain of $158.4 million from closing on the Wachovia discounted payoff agreement in the second quarter of 2010, incurred in those states that did not adopt the federal tax law that allows the Company to elect to defer income generated from certain debt extinguishment transactions. The estimated tax amount was reduced to $0.9 million in the fourth quarter of 2010.

Note 16 Management Agreement

The Company, ARLP and Arbor Realty SR, Inc. have a management agreement with ACM, pursuant to which ACM provides certain services and the Company pays ACM a base management fee and under certain circumstances, an annual incentive fee. On August 6, 2009, the Company amended its management agreement with ACM effective as of January 1, 2009. The amendment was negotiated by a special committee of the Company s Board of Directors, consisting solely of independent directors and approved unanimously by all of the independent directors.

The base management fee is an arrangement whereby the Company reimburses ACM for its actual costs incurred in managing the Company s business based on the parties agreement in advance on an annual budget with subsequent quarterly true-ups to actual costs. The Company s 2009 and 2010 base management fees were $8.0 million and $7.6 million, respectively. The 2011 base management fee is estimated to be approximately $8.1 million, which was approved by the audit committee of the Company s Board of Directors. All origination fees on investments are retained by the Company.

The incentive fee is calculated as (1) 25% of the amount by which (a) the Company s funds from operations per share, adjusted for certain gains and losses including gains from the retirement and restructuring of debt and 60% of any loan loss reserve recoveries (spread over a three year period), exceeds (b) the product of (x) 9.5% per annum or the Ten Year U.S. Treasury Rate plus 3.5%, whichever is greater, and (y) the greater of $10.00 or the weighted average of book value of the net assets contributed by ACM to ARLP per ARLP partnership unit, the offering price per share of the Company s common equity in the private offering on July 1, 2003 and subsequent offerings and the issue price per ARLP partnership unit for subsequent contributions to ARLP, multiplied by (2) the weighted average of the Company s outstanding shares.

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The minimum return, or incentive fee hurdle to be reached before an incentive fee is earned, is a percentage applied on a per share basis to the greater of $10.00 or the average gross proceeds per share. In addition, 60% of any loan loss and other reserve recoveries are eligible to be included in the incentive fee calculation, which recoveries are spread over a three year period.

The management agreement also allows the Company to consider, from time to time, the payment of additional success-based fees to ACM for accomplishing certain specified corporate objectives; has a termination fee of $10.0 million; and is renewable automatically for successive one-year terms, unless terminated with six months prior written notice. If the Company terminates or elects not to renew the management agreement without cause, it is required to pay the termination fee of $10.0 million.

The incentive fee is measured on an annual basis. However, when applicable, the Company will pay the annual incentive fee in quarterly installments, each within 60 days of each fiscal quarter. The quarterly installments are calculated based on the results for the period of twelve months ending on the last day of each quarter with respect to which such installment is payable. Each quarterly installment payment is deemed to be an advance of a portion of the incentive fee payable for the year, with an adjustment at year end to reflect the full year s results. At least 25% of any incentive fee is paid to ACM in shares of the Company s common stock, subject to ownership limitations in the Company s charter. For purposes of determining the number of shares that are paid to ACM to satisfy the common stock portion of the incentive fee from and after the date the Company s common shares are publicly traded, each common share shall have a value equal to the average closing price per common share based on the last 20 days of the fiscal quarter with respect to which the incentive fee is being paid. The incentive fee is accrued as it is earned. The expense incurred for incentive fee paid in common stock is determined using the amount of stock calculated as noted above and the quoted market price of the stock on the last day of each quarter. At December 31 of each year, the Company remeasures the incentive fee expense paid to ACM in shares of the Company s common stock in accordance with current accounting guidance, which discusses how to determine the expense when certain terms are not known prior to the measurement date. Accordingly, any expense recorded related to common stock issued as a portion of incentive fee is adjusted to reflect the fair value of the stock on the measurement date when the final calculation of the total incentive fee is determined. In the event the calculated incentive fee for the full year is an amount less than the total of the installment payments made to ACM for the year, ACM will refund to the Company the amount of such overpayment in cash regardless of whether such installments were paid in cash or common stock. In such a case, the Company would record a negative incentive fee expense in the quarter when such overpayment is determined.

The following table sets forth the Company s base management fees and incentive fees for the periods indicated:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Management Fees:	**2011**	**2010**	**2011**	**2010**
Base	$ 2,050,000	$ 1,900,000	$ 6,050,000	$ 5,800,000

Incentive								
Total management fee	$	2,050,000	$	1,900,000	$	6,050,000	$	5,800,000

For the three months ended September 30, 2011 and 2010, the Company recorded $2.1 million and $1.9 million, respectively, of base management fee expenses, of which $1.1 million and $0.9 million was included in due to related party as of September 30, 2011 and 2010, respectively. For the nine months ended September 30, 2011 and 2010, the Company recorded $6.1 million and $5.8 million, respectively, of base management fee expenses, of which $2.1 million and $1.9 million was included in due to related party as of September 30, 2011 and 2010, respectively. For the three and nine months ended September 30, 2011 and 2010, ACM did not earn an incentive fee installment and no success-based payments were made.

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Additionally, in 2007, ACM received an incentive fee installment totaling $19.0 million which was recorded as a prepaid management fee related to the incentive fee on $77.1 million of deferred revenue recognized on the transfer of control of the 450 West 33rd Street property, which is one of the Company s equity affiliates.

Note 17 Due to Borrowers

Due to borrowers represents borrowers funds held by the Company to fund certain expenditures or to be released at the Company s discretion upon the occurrence of certain pre-specified events, and to serve as additional collateral for borrowers loans. While retained, these balances earn interest in accordance with the specific loan terms they are associated with.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the unaudited consolidated interim financial statements, and related notes included herein.

Overview

We are a Maryland corporation formed in June 2003 to invest in multi-family and commercial real estate-related bridge loans, junior participating interests in first mortgages, mezzanine loans, preferred and direct equity and, in limited cases, discounted mortgage notes and other real estate-related assets, which we refer to collectively as structured finance investments. We have also invested in mortgage-related securities. We conduct substantially all of our operations through our operating partnership and its wholly-owned subsidiaries.

Our operating performance is primarily driven by the following factors:

- *Net interest income earned on our investments* Net interest income represents the amount by which the interest income earned on our assets exceeds the interest expense incurred on our borrowings. If the yield earned on our assets decreases or the cost of borrowings increases, this will have a negative impact on earnings. However, if the yield earned on our assets increases or the cost of borrowings decreases, this will have a positive impact on earnings. Net interest income is also directly impacted by the size and performance of our asset portfolio. See Current Market Conditions, Risks and Recent Trends below for risks and trends of our net interest income.

- *Credit quality of our assets* Effective asset and portfolio management is essential to maximize the performance and value of a real estate/mortgage investment. Maintaining the credit quality of our loans and investments is of critical importance. Loans that do not perform in accordance with their terms may have a negative impact on earnings and liquidity.

- *Cost control* We seek to minimize our operating costs, which consist primarily of employee compensation and related costs, management fees and other general and administrative expenses. If there are increases in foreclosures and non-performing loans and investments, certain of these expenses, particularly employee compensation expenses and asset management related expenses, may increase.

We are organized and conduct our 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 at least 90% of its REIT taxable income is distributed and provided that certain other requirements are met. Additionally, under the terms of our junior subordinated note agreements, annual dividends are limited to 100% of taxable income to common shareholders and are required to be paid in the form of our stock to the maximum extent permissible (currently 90%), with the balance payable in cash. We will be permitted to pay 100% of our taxable income in cash if we pay the note holders the original rate of interest upon early termination of the agreement or at its expiration in April 2012. Certain REIT income may be subject to state and local income taxes. Our assets or operations that would not otherwise comply with the REIT requirements, are owned or conducted by our taxable REIT subsidiaries, the income of which is subject to federal and state income tax. Under current federal tax law, the gain and the tax on the gain of certain debt extinguishment transactions realized in 2009 or 2010 have been deferred to future periods at our election. We did not record a provision for income taxes related to the assets that are held in our taxable REIT subsidiaries for the nine months ended September 30, 2011 and 2010, with the exception of $1.8 million of estimated state income taxes due to the gain of $158.4 million from closing on a discounted payoff agreement with Wachovia Bank, National Association, owned by Wells Fargo, National Association (Wachovia) in the second quarter of 2010, incurred in those states that did not adopt the federal tax law that allows us to elect to defer income generated from certain debt extinguishment transactions. The estimated tax amount was reduced to $0.9 million in the fourth quarter of 2010.

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Current Market Conditions, Risks and Recent Trends

Global stock and credit markets have experienced prolonged price volatility, dislocations and liquidity disruptions over the past several years which have caused market prices of many stocks to fluctuate substantially. Commercial real estate has been particularly adversely affected by the prolonged economic downturn. Although we have seen some improvements, the overall market recovery remains uncertain. Should the market regress, the commercial real estate sector may experience additional losses, difficulty in raising capital, and challenges in obtaining investment financing with attractive terms or at all.

These circumstances have materially impacted liquidity in the financial markets and have resulted in the scarcity of certain types of financing, and, in certain cases, making terms for certain financings less attractive. If these conditions persist, lending institutions may be forced to exit markets such as repurchase lending, become insolvent, further tighten their lending standards or increase the amount of equity capital required to obtain financing, and in such event, could make it more difficult for us to obtain financing on favorable terms or at all. Our profitability will be adversely affected if we are unable to obtain cost-effective financing for our investments. A prolonged downturn in the stock or credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for our borrowers to repay our loans as they may experience difficulties in selling assets, increased costs of financing or obtaining financing at all. These events in the stock and credit markets may also make it more difficult or unlikely for us to raise capital through the issuance of our common stock or preferred stock. These disruptions in the financial markets also may have a material adverse effect on the market value of our common stock and other adverse effects on us or the economy in general.

This environment has had a significant impact on our business, our borrowers and real estate values throughout all asset classes and geographic locations. Continued declining real estate values may continue to limit our new mortgage loan originations, since borrowers often use increases in the value of their existing properties to support the purchase or investment in additional properties. Borrowers may also be less able to pay principal and interest on our loans if the real estate economy deteriorates further. Continued declining real estate values may also significantly increase the likelihood that we will continue to incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our cost on the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income from loans in our portfolio as well as our ability to originate, sell and securitize loans, which would significantly impact our revenues, results of operations, financial condition, business prospects and our ability to make distributions to our stockholders. In addition, our investments are also subject to the risks described above with respect to commercial real estate loans and mortgage-backed securities and similar risks, including risks of delinquency and foreclosure, the dependence upon the successful operation of, and net income from, real property, risks generally related to interests in real property, and risks that may be presented by the type and use of a particular commercial property.

During the first, second and third quarters of fiscal year 2011 we recorded $1.6 million, $11.4 million and $11.5 million, respectively, of new provisions for loan losses due to declining collateral values; net recoveries of reserves of $1.3 million in the third quarter of 2011; $3.8 million in the second quarter of 2011; $1.0 million of recoveries of reserve in the first quarter of 2011; recorded a $1.0 million loss on a restructured loan in the first quarter of 2011; and recorded an impairment loss of $0.8 million on a real estate held-for-sale investment in the second quarter of 2011. During the first, second, third and fourth quarters of fiscal year 2010 we recorded $25.0 million, $25.6 million, $15.2 million and $35.2 million, respectively, of new provisions for loan losses due to declining collateral values; a $0.8 million recovery from one fully reserved loan in the second quarter of 2010, a recovery of $2.7 million from two loans in the third quarter of 2010, and a recovery of $14.6 million from two loans in the fourth quarter of 2010; and $0.8 million, $5.4 million and $1.0 million of losses on restructured loans in the second, third and fourth quarters of 2010, respectively. In addition, we acquired two new real estate owned properties through a transfer from a creditor trust and a purchase out of bankruptcy, respectively, in the first quarter of 2011. We also acquired one new real estate owned property through deed in lieu of foreclosure and sold a real estate property held-for-sale in 2010. We have made, and continue to make modifications and extensions to loans when it is economically feasible to do so. In some cases, a modification is a more viable alternative to foreclosure proceedings when a borrower can not comply with loan terms. In doing so, lower borrower interest rates, combined with non-performing loans, will lower our net interest margins when comparing interest income to our costs of financing. These trends may persist with a prolonged economic downturn and we feel if they do, there will be

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continued modifications and delinquencies in the foreseeable future, which may result in reduced net interest margins and additional losses throughout our sector.

Commercial real estate financing companies were severely impacted by the economic downturn and until relatively recently have had very little access to the capital markets or the debt markets in order to meet their existing obligations or to refinance maturing debt. We responded to these troubled times by decreasing investment activity for capital preservation, aggressively managing our assets through restructuring and extending our debt facilities and repurchasing our previously issued debt at discounts when economically feasible. In order to accomplish these goals, we have worked closely with our borrowers in restructuring our loans, receiving payoffs and paydowns and monetizing our investments as appropriate. Additionally, based on available liquidity and market opportunities, we have from time to time repurchased our debt at discounts and beginning in the second quarter of 2011, we have repurchased shares of our common stock. We will continue to remain focused on executing these strategies when appropriate and where available if this significant economic downturn persists.

Refer to our Annual Report on Form 10-K for the year ending December 31, 2010 as well as Item 3. Quantitative and Qualitative Disclosures About Market Risk herein for additional risk factors.

Sources of Operating Revenues

We derive our operating revenues primarily through interest received from making real estate-related bridge, mezzanine and junior participation loans and preferred equity investments. For the three and nine months ended September 30, 2011, interest income earned on these loans and investments represented approximately 70% and 72% of our total revenues, respectively. For the three and nine months ended September 30, 2010, interest income earned on these loans and investments represented approximately 98% and 95% of our total revenues, respectively.

Interest income may also be derived from profits of equity participation interests. No such interest income was recognized for the three and nine months ended September 30, 2011 and 2010.

We also derive interest income from our investments in commercial real estate collateralized debt obligation (CDO) bond securities, commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (RMBS). For the three and nine months ended September 30, 2011, interest on these investments represented approximately less than 1% of our total revenues. For the three and nine months ended September 30, 2010, interest on these investments represented approximately less than 1% and 2% of our total revenues, respectively.

Property operating income is derived from our real estate owned assets. For the three and nine months ended September 30, 2011, property operating income represented approximately 30% and 28% of our total revenues, respectively. For the three and nine months ended September 30, 2010, property operating income represented approximately 2% of our total revenues. The operation of a portfolio of hotel properties that we own is seasonal with the majority of revenues earned in the first two quarters of the calendar year.

Additionally, we derive operating revenues from other income that represents loan structuring and defeasance fees, and miscellaneous asset management fees associated with our loans and investments portfolio. For the three and nine months ended September 30, 2011, revenue from other income represented approximately less than 1% of our total revenues. For the three and nine months ended September 30, 2010, revenue from other income represented approximately less than 1% and 1% of our total revenues, respectively.

Income or Loss from Equity Affiliates and Gain or Loss on Sale of Loans and Real Estate

We derive income or loss from equity affiliates relating to joint ventures that were formed with equity partners to acquire, develop and/or sell real estate assets. These joint ventures are not majority owned or controlled by us, and are not consolidated in our financial statements. These investments are recorded under either the equity or cost method of accounting as appropriate. We record our share of net income and losses from the underlying properties of our equity method investments and any other-than-temporary impairment of these investments on a single line item in the Consolidated Statements of Operations as income or loss from equity affiliates. For the three

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and nine months ended September 30, 2011, income from equity affiliates was $3.7 million and $3.8 million, respectively, primarily due to a $3.6 million gain recognized on the sale of a property held by one of our equity affiliates in the third quarter of 2011, while for the three and nine months ended September 30, 2010, income from equity affiliates was less than $0.1 million and loss from equity affiliates was less than $0.1 million, respectively.

We also may derive income or loss from the sale of loans and real estate. We may acquire real estate by foreclosure or through partial or full settlement of mortgage debt or for investment in order to stabilize the property and dispose of it for a future anticipated return. We may also acquire real estate notes generally at a discount from lenders in situations where the borrower wishes to restructure and reposition its short-term debt and the lender wishes to divest certain assets from its portfolio. No such income or loss on the sale of loans or real estate was recorded during the three and nine months ended September 30, 2011 and 2010.

Critical Accounting Policies

Please refer to the section of our Annual Report on Form 10-K for the year ended December 31, 2010 entitled Management s Discussion and Analysis of Financial Condition and Results of Operations Significant Accounting Estimates and Critical Accounting Policies for a discussion of our critical accounting policies. During the nine months ended September 30, 2011, there were no material changes to these policies.

Impaired Loans, Allowance for Loan Losses, Loss on Restructured Loans and Charge-offs

Loans are considered impaired when, based upon current information and events, it is probable that we will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. We evaluate each loan in our portfolio on a quarterly basis. Our 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 our loans and investments have in relation to the underlying collateral. We evaluate 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. We utilize 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. We 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, we consider not only assumptions specific to the collateral but also 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. We had an allowance for loan losses of $170.4 million relating to 23 loans with an aggregate carrying value, before reserves, of approximately $291.9 million at September 30, 2011 and $205.5 million in allowance for loan losses relating to 30 loans with an aggregate carrying value, before reserves, of approximately $530.6 million at December 31, 2010.

Loan terms may be modified if we determine 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 we do 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 us to be a troubled debt restructuring.

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

We record interest on modified loans on an accrual basis to the extent that the modified loan is contractually current. To date, we have not recorded interest income on a modified loan where we have not subsequently received the cash.

Loss on restructured loans are recorded when we grant a concession to the borrower in the form of principal forgiveness related to the payoff or the substitution or addition of a new debtor for the original borrower or when we incur 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, we record the 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. We recorded a loss on restructured loans of $1.0 million for the nine months ended September 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. For the three and nine months ended September 30, 2010, we recorded loss on restructured loans of $5.4 million and $6.2 million, respectively.

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 we grant a concession to a borrower or agree to a discount in full or partial satisfaction of the loan; when we take 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.

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. We record 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. We recorded loan loss reserves related to these loans as it was deemed that full recovery of principal and interest was not probable.

Several of our 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. We currently have no loans in our portfolio accruing such interest. Therefore, interest income is recorded on all of our loans and investments only to the extent that the current pay rate is received.

Given the transitional nature of some of our real estate loans, we may require funds to be placed into an interest reserve, based on contractual requirements, to cover debt service costs. We 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. We 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 September 30, 2011, we had total interest reserves of $7.1 million on 31 loans with an aggregate unpaid principal balance of $547.0 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.

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Full income recognition will resume when the loan becomes contractually current and performance has recommenced.

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 us as a result of excess cash flows being distributed and/or as appreciated properties are sold or refinanced. We did not record interest income on such investments for the three and nine months ended September 30, 2011 and 2010.

Property operating income. Property operating income represents income associated with the operations of commercial real estate properties classified as real estate owned. We recognize 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 nine months ended September 30, 2011, we recorded approximately $7.8 million and $21.3 million, respectively, of property operating income relating to real estate owned properties. As of September 30, 2011, we had three real estate owned properties including a portfolio of multifamily assets that was purchased by us out of bankruptcy and a portfolio of hotel assets that was transferred to us by the owner, a creditor trust. Both of these portfolios were acquired in the first quarter of 2011. Additionally, another real estate investment that was reclassified from real estate owned to real estate held-for-sale in the third quarter of 2011, which resulted in a reclassification of its operating activity from property operating income and expenses into discontinued operations for all prior periods. For the three and nine months ended September 30, 2010, we recorded approximately $0.6 million and $1.2 million, respectively, of property operating income relating to real estate owned properties. As of September 30, 2010, we had one real estate owned property. For more details see Note 6 of the Notes to Consolidated Financial Statements set forth in Item 1 hereof.

Derivatives and Hedging Activities

The carrying values of interest rate swaps and the underlying hedged liabilities are reflected at their fair value. Changes in the fair value of these derivatives are either offset against the change in the fair value of the hedged liability through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a derivative s change in fair value is immediately recognized in earnings. Derivatives that do not qualify for cash flow hedge accounting treatment are adjusted to fair value through earnings.

We record all derivatives on the balance sheet at fair value. Additionally, the accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether a 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. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting.

During the nine months ended September 30, 2011 we entered into a LIBOR Cap with a notional value of approximately $73.3 million that was designated as a cash flow hedge and a LIBOR Cap with a notional value of approximately $6.0 million that was not designated as a cash flow hedge. In addition, the notional value on two basis swaps decreased by approximately $128.9 million pursuant to the contractual terms of the respective swap agreements, the notional value on two interest rate swaps decreased by approximately $14.2 million pursuant to the contractual terms of the respective swap agreements, and five interest rate swaps matured with a combined notional value of approximately $78.2 million.

During the nine months ended September 30, 2010 we entered into two new interest rate swaps that qualify as cash flow hedges with a combined notional value of approximately $7.5 million. In addition, the notional value of one basis swap decreased by approximately $4.9 million and one interest rate swap decreased by approximately $17.1 million pursuant to the contractual terms of the swap agreements and four interest rate swaps matured with a combined notional value of approximately $22.5 million. Gains and losses on terminated swaps are deferred and recognized in interest expense over the original life of the hedged item. The fair value of our qualifying hedge portfolio has increased by approximately $0.2 million from December 31, 2010 as a result of a change in the projected LIBOR rates and credit spreads of both parties, net of the amortized notional value and maturities of swaps.

Because the valuations of our hedging activities are based on estimates, the fair value may change if our estimates are inaccurate. For the effect of hypothetical changes in market interest rates on our interest rate swaps, see   Interest Rate Risk   in   Quantitative and Qualitative Disclosures About Market Risk , set forth in Item 3 hereof.

Recently Issued Accounting Pronouncements

In June 2011, the FASB issued updated guidance on comprehensive income which amends U.S. GAAP to conform to the disclosure requirements of International Financial Reporting Standards (IFRS). 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. This guidance is effective as of the first quarter of 2012, though early adoption is permitted, and its adoption is not expected to have a material effect on our 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 amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value changes certain fair value measurement principles and enhances disclosure requirements. This guidance is effective as of the first quarter of 2012, applied prospectively, and its adoption is not expected to have a material effect on our Consolidated Financial Statements.

In April 2011, the FASB issued updated guidance on a creditor s determination of whether a restructuring will be a troubled debt restructuring, which establishes new guidelines in evaluating whether a loan modification meets the criteria of a troubled debt restructuring. This guidance is effective as of the third quarter of 2011, applied retrospectively to the beginning of the fiscal year as required, and its adoption did not have a material effect on our Consolidated Financial Statements.

In December 2010, the FASB issued updated guidance on business combinations, which clarifies that when pro forma financial information is required, it is to be presented as if the business combination occurred at the beginning of the prior year. The guidance also requires a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination. The guidance is effective for business combinations in fiscal years beginning on or after December 15, 2010 and its adoption on January 1, 2011 did not have a material effect on our Consolidated Financial Statements.

In July 2010, the FASB issued updated guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses which requires a greater level of information disclosed about the credit quality of loans and allowance for loan losses, as well as additional information related to credit quality indicators, past due information, and information related to loans modified in a troubled debt restructuring. This guidance is effective as of the fourth quarter of 2010, except for the information related to loans modified in a troubled debt restructuring which was postponed by the FASB to the third quarter of 2011. As the guidance only amends existing disclosure requirements, its adoption resulted in additional disclosures and did not have a material effect on our Consolidated Financial Statements.

In January 2010, the FASB issued updated guidance on fair value measurements and disclosures, which requires disclosure of details of significant asset or liability transfers in and out of Level 1 and Level 2 measurements within the fair value hierarchy and inclusion of gross purchases, sales, issuances, and settlements in the rollforward of assets and liabilities valued using Level 3 inputs within the fair value hierarchy. The guidance also clarifies and expands existing disclosure requirements related to the disaggregation of fair value disclosures and inputs used in arriving at fair values for assets and liabilities using Level 2 and Level 3 inputs within the fair value hierarchy. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, and its adoption did not have a material effect on our Consolidated Financial Statements. The gross presentation of the Level 3 rollforward is required for interim and annual reporting periods beginning after December 15, 2010 and its adoption on January 1, 2011 did not have a material effect on our Consolidated Financial Statements.

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Changes in Financial Condition

Our loan and investment portfolio balance, including our available-for-sale and held-to-maturity securities, at September 30, 2011 was $1.3 billion, with a weighted average current interest pay rate of 4.40% compared to $1.4 billion, with a weighted average current interest pay rate of 4.44% at December 31, 2010. At September 30, 2011, advances on our financing facilities totaled $1.3 billion, with a weighted average funding cost of 3.33% as compared to $1.3 billion, with a weighted average funding cost of 3.55% at December 31, 2010.

During the quarter ended September 30, 2011, we originated six loans totaling $29.7 million that had an aggregate weighted average rate of interest of 7.49%, as well as received full satisfaction of six loans totaling $25.9 million that had an aggregate weighted average rate of interest of 3.52%. We also received partial repayment on two loans totaling $4.1 million. We also refinanced and/or modified four loans totaling $88.0 million which increased the aggregate weighted average rate of interest on the modified loans from 1.59% to 2.13%, and nine loans totaling approximately $120.9 million were extended during the quarter, none of which were in accordance with an extension option of the corresponding loan agreement. In October 2011, the Company sold a $30.0 million portion of a $67.0 million loan to a third party for $25.3 million of cash.

Cash and cash equivalents decreased $41.8 million, or 41%, to $59.4 million at September 30, 2011 compared to $101.1 million at December 31, 2010. All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The decrease was primarily due to funding new loan originations, paying related party payables, purchasing of our own CDO bonds and purchasing our stock in a stock repurchase plan which started in the second quarter of 2011. This was partially offset by proceeds from a loan participation in the second quarter of 2011 as well as loan payoffs and paydowns.

Restricted cash increased $13.7 million, or 65%, to $34.8 million at September 30, 2011 compared to $21.1 million at December 31, 2010. Restricted cash is kept on deposit with the trustees for our CDOs, and primarily represents proceeds from loan repayments which will be used to purchase replacement loans as collateral for the CDO that has not reached its replenishment date and principal repayments for the CDOs that have reached their replenishment dates, as well as the sale of investment securities owned by the CDOs, unfunded loan commitments and interest payments received from loans. The increase was primarily due to loan payoffs and partial paydowns, net of originations and the transfer of loans into the CDOs. One of our recently acquired real estate owned assets also has a restricted cash balance of $1.9 million as of September 30, 2011 due to a first mortgage escrow requirement.

Securities held-to-maturity increased to $3.6 million at September 30, 2011 as a result of purchasing two RMBS investments in the third quarter of 2011, net of paydowns received during the three months ended September 30, 2011. See Note 4 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for a further description of these transactions.

Investment in equity affiliates decreased by $5.8 million, or 9%, to $60.1 million at September 30, 2011 compared to $65.8 million at December 31, 2010 primarily due to the sale of a $5.7 million interest in a joint venture property. See Note 5 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for a further description of this transaction.

Real estate owned increased $125.9 million to $148.8 million at September 30, 2011 compared to $22.8 million at December 31, 2010. This was primarily due to a portfolio of hotel assets that was transferred to us by the owner, a creditor trust, and a portfolio of multifamily assets that was purchased by us out of bankruptcy in the first quarter of 2011. See Note 6 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for a further description of these transactions.

Real estate held-for-sale increased $1.9 million, or 5% to $43.4 million at September 30, 2011 compared to $41.4 million at December 31, 2010. In the third quarter of 2011, we entered into negotiations to sell one of our real estate owned investments to a third party. As a result, this investment was reclassified from real estate owned to real estate held-for-sale at a value of $1.9 million and property operating income and expenses as well as impairment loss for current and prior periods were reclassified to discontinued operations. See Note 6 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for a further description of this transaction.

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Other assets increased $3.9 million, or 9%, to $45.9 million at September 30, 2011 compared to $42.0 million at December 31, 2010. The increase was primarily due to a $2.7 million increase in cash collateral posted against our interest rate swaps, a $2.4 million increase in other assets held by our real estate owned investments and a $0.5 million net increase in various other receivables and prepaid expenses, net of a $1.7 million decrease in deferred financing fees, which includes amortization. See Item 3 Quantitative and Qualitative Disclosures About Market Risk for further information relating to our derivatives.

Repurchase agreements and credit facilities increased $13.9 million to $14.9 million due to use of a warehousing facility in the third quarter of 2011 with a balance of $11.7 million at September 30, 2011 as well as financing the purchase of two RMBS investments classified as securities held-to-maturity with a repurchase agreement in the third quarter of 2011, which had a balance of $3.2 million at September 30, 2011. See Sources of Liquidity Repurchase Agreements and Credit Facilities below.

Collateralized debt obligations decreased $58.1 million, or 5%, to approximately $1.0 billion at September 30, 2011 compared to approximately $1.1 billion at December 31, 2010 primarily due to $49.6 million of payments to investors, CDO bonds repurchased by us with a face value of $15.7 million, partially offset by a $7.8 million increase in the revolving note facility of one of our CDOs. See Sources of Liquidity CDOs below.

Notes payable increased $34.0 million, or 66%, to $85.5 million at September 30, 2011 compared to $51.5 million at December 31, 2010 due to entering into a non-recourse junior loan participation of $32.0 million on a $50.0 million mezzanine loan and a non-recourse junior loan participation of $2.0 million on an $11.8 million mezzanine loan in the second quarter of 2011. See Sources of Liquidity Notes Payable below.

Mortgage notes payable real estate owned increased $53.8 million to $74.5 million at September 30, 2011 compared to $20.8 million at December 31, 2010 due to our assumption of a $55.4 million interest-only first lien mortgage in connection with the acquisition of real property pursuant to the bankruptcy proceedings of a portfolio of multifamily assets in the first quarter of 2011. In the second quarter of 2011, one of the properties in the portfolio was sold to a third party for $1.6 million and the proceeds were used to pay down the first lien mortgage to a balance of $53.8 million at September 30, 2011. See Sources of Liquidity Mortgage Notes Payable Real Estate Owned below for further details.

Due to related party decreased $15.4 million, or 88%, to $2.1 million at September 30, 2011 compared to $17.4 million at December 31, 2010. The decrease was due to our payment of the incentive management fee for the twelve month period ended December 31, 2010 of $18.8 million, net of a $3.6 million related party receivable, and 2010 base management fees of $2.3 million due to ACM, net of $2.1 million of base management fees due to ACM at September 30, 2011. See Contractual Commitments Management Agreement below for further details.

Other liabilities decreased $3.2 million, or 4%, to $81.2 million at September 30, 2011 compared to $84.4 million at December 31, 2010. The decrease was primarily due to a $5.7 million reversal of unearned revenue due to the sale of an interest in a joint venture property, use of $4.1 million of deposits on the transfer of a loan to real estate owned, payment of a $1.1 million payable to a lender as a result of a loan modification in 2010 and a $0.9 million decrease in accrued interest payable, net of $3.8 million of effective yield amortization on our junior subordinated notes, a $3.5 million increase in accrued expenses and a $1.3 million increase in various other deposits and deferred fees.

On July 22, 2011, we issued an aggregate of 105,000 shares of restricted common stock under the 2003 Stock Incentive Plan, as amended and restated in 2009, to the non-management members of the Board of Directors. The 105,000 common shares underlying the restricted stock awards granted were fully vested as of the date of grant and we recorded approximately $0.5 million to selling and administrative expense in our Consolidated Statement of Operations in the third quarter of 2011.

In June 2011, the Board of Directors authorized a stock repurchase plan that enables us to buy up to 1.5 million shares of our common stock. At management s discretion, shares may be acquired from time to time on the open market, through privately negotiated transactions or pursuant to a Rule 10b5-1 plan. A Rule 10b5-1 plan permits us to repurchase shares at times when we might otherwise be prevented from doing so. As of September 30,

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2011, we repurchased 725,988 shares of our common stock under the stock repurchase plan at a total cost of $3.0 million and an average cost of $4.07 per share. We subsequently repurchased the remaining shares available under the stock repurchase plan in the fourth quarter of 2011.

During the third quarter of 2011, we purchased, at a discount, $10.7 million of investment grade rated Class B, C and D notes originally issued by our CDO I and CDO II issuing entities for a price of $5.6 million from third party investors and recorded a net gain on extinguishment of debt of $5.1 million in our 2011 Consolidated Statement of Operations.

During the second quarter of 2011, we purchased, at a discount, $3.5 million of investment grade rated Class C and F notes originally issued by our CDO III issuing entity for a price of $1.6 million from third party investors and recorded a gain on extinguishment of debt of approximately $1.9 million in our 2011 Consolidated Statement of Operations.

During the first quarter of 2011, we purchased, at a discount, a $1.5 million investment grade rated Class F note originally issued by our CDO III issuing entity for a price of $0.6 million from a third party investor and recorded a gain on extinguishment of debt of approximately $0.9 million in our 2011 Consolidated Statement of Operations.

We issued 666,927 shares of common stock in the first quarter of 2011 to ACM for the portion of the incentive management fee for the twelve month period ending December 31, 2010 that was paid in common stock.

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Comparison of Results of Operations for the Three Months Ended September 30, 2011 and 2010

The following table sets forth our results of operations for the three months ended September 30, 2011 and 2010:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Increase/(Decrease) Amount	Increase/(Decrease) Percent
	(Unaudited)			
Interest income	$ 18,524,388	$ 24,878,523	$ (6,354,135)	(26)%
Interest expense	11,407,229	15,209,936	(3,802,707)	(25)%
Net interest income	7,117,159	9,668,587	(2,551,428)	(26)%
Other revenue:				
Property operating income	7,807,389	581,073	7,226,316	nm
Other income	27,003	21,876	5,127	23%
Total other revenue	7,834,392	602,949	7,231,443	nm
Other expenses:				
Employee compensation and benefits	2,323,734	1,853,626	470,108	25%
Selling and administrative	2,292,628	1,985,471	307,157	15%
Property operating expenses	7,290,519	672,196	6,618,323	nm
Depreciation and amortization	1,790,745	247,056	1,543,689	nm
Provision for loan losses (net of recoveries)	10,223,403	11,347,964	(1,124,561)	(10)%
Loss on restructured loans		5,363,332	(5,363,332)	(100)%
Management fee related party	2,050,000	1,900,000	150,000	8%
Total other expenses	25,971,029	23,369,645	2,601,384	11%
Loss from continuing operations before gain on extinguishment of debt and income from equity affiliates	(11,019,478)	(13,098,109)	2,078,631	(16)%
Gain on extinguishment of debt	5,100,462	11,790,000	(6,689,538)	(57)%
Income from equity affiliates	3,717,323	25,588	3,691,735	nm
Loss from continuing operations	(2,201,693)	(1,282,521)	(919,172)	72%
Income from discontinued operations	(186,491)	(71,473)	(115,018)	161%
Net loss	(2,388,184)	(1,353,994)	(1,034,190)	76%
Net income attributable to noncontrolling interest	54,045	54,067	(22)	nm
Net loss attributable to Arbor Realty Trust, Inc.	$ (2,442,229)	$ (1,408,061)	$ (1,034,168)	73%

nm not meaningful

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Net Interest Income

Interest income decreased $6.4 million, or 26%, to $18.5 million for the three months ended September 30, 2011 from $24.9 million for the three months ended September 30, 2010. This decrease was primarily due to a 15% decrease in average loans and investments from $1.9 billion for the three months ended September 30, 2010 to $1.6 billion for the three months ended September 30, 2011 due to payoffs, paydowns, modifications and the reclassification of loans to real estate owned in the first quarter of 2011, as well as a 13% decrease in the average yield on assets from 5.29% for the three months ended September 30, 2010 to 4.61% for the three months ended September 30, 2011. This decrease in yield was the result of a decrease in average LIBOR over the same period, along with the suspension of interest on our non-performing loans, and lower rates on refinanced and modified loans. Interest income from cash equivalents was $0.1 million for the three months ended September 30, 2011 and 2010.

Interest expense decreased $3.8 million, or 25%, to $11.4 million for the three months ended September 30, 2011 from $15.2 million for the three months ended September 30, 2010. The decrease was primarily due to a 21% decrease in the average cost of these borrowings from 4.47% for the three months ended September 30, 2010 to 3.51% for the three months ended September 30, 2011 primarily due to a $1.4 million increase in the market value of certain interest rate swaps in the three months ended September, 30, 2011, which is recorded as a decrease of interest expense as well as a decrease in the average LIBOR rate over the same period. The decrease in interest expense was also due to a 5% decrease in the average balance of our debt facilities from $1.4 billion for the three months ended September 30, 2010 to $1.3 billion for the three months ended September 30, 2011. The decrease in the average balance was primarily due to the repayment of certain debt resulting from loan payoffs and paydowns and the transfer of assets into our CDO vehicles.

Other Revenue

Property operating income was $7.8 million for the three months ended September 30, 2011 compared to $0.6 million for the three months ended September 30, 2010. This was due to the operations of three real estate investments recorded as real estate owned as of September 30, 2011. We owned one real estate owned investment as of September 30, 2010.

Other income increased less than $0.1 million from the three months ended September 30, 2010 primarily due to miscellaneous asset management fees on our loan and investment portfolio.

Other Expenses

Employee compensation and benefits expense increased $0.5 million, or 25%, to $2.3 million for the three months ended September 30, 2011 from $1.9 million for the three months ended September 30, 2010. These expenses represent salaries and benefits for those employed by us during these periods.

Selling and administrative expense increased $0.3 million, or 15%, to $2.3 million for the three months ended September 30, 2011 from $2.0 million for the three months ended September 30, 2010. These costs include, but are not limited to, professional and consulting fees, marketing costs, insurance expense, travel and placement fees, director s fees, licensing fees and stock-based compensation related to our directors. This increase was primarily due to grants of fully vested restricted stock awards to our non-management directors net of a decrease in professional fees in the third quarter of 2011. No stock-based compensation expense for directors was recorded in the third quarter of 2010.

Property operating expense was $7.3 million for the three months ended September 30, 2011 compared to $0.7 million for the three months ended September 30, 2010. This was due to the operations of three real estate investments recorded as real estate owned as of September 30, 2011. We owned one real estate owned investment as of September 30, 2010.

Depreciation and amortization expense was $1.8 million for the three months ended September 30, 2011 compared to $0.2 million for the three months ended September 30, 2010. This is due to depreciation expense

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associated with three real estate investments recorded as real estate owned as of September 30, 2011. We had one real estate owned investment as of September 30, 2010.

Provision for loan losses (net of recoveries) totaled $10.2 million for the three months ended September 30, 2011, and $11.3 million for the three months ended September 30, 2010. At September 30, 2011, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing two impaired loans with an aggregate carrying value of $38.6 million was less than the net carrying value of the loans, resulting in us recording an additional $11.5 million provision for loan losses. We also recorded net recoveries of $1.3 million related to four loans in our portfolio in the third quarter of 2011, which were recorded in provision for loan losses on the Consolidated Statement of Operations netting the provision to $10.2 million. At September 30, 2011 we had a total of 23 loans with an aggregate carrying value of $291.9 million, before loan loss reserves, for which impairment reserves have been recorded. At September 30, 2010, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing 11 impaired loans with an aggregate carrying value of $188.3 million was less than the net carrying value of the loans, resulting in us recording an additional $15.2 million provision for loan losses. We also had a recovery of $3.8 million received for two loans, netting the provision to $11.3 million for the three months ended September 30, 2010. At September 30, 2010, we had a total of 32 loans with an aggregate carrying value of $622.7 million, before loan loss reserves, for which impairment reserves were recorded.

Loss on restructured loans was $5.4 million for the three months ended September 30, 2010, which represents the settlement of three bridge loans with an aggregate carrying value of $34.4 million at a discount, for $21.4 million, resulting in a loss on the restructuring of approximately $1.6 million and a charge-off to previously recorded reserves of $11.5 million. Loss on restructured loans also represents the write down of four bridge loans with an aggregate carrying value of $96.9 million, after principal paydowns of $7.3 million, to $78.3 million, resulting in a loss on the restructuring of approximately $3.8 million, which includes a $1.1 million transaction cost incurred in modifying a loan and having it transferred to a new borrower, and a charge-off to previously recorded reserves of $7.4 million. There were no losses on restructuring for the three months ended September 30, 2011.

Management fees increased $0.2 million, or 8%, to $2.1 million for the three months ended September 30, 2011 from $1.9 million for the three months ended September 30, 2010. These amounts represent compensation in the form of base management fees as provided for in the management agreement with our manager. Refer to Management Agreement below for further details including information related to our amended management agreement with ACM. No incentive or success-based management fees were earned for the three months ended September 30, 2011 and 2010.

Gain on extinguishment of debt decreased $6.7 million, or 57%, to $5.1 million for the three months ended September 30, 2011 from $11.8 million for the three months ended September 30, 2010. During the three months ended September 30, 2011, we purchased, at a discount, approximately $10.7 million of investment grade rated Class B, C and D notes originally issued by our CDO I and CDO II issuing entities from third party investors and recorded a net gain on early extinguishment of debt of $5.1 million. During the third quarter of 2010, we purchased, at a discount, approximately $21.0 million of investment grade rated Class B notes originally issued by our CDO I and CDO II issuing entities for a price of $9.2 million and recorded a net gain on early extinguishment of debt of $11.8 million related to these transactions.

Income from equity affiliates increased to $3.7 million for the three months ended September 30, 2011 from less than $0.1 million for the three months ended September 30, 2010. The increase was due to a $3.6 million gain recognized on the sale of an interest in a property held by one of our equity affiliates. See Note 5 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for a further description of this transaction. Income from equity affiliates also reflects a portion of the income from our equity affiliates.

Provision for Income Taxes

We are organized and conduct our operations to qualify as a REIT for federal income tax purposes. As a REIT, we are generally not subject to federal income tax on our REIT taxable income that we distribute to our stockholders, provided that we distribute at least 90% of our REIT taxable income and meet certain other requirements. As of September 30, 2011 and 2010, we were in compliance with all REIT requirements and have not

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recorded a provision for income taxes on our REIT taxable income for the three months ended September 30, 2011 and 2010.

Certain of our assets that produce non-qualifying income are owned by our taxable REIT subsidiaries, the income of which is subject to federal and state income taxes. During the three months ended September 30, 2011 and 2010, we did not record any provision for income taxes from these taxable REIT subsidiaries.

Loss from Discontinued Operations

During the third quarter of 2011, we entered into negotiations to sell one of our real estate owned investments to a third party at which time it was determined that the property met the held-for-sale requirements pursuant to the accounting guidance. As a result, this investment was reclassified from real estate owned to real estate held-for-sale at a fair value of $1.9 million and property operating income and expenses, which netted to a loss of $0.2 million for the three months ended September 30, 2011 and 2010, respectively, were classified as discontinued operations. During the third quarter of 2010, we agreed to sell one of our real estate owned investments to a third party. As a result, this investment was reclassified from real estate owned to real estate held-for-sale at a fair value of $5.5 million and property operating income and expenses, which netted to income of $0.1 million for the three months ended September 30, 2010, were classified as discontinued operations. The property was sold in the fourth quarter of 2010.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest totaled $0.1 million for the three months ended September 30, 2011 and 2010, representing the portion of income allocated to a third party s interest in a consolidated subsidiary, which holds an investment in operating partnership units that are accruing interest and dividend income as well as a note payable that is accruing interest expense. See Note 12 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof.

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Comparison of Results of Operations for the Nine Months Ended September 30, 2011 and 2010

The following table sets forth our results of operations for the nine months ended September 30, 2011 and 2010:

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Increase/(Decrease) Amount	Increase/(Decrease) Percent
	(Unaudited)			
Interest income	$ 55,104,727	$ 74,963,895	$ (19,859,168)	(26)%
Interest expense	40,240,929	49,474,664	(9,233,735)	(19)%
Net interest income	14,863,798	25,489,231	(10,625,433)	(42)%
Other revenue:				
Property operating income	21,253,281	1,157,089	20,096,192	nm
Other income	90,435	1,044,500	(954,065)	(91)%
Total other revenue	21,343,716	2,201,589	19,142,127	nm
Other expenses:				
Employee compensation and benefits	6,697,221	5,754,048	943,173	16%
Selling and administrative	5,074,246	5,513,868	(439,622)	(8)%
Property operating expenses	17,625,837	1,390,266	16,235,571	nm
Depreciation and amortization	4,102,328	366,768	3,735,560	nm
Other-than-temporary impairment		7,004,800	(7,004,800)	(100)%
Provision for loan losses (net of recoveries)	18,318,801	61,177,964	(42,859,163)	(70)%
Loss on restructured loans	1,000,000	6,188,571	(5,188,571)	(84)%
Management fee related party	6,050,000	5,800,000	250,000	4%
Total other expenses	58,868,433	93,196,285	(34,327,852)	(37)%
Loss from continuing operations before gain on extinguishment of debt, loss on sale of securities, net, and income (loss) from equity affiliates	(22,660,919)	(65,505,465)	42,844,546	(65)%
Gain on extinguishment of debt	7,919,662	229,321,130	(221,401,468)	(97)%
Loss on sale of securities, net		(6,989,583)	6,989,583	(100)%
Income (loss) from equity affiliates	3,766,134	(47,335)	3,813,469	nm
(Loss) income before provision for income taxes	(10,975,123)	156,778,747	(167,753,870)	nm
Provision for income taxes		(1,800,000)	1,800,000	(100)%
(Loss) income from continuing operations	(10,975,123)	154,978,747	(165,953,870)	nm
Loss on impairment of real estate held-for-sale	(750,000)		(750,000)	nm
Loss on operations of real estate held-for-sale	(643,073)	(763,334)	120,261	(16)%
Loss from discontinued operations	(1,393,073)	(763,334)	(629,739)	82%
Net (loss) income	(12,368,196)	154,215,413	(166,583,609)	nm
Net income attributable to noncontrolling interest	161,619	161,682	(63)	nm
Net (loss) income attributable to Arbor Realty Trust, Inc.	$ (12,529,815)	$ 154,053,731	$ (166,583,546)	nm

nm not meaningful

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Net Interest Income

Interest income decreased $19.9 million, or 26%, to $55.1 million for the nine months ended September 30, 2011 from $75.0 million for the nine months ended September 30, 2010. This decrease was primarily due to a 19% decrease in average loans and investments from $2.0 billion for the nine months ended September 30, 2010 to $1.6 billion for the nine months ended September 30, 2011 due to payoffs, paydowns, modifications and the reclassification of loans to real estate owned, as well as a 9% decrease in the average yield on assets from 5.05% for the nine months ended September 30, 2010 to 4.58% for the nine months ended September 30, 2011. This decrease in yield was the result of a decrease in average LIBOR over the same period, along with the suspension of interest on our non-performing loans, and lower rates on refinanced and modified loans, partially offset by the reversal of $1.2 million of accrued exit fees in the first quarter of 2010. Interest income from cash equivalents was $0.5 million for the nine months ended September 30, 2011 and 2010.

Interest expense decreased $9.2 million, or 19%, to $40.2 million for the nine months ended September 30, 2011 from $49.5 million for the nine months ended September 30, 2010. The decrease was primarily due to a 17% decrease in the average balance of our debt facilities from $1.6 billion for the nine months ended September 30, 2010 to $1.3 billion for the nine months ended September 30, 2011. The decrease in the average balance was primarily due to closing on a discounted payoff agreement with Wachovia Bank in the second quarter of 2010 as well as the repayment of certain debt resulting from loan payoffs and paydowns and the transfer of assets into our CDO vehicles. The decrease in interest expense was also due to a 2% decrease in the average cost of these borrowings from 4.25% for the nine months ended September 30, 2010 to 4.15% for the nine months ended September 30, 2011 primarily due to closing on the discounted payoff agreement with Wachovia Bank on June 30, 2010, which carried a higher rate of interest than our other debt financing. See Sources of Liquidity Notes Payable below for further details. The decrease was also net of recording a $3.2 million non-cash charge in the second quarter of 2011 related to the amortization of a discount on a loan that was participated out to a subordinate lender.

Other Revenue

Property operating income was $21.3 million for the nine months ended September 30, 2011 compared to $1.2 million for the nine months ended September 30, 2010. This was due to the operations of three real estate investments recorded as real estate owned as of September 30, 2011. We owned one real estate owned investment as of September 30, 2010.

Other income decreased $1.0 million, or 91%, to $0.1 million for the nine months ended September 30, 2011 from $1.0 million for the nine months ended September 30, 2010. This is primarily due to fees received during the nine months ended September 30, 2010 related to a loan that was classified as held-for-sale and was sold during the second quarter of 2010.

Other Expenses

Employee compensation and benefits expense increased $0.9 million, or 16%, to $6.7 million for the nine months ended September 30, 2011 from $5.8 million for the nine months ended September 30, 2010. These expenses represent salaries and benefits for those employed by us during these periods.

Selling and administrative expense decreased $0.4 million, or 8%, to $5.1 million for the nine months ended September 30, 2011 from $5.5 million for the nine months ended September 30, 2010. These costs include, but are not limited to, professional and consulting fees, marketing costs, insurance expense, travel and placement fees, director s fees, licensing fees and stock-based compensation related to our directors. This decrease was primarily due to a decrease in professional fees in the nine months ended September 30, 2011, net of grants of fully vested restricted stock awards to our non-management directors in the third quarter of 2011 as compared to grants of fully vested restricted stock awards to our independent directors in the second quarter of 2010.

Property operating expense was $17.6 million for the nine months ended September 30, 2011 compared to $1.4 million for the nine months ended September 30, 2010. This was due to the operations of three real estate investments recorded as real estate owned as of September 30, 2011. We owned one real estate owned investment as of September 30, 2010.

Depreciation and amortization expense was $4.1 million for the nine months ended September 30, 2011 compared to $0.4 million for the nine months ended September 30, 2010. This is due to depreciation expense associated with three real estate investments recorded as real estate owned as of September 30, 2011. We had one real estate owned investment as of September 30, 2010.

Other-than-temporary impairment charges of $7.0 million for the nine months ended September 30, 2010 represent the recognition of additional impairments to the fair market value of our available-for-sale securities in the second quarter of 2010 that were considered other-than-temporarily impaired. GAAP accounting standards require that investments are evaluated periodically to determine whether a decline in their value is other-than-temporary, though it is not intended to indicate a permanent decline in value. There were no other-than-temporary impairment charges for the nine months ended September 30, 2011. See Note 4 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for further details.

Provision for loan losses (net of recoveries) totaled $18.3 million for the nine months ended September 30, 2011, and $61.2 million for the nine months ended September 30, 2010. During the nine months ended September 30, 2011, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing seven impaired loans with an aggregate carrying value of $67.7 million was less than the net carrying value of the loans, resulting in us recording an additional $24.4 million provision for loan losses. We also recorded net recoveries of $1.3 million related to four loans in our portfolio in the third quarter of 2011, net recoveries of $3.8 million related to five loans in our portfolio in the second quarter of 2011, and recoveries of $1.0 million related two loans in our portfolio in the first quarter of 2011, which were recorded in provision for loan losses on the Consolidated Statement of Operations netting the provision to $18.3 million. At September 30, 2011 we had a total of 23 loans with an aggregate carrying value of $291.9 million, before loan loss reserves, for which impairment reserves have been recorded. During the nine months ended September 30, 2010, we performed an evaluation of our loan portfolio and determined that the fair value of the underlying collateral securing 21 impaired loans with an aggregate carrying value of $340.6 million was less than the net carrying value of the loans, resulting in us recording an additional $65.8 million provision for loan losses. We had a recovery of $3.8 million from two loans in the third quarter of 2010. Of the $3.8 million, $3.5 million was related to one asset in which the property was sold and we provided financing to the new operator, and as a result of this restructuring, we recorded a net recovery of $3.5 million. We also had a cash recovery of $0.8 million received in the second quarter of 2010 for a loan that was fully reserved. These recoveries were recorded in provision for loan losses on the Consolidated Statement of Operations netting the provision to $61.2 million for the nine months ended September 30, 2010. At September 30, 2010, we had a total of 32 loans with an aggregate carrying value of $622.7 million, before loan loss reserves, for which impairment reserves have been recorded.

Loss on restructured loans decreased $5.2 million, or 84%, to $1.0 million for the nine months ended September 30, 2011 from $6.2 million for the nine months ended September 30, 2010. The loss of $1.0 million for the nine months ended September 30, 2011 resulted from the execution of a forbearance agreement in the first quarter of 2011 for a loan modified in the second quarter of 2011. The loss of $6.2 million for the nine months ended September 30, 2010 represents the settlement of three bridge loans with an aggregate carrying value of $34.4 million at a discount, for $21.4 million, resulting in a loss on the restructuring of approximately $1.6 million and a charge-off to previously recorded reserves of $11.5 million in the third quarter of 2010 as well as the write down of four bridge loans with an aggregate carrying value of $96.9 million, after principal paydowns of $7.3 million, to $78.3 million, resulting in a loss on the restructuring of approximately $3.8 million, which includes a $1.1 million transaction cost incurred in modifying a loan and having it transferred to a new borrower, and a charge-off to previously recorded reserves of $7.4 million in the third quarter of 2010. In the second quarter of 2010, we also settled two bridge loans and one mezzanine loan with an aggregate carrying value of $20.7 million at a discount, for $19.9 million, resulting in a loss on restructuring of $0.8 million.

Management fees increased $0.3 million, or 4%, to $6.1 million for the nine months ended September 30, 2011 from $5.8 million for the nine months ended September 30, 2010. These amounts represent compensation in the form of base management fees as provided for in the management agreement with our manager. Refer to Management Agreement below for further details including information related to our amended management

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agreement with ACM. No incentive or success-based management fees were earned for the nine months ended September 30, 2011 and 2010.

Gain on extinguishment of debt decreased $221.4 million, or 97%, to $7.9 million for the nine months ended September 30, 2011 from $229.3 million for the nine months ended September 30, 2010. During the nine months ended September 30, 2011, we purchased, at a discount, approximately $15.7 million of investment grade rated Class B, C, D and F notes originally issued by our three CDO issuing entities from third party investors and recorded a net gain on early extinguishment of debt of $7.9 million related to these transactions. On June 30, 2010 we closed on a discounted payoff agreement with Wachovia and in doing so, recorded a $158.4 million gain to our Consolidated Statement of Operations, net of $0.4 million of warrant expense and $0.6 million of other various expenses and commissions. See Sources of Liquidity Notes Payable below for further details. During the nine months ended September 30, 2010, we also purchased, at a discount, approximately $67.7 million of investment grade rated Class A2, B, C, D, E, F and G notes originally issued by our three CDO issuing entities from third party investors for a price of $22.8 million and recorded a net gain on early extinguishment of debt of approximately $44.8 million related to these transactions. We also recorded a $26.3 million gain on the partial settlement of our junior subordinated notes in February 2010. See Sources of Liquidity Junior Subordinated Notes below for further details.

Loss on sale of securities was $7.0 million for the nine months ended September 30, 2010 as a result of selling three investment grade CDO bonds, with an aggregate face value of $44.7 million and an amortized cost of $40.4 million, for $29.9 million, resulting in a realized loss of $10.5 million, and four CMBS investments, with an aggregate face value of $21.5 million and an amortized cost of $17.4 million, for $20.9 million, resulting in a realized gain $3.5 million. See Note 4 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for a further description of these transactions. There were no losses or gains on sale of securities for the nine months ended September 30, 2011.

Income from equity affiliates was $3.8 million for the nine months ended September 30, 2011 and loss from equity affiliates was less than $0.1 million for the nine months ended September 30, 2010. The increase in income was due to a $3.6 million gain recognized on the sale of an interest in a property held by one of our equity affiliates in the third quarter of 2011. See Note 5 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for a further description of this transaction. Income and loss from equity affiliates also reflects a portion of the income and losses from our equity affiliates.

Provision for Income Taxes

We are organized and conduct our operations to qualify as a REIT for federal income tax purposes. As a REIT, we are generally not subject to federal income tax on our REIT taxable income that we distribute to our stockholders, provided that we distribute at least 90% of our REIT taxable income and meet certain other requirements. As of September 30, 2011 and 2010, we were in compliance with all REIT requirements and, therefore, have not recorded a provision for income taxes on our REIT taxable income for the nine months ended September 30, 2011 and 2010, with the exception of $1.8 million of estimated state taxes due to the gain of $158.4 million from closing on the Wachovia discounted payoff agreement in the second quarter of 2010. While the gain on the Wachovia transaction results in taxable income, under current federal tax law, the gain and the tax on the gain have been deferred to future periods at our election. The estimated tax amount was reduced to $0.9 million in the fourth quarter of 2010.

Certain of our assets that produce non-qualifying income are owned by our taxable REIT subsidiaries, the income of which is subject to federal and state income taxes. During the nine months ended September 30, 2011 and 2010, we did not record any provision for income taxes from these taxable REIT subsidiaries.

Loss from Discontinued Operations

During the third quarter of 2011, we entered into negotiations to sell one of our real estate owned investments to a third party at which time it was determined that the property met the held-for-sale requirements pursuant to the accounting guidance. As a result, this investment was reclassified from real estate owned to real estate held-for-sale at a fair value of $1.9 million and property operating income and expenses, which netted to a

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loss of $0.6 million and $0.5 million for the nine months ended September 30, 2011 and 2010, respectively, were reclassified to discontinued operations. Impairment loss on real estate held-for-sale of $0.8 million for the nine months ended September 30, 2011 resulted from our determination of an impairment based on an analysis of one of our real estate owned investments in the second quarter of 2011. No such impairment loss was recorded for the nine months ended September 30, 2010. During the third quarter of 2010, we agreed to sell one of our real estate owned investments to a third party. As a result, this investment was reclassified from real estate owned to real estate held-for-sale at a fair value of $5.5 million and property operating income and expenses, which netted to a loss of $0.3 million for the nine months ended September 30, 2010, were reclassified to discontinued operations. The property was sold in the fourth quarter of 2010.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest totaled $0.2 million for the nine months ended September 30, 2011 and 2010, representing the portion of income allocated to a third party s interest in a consolidated subsidiary, which holds an investment in operating partnership units that are accruing interest and dividend income as well as a note payable that is accruing interest expense. See Note 12 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof.

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Liquidity and Capital Resources

Sources of Liquidity

Liquidity is a measurement of the ability to meet potential cash requirements. Our short-term and long-term liquidity needs include ongoing commitments to repay borrowings, fund future loans and investments, fund additional cash collateral from potential declines in the value of a portion of our interest rate swaps, fund operating costs and distributions to our stockholders as well as other general business needs. Our primary sources of funds for liquidity consist of proceeds from equity offerings, debt facilities and cash flows from operations. Our equity sources, depending on market conditions, consist of proceeds from capital market transactions including the future issuance of common, convertible and/or preferred equity securities. Our debt facilities include the issuance of floating rate notes resulting from our CDOs, the issuance of junior subordinated notes and borrowings under credit agreements. Net cash flows include interest income from our loan and investment portfolio reduced by interest expense on our debt facilities, cash from other investments reduced by expenses, repayments of outstanding loans and investments and funds from junior loan participation arrangements.

We believe our existing sources of funds will be adequate for purposes of meeting our short-term and long-term liquidity needs. A majority of our loans and investments are financed under existing debt obligations and their credit status is continuously monitored; therefore, these loans and investments are expected to generate a generally stable return. Our ability to meet our long-term liquidity and capital resource requirements is subject to obtaining additional debt and equity financing. Any decision by our lenders and investors to enter into such transactions with us will depend upon a number of factors, such as our financial performance, compliance with the terms of our existing credit arrangements, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders and investors resources and policies concerning the terms under which they make such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

Current conditions in the capital and credit markets have made certain forms of financing less attractive and, in certain cases, less available. Therefore we will continue to rely on cash flows provided by operating and investing activities for working capital.

To maintain our status as a REIT under the Internal Revenue Code, we must distribute annually at least 90% of our REIT taxable income. These distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations. However, we believe that our capital resources and access to financing will provide us with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements. Under recently issued IRS guidance, a listed REIT may offer shareholders elective stock dividends, which are paid in a combination of cash and common stock with at least 10% of the total distribution paid in cash, to satisfy the future dividend requirements.

Cash Flows

As of September 30, 2011 and 2010, we had cash and cash equivalents of $59.4 million and $26.3 million, respectively. The following table shows our cash flow components (in thousands):

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net cash (used in) provided by operating activities	$ (4,693)	$ 14,693
Net cash (used in) provided by investing activities	(11,233)	171,239
Net cash used in financing activities	(25,846)	(224,287)
Net decrease in cash and cash equivalents	(41,772)	(38,355)
Cash and cash equivalents at beginning of period	101,124	64,624
Cash and cash equivalents at end of period	$ 59,352	$ 26,269

Our cash flows from operating activities decreased by $19.4 million for the nine months ended September 30, 2011 compared to the comparable period in 2010 primarily due to the payment of a related party payable as well as a decrease in net interest income.

Cash flows from investing activities decreased by $182.5 million for the nine months ended September 30, 2011 compared to the comparable period in 2010 primarily due to an increase in the origination of loans compared to 2010 as well as proceeds received from the sale of available-for-sale securities and loans in 2010.

Cash used in financing activities decreased by $198.4 million for the nine months ended September 30, 2011 compared to the comparable period in 2010 mainly due to the closing of the discounted payoff agreement with Wachovia and paydowns of our junior subordinated notes in 2010, as well as a decrease in the use of restricted cash and an increase in the purchase of our own CDO bonds in 2011.

Equity Offerings

Our authorized capital provides for the issuance of up to 500 million shares of common stock, par value $0.01 per share, and 100 million shares of preferred stock, par value $0.01 per share.

We paid an incentive management fee for the twelve month period ending December 31, 2010 to ACM in a combination of cash and shares of common stock during the first quarter of 2011. We issued 666,927 shares of common stock in March 2011 for the portion of the incentive management fee paid in common stock.

In June 2010, we filed a shelf registration statement on Form S-3 with the SEC under 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 us from time to time pursuant to Rule 415 of the 1933 Act. On June 23, 2010, the SEC declared this shelf registration statement effective.

At September 30, 2011, we had 24,822,152 common shares outstanding.

Debt Facilities

We also maintain liquidity through repurchase agreements, a warehousing credit facility, a note payable and three junior loan participations with six different financial institutions or companies. In addition, we have issued three collateralized debt obligations or CDOs and nine separate junior subordinated notes. London inter-bank offered rate, or LIBOR, refers to one-month LIBOR unless specifically stated. As of September 30, 2011, these facilities had aggregate borrowings of approximately $1.3 billion.

The following is a summary of our debt facilities as of September 30, 2011:

Debt Facilities	At September 30, 2011 Commitment	Debt Carrying Value	Available	Maturity Dates
Repurchase agreements and credit facilities. Interest is variable based on pricing over LIBOR	$ 53,187,214	$ 14,908,319	$ 38,278,895	2011 - 2013
Collateralized debt obligations. Interest is variable based on pricing over three-month LIBOR **(1)**	1,012,766,005	1,012,766,005		2013 2014
Junior subordinated notes. Interest is at a fixed rate **(2)**	158,143,112	158,143,112		2034 2037
Notes payable. Interest is variable based on pricing over Prime or LIBOR	85,457,708	85,457,708		2011 2016
	$ 1,309,554,039	$ 1,271,275,144	$ 38,278,895	

(1) Maturity dates represent the weighted average remaining maturity based on the underlying collateral as of September 30, 2011.

(2) Represents a total face amount of $175.9 million less a total deferred amount of $17.7 million.

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These debt facilities are described in further detail in Note 7 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof.

Repurchase Agreements and Credit Facilities

Repurchase obligation financings provide us with a revolving component to our debt structure. Repurchase agreements provide stand alone financing for certain assets and interim, or warehouse financing, for assets that we plan to contribute to our CDOs.

In July 2011, we financed the purchase of two RMBS investments with a repurchase agreement with a financial institution for $1.4 million and $2.7 million, respectively. During the three months ended September 30, 2011, we paid down the debt by $0.6 million and $0.3 million, respectively, due to principal paydowns received on the RMBS investments, reducing the debt amounts to $0.8 million and $2.4 million, respectively, at September 30, 2011. The facility represents 85% and 90% of the investments, respectively, has a rolling monthly term, and bears interest of 125 basis points over LIBOR. The facility also includes a minimum net worth covenant of $100.0 million and the committed amount reflects the two investments currently financed in the facility. In October 2011, we purchased another two RMBS investments for $10.0 million and $15.0 million, respectively, which were financed by this facility for $8.5 million and $12.0 million, respectively, representing 85% and 80% of the investments face value, respectively.

In July 2011, we entered into a two year, $50.0 million warehouse facility with a financial institution to finance first mortgage loans on multifamily properties. The facility bears interest at a rate of 275 basis points over LIBOR, required a 1.00% commitment fee upon closing, matures in July 2013 with a one year extension option that requires two 5% paydowns and has warehousing and non-use fees. The facility also has a maximum advance rate of 75% and contains several restrictions including full repayment of an advance if a loan becomes 60 days past due, is in default or is written down by us. The facility also includes various financial covenants including a minimum liquidity requirement of $20.0 million, minimum tangible net worth which includes junior subordinated notes as equity of $150.0 million, maximum total liabilities less subordinate debt of $2.0 billion, as well as certain other debt service coverage ratios and debt to equity ratios. The facility also has a compensating balance requirement of $50.0 million to be maintained by us and our affiliates. At September 30, 2011, the outstanding balance of this facility was $11.7 million.

We also had a repurchase agreement with a financial institution that bore interest at 250 basis points over LIBOR and had a term expiring in June 2011. This facility did not have financial covenants and had a committed amount of $0.7 million at March 2011, reflecting the one asset that was financed. In June 2011, we repaid the facility in full.

CDOs

We completed the formation of three separate CDO entities since 2005 by issuing to third party investors, tranches of investment grade collateralized debt obligations through newly-formed wholly-owned subsidiaries (the Issuers). The Issuers hold assets, consisting primarily of real-estate related assets and cash which serve as collateral for the CDOs. The assets pledged as collateral for the CDOs were contributed from our portfolio of assets. By contributing these real estate assets to the various CDOs, these transactions resulted in a decreased cost of funds relating to the corresponding CDO assets and created capacity in our debt facilities.

The Issuers issued tranches of investment grade floating-rate notes of approximately $305.0 million, $356.0 million and $447.5 million for CDO I, CDO II and CDO III, respectively. CDO III also has a $100.0 million revolving note which was not drawn upon at the time of issuance. The revolving note facility has a commitment fee of 0.22% per annum on the undrawn portion of the facility. The tranches were issued with floating rate coupons based on three-month LIBOR plus pricing of 0.44% - 0.77%. Proceeds from the sale of the investment grade tranches issued in CDO I, CDO II and CDO III of $267.0 million, $301.0 million and $317.1 million, respectively, were used to repay higher costing outstanding debt under our repurchase agreements and notes payable. The CDOs may be replenished with substitute collateral for loans that are repaid during the first four years for CDO I and the first five years for CDO II and CDO III, subject to certain customary provisions. Thereafter, the outstanding debt

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balance will be reduced as loans are repaid. Proceeds from the repayment of assets which serve as collateral for the CDOs must be retained in its structure as restricted cash until such collateral can be replaced and therefore are not available to fund current cash needs. If such cash is not used to replenish collateral, it could have a negative impact on our anticipated returns. As of April 15, 2011, CDO II reached the end of its replenishment date and will no longer make quarterly amortization payments of $1.2 million to investors as a reduction of the CDO liability. As of April 15, 2009, CDO I reached the end of its replenishment date and will no longer make quarterly amortization payments of $2.0 million to investors. Investor capital will be repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed will be recorded as a reduction of the CDO liability. Our CDO vehicles are VIEs for which we are the primary beneficiary and are consolidated in our Financial Statements.

In the third quarter of 2011, we purchased, at a discount, $10.7 million of investment grade rated Class B, C and D notes originally issued by our CDO I and CDO II issuing entities for a price of $5.6 million from third party investors and recorded a net gain on extinguishment of debt of $5.1 million in our 2011 Consolidated Statement of Operations.

In the second quarter of 2011, we purchased, at a discount, $3.5 million of investment grade rated Class C and F notes originally issued by our CDO III issuing entity for a price of $1.6 million from third party investors. We recorded a gain on extinguishment of debt of $1.9 million from these transactions in our second quarter 2011 Consolidated Statement of Operations.

In the first quarter of 2011, we purchased, at a discount, a $1.5 million investment grade rated Class F note originally issued by our CDO III issuing entity for a price of $0.6 million from a third party investor. We recorded a net gain on extinguishment of debt of $0.9 million from this transaction in our first quarter 2011 Consolidated Statement of Operations.

During the three and nine months ended September 30, 2010, we purchased, at a discount, approximately $21.0 million and $67.7 million, respectively, of investment grade rated Class A2, B, C, D, E, F and G notes originally issued by our three CDO issuing entities for a price of $9.2 million and $22.8 million, respectively, from third party investors and recorded a net gain on extinguishment of debt of $11.8 million and $44.8 million, respectively, from these transactions in our 2010 Consolidated Statement of Operations.

The following table sets forth the face amount and gain on extinguishment of our CDO bonds repurchased in the following periods by bond class:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2011		2010		2011		2010	
Class:	Face Amount	Gain	Face Amount	Gain	Face Amount	Gain	Face Amount	Gain
A2	$	$	$	$	$	$	$ 7,375,000	$ 4,683,125
B	4,500,000	1,636,875	21,000,000	11,790,000	4,500,000	1,636,875	35,500,000	20,182,344
C	3,788,190	2,034,637			5,418,190	2,792,587	12,350,132	9,823,405
D	2,433,912	1,428,950			2,433,912	1,428,950	822,216	680,384
E							1,636,457	1,374,624
F					3,370,000	2,061,250	5,936,662	4,828,921
G							4,030,552	3,254,671
Total	$ 10,722,102	$ 5,100,462	$ 21,000,000	$ 11,790,000	$ 15,722,102	$ 7,919,662	$ 67,651,019	$ 44,827,474

In February 2010, we re-issued our own CDO bonds we had acquired throughout 2009 with an aggregate face amount of $42.8 million, as well as CDO bonds from other issuers acquired in the second quarter of 2008 with an aggregate face amount of $25.0 million and a carrying value of $0.4 million, and $10.5 million in cash, as part of an exchange for the retirement of $114.1 million of our junior subordinated notes. This transaction resulted in the recording of $65.2 million of additional CDO debt, of which $42.3 million represents the portion of our CDO bonds that were exchanged and $22.9 million represents the estimated interest due on the reissued bonds through their maturity, of which $21.7 million remains at September 30, 2011. See Junior Subordinated Notes below.

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At September 30, 2011, the outstanding note balance under CDO I, CDO II and CDO III was $173.6 million, $294.5 million and $544.7 million, respectively.

The economic difficulties over the last several years in the structured finance markets has negatively impacted the credit markets generally, and, as a result, investor demand for commercial real estate collateralized debt obligations has been substantially curtailed. In recent years, we have relied to a substantial extent on CDO financings to obtain match funded financing for our investments. Until the market for commercial real estate CDOs recovers, we may be unable to utilize CDOs to finance our investments and we may need to utilize less favorable sources of financing to finance our investments on a long-term basis. There can be no assurance as to when demand for commercial real estate CDOs will return or the terms of such securities investors will demand or whether we will be able to issue CDOs to finance our investments on terms beneficial to us.

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The following table outlines borrowings and the corresponding collateral under our collateralized debt obligations as of September 30, 2011:

	Debt		Collateral						
			Loans		Securities			Cash	
(Amounts in thousands)	Face Value	Carrying Value	Unpaid Principal (1)	Carrying Value (1)	Face Value	Carrying Value	Fair Value (2)	Restricted Cash (3)	Collateral At-Risk (4)
CDO I Issued four investment grade tranches January 19, 2005. Reinvestment period through April 2009. Stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 4.92%	$ 167,429,796	$ 173,562,984	$ 329,814,066	$ 277,063,804	$	$	$	$ 4,241,612	$ 142,245,63
CDO II Issued nine investment grade tranches January 11, 2006. Reinvestment period through April 2011. Stated maturity date of April 2038. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.78%	288,247,147	294,549,213	460,603,946	407,227,369	10,000,000	2,000,000	2,000,000	79,004	131,935,28
CDO III Issued 10 investment grade tranches December 14, 2006. Reinvestment period through January 2012. Stated maturity date of January 2042. Interest is variable based on three-month LIBOR; the weighted average note rate was 1.21%	535,340,000	544,653,808	608,002,846	554,232,862				1,947,996	204,471,63
Total CDOs	$ 991,016,943	$ 1,012,766,005	$ 1,398,420,858	$ 1,238,524,035	$ 10,000,000	$ 2,000,000	$ 2,000,000	$ 6,268,612	$ 478,652,56

The following table outlines borrowings and the corresponding collateral under our collateralized debt obligations as of December 31, 2010:

Debt	Collateral

(Amounts in thousands)	Face Value	Carrying Value	Loans Unpaid Principal (1)	Carrying Value (1)	Face Value	Securities Carrying Value	Fair Value (2)	Cash Restricted Cash (3)	Collatera At-Risk (4
CDO I Issued four investment grade tranches January 19, 2005. Reinvestment period through April 2009. Stated maturity date of February 2040. Interest is variable based on three-month LIBOR; the weighted average note rate was 4.52%	$ 220,475,564	$ 226,770,198	$ 413,724,169	$ 337,901,200	$	$	$	$ 474,669	$ 171,330,7
CDO II Issued nine investment grade tranches January 11, 2006. Reinvestment period through April 2011. Stated maturity date of April 2038. Interest is variable based on three-month LIBOR; the weighted average note rate was 2.77%	295,530,671	301,999,004	446,125,317	404,475,017	10,000,000	1,000,000	1,000,000	1,529,307	141,439,5
CDO III Issued 10 investment grade tranches December 14, 2006. Reinvestment period through January 2012. Stated maturity date of January 2042. Interest is variable based on three-month LIBOR; the weighted average note rate was 1.77%	532,540,000	542,083,353	609,849,262	561,766,846				49,810	174,133,1
Total CDOs	$ 1,048,546,235	$ 1,070,852,555	$ 1,469,698,748	$ 1,304,143,063	$ 10,000,000	$ 1,000,000	$ 1,000,000	$ 2,053,786	$ 486,903,3

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(1) Amounts include loans to real estate assets consolidated by us that were reclassified to real estate owned and held-for-sale, net on the Consolidated Financial Statements.

(2) The security with a fair value of $2,000,000 was rated a CCC- at September 30, 2011 and a BB- at December 31, 2010 by Standard & Poor s.

(3) Represents restricted cash held for reinvestment and/or principal repayments in CDOs. Does not include restricted cash related to interest payments, delayed fundings and expenses.

(4) Amounts represent the face value of collateral in default, as defined by the CDO indenture, as well as assets deemed to be credit risk . Credit risk assets are reported by each of the CDOs and are generally defined as one that, in the CDO collateral manager s reasonable business judgment, has a significant risk of declining in credit quality or, with a passage of time, becoming a defaulted asset.

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Our CDO vehicles contain interest coverage and asset over collateralization covenants that must be met as of the waterfall distribution date in order for us to receive such payments. If we fail these covenants in any of our CDOs, all cash flows from the applicable CDO would be diverted to repay principal and interest on the outstanding CDO bonds and we would not receive any residual payments until that CDO regained compliance with such tests. Our CDOs were in compliance with all such covenants as of September 30, 2011 as well as on the most recent determination date in October 2011. In the event of a breach of the CDO covenants that could not be cured in the near-term, we would be required to fund our non-CDO expenses, including management fees and employee costs, distributions required to maintain REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CDO not in breach of a covenant test, (iii) income from real property and loan assets, (iv) sale of assets, (v) or accessing the equity or debt capital markets, if available. We have the right to cure covenant breaches which would resume normal residual payments to us by purchasing non-performing loans out of the CDOs. However, we may not have sufficient liquidity available to do so at such time.

The chart below is a summary of our CDO compliance tests as of the most recent determination date in October 2011:

Cash Flow Triggers	**CDO I**	**CDO II**	**CDO III**
Overcollateralization (1)			
Current	207.53%	181.78%	108.47%
Limit	184.00%	169.50%	105.60%
Pass / Fail	Pass	Pass	Pass
Interest Coverage (2)			
Current	290.91%	579.76%	548.96%
Limit	160.00%	147.30%	105.60%
Pass / Fail	Pass	Pass	Pass

(1) The overcollateralization ratio divides the total principal balance of all collateral in the CDO by the total principal balance of the bonds associated with the applicable ratio. To the extent an asset is considered a defaulted security, the asset s principal balance for purposes of the overcollateralization test, is the lesser of the asset s market value or the principal balance of the defaulted asset multiplied by the asset s recovery rate which is determined by the rating agencies. Rating downgrades of CDO collateral will generally not have a direct impact on the principal balance of a CDO asset for purposes of calculating the CDO s overcollateralization test unless the rating downgrade is below a significantly low threshold (e.g. CCC-) as defined in each CDO vehicle.

(2) The interest coverage ratio divides interest income by interest expense for the classes senior to those retained by us.

As of the determination dates in October 2011, July 2011, April 2011, January 2011 and October 2010, our overcollateralization ratios were 207.53%, 196.92%, 185.59%, 185.88% and 184.24%, respectively, for CDO I; 181.78%, 181.74%, 181.74%, 171.81% and 171.00%, respectively, for CDO II; and 108.47%, 109.50%, 109.89%, 109.50% and 109.47%, respectively, for CDO III. The ratio will fluctuate based on the performance of the underlying assets, transfers of assets into the CDOs prior to the expiration of their respective replenishment dates, purchase or disposal of other investments, and loan payoffs.

Junior Subordinated Notes

In February 2010, we retired $114.1 million of our junior subordinated notes, with a carrying value of $102.1 million in exchange for the re-issuance of our own CDO bonds we had acquired throughout 2009 with an aggregate face amount of $42.8 million, CDO bonds from other issuers acquired in the second quarter of 2008 with

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an aggregate face amount of $25.0 million and a carrying value of $0.4 million, and $10.5 million in cash. This transaction resulted in recording $65.2 million of additional CDO debt, of which $42.3 million represents the portion of our CDO bonds that were exchanged and $22.9 million represents the estimated interest due on the bonds through their maturity, a reduction to securities available-for-sale of $0.4 million representing the fair value of CDO bonds of other issuers, and a gain on extinguishment of debt of approximately $26.3 million, or $1.03 per basic and diluted common share, in the first quarter of 2010.

In 2009, we retired $265.8 million of our then outstanding trust preferred securities, primarily consisting of $258.4 million of junior subordinated notes issued to third party investors and $7.4 million of common equity issued to us in exchange for $289.4 million of newly issued unsecured junior subordinated notes, representing 112% of the original face amount. The notes bear a fixed interest rate of 0.50% per annum until March 31, 2012 or April 30, 2012 (the Modification Period), and then interest is to be paid at the rates set forth in the existing trust agreements until maturity, equal to a weighted average three month LIBOR plus 2.90%, which was reduced to 2.77% after the exchange in February 2010 mentioned above. The 12% increase to the face amount due upon maturity, which had a balance of $17.7 million at September 30, 2011, is being amortized into interest expense over the life of the notes.

During the Modification Period, we will be permitted to make distributions of up to 100% of taxable income to common shareholders. We have agreed that such distributions will be paid in the form of our stock to the maximum extent permissible under the Internal Revenue Service rules and regulations in effect at the time of such distribution, with the balance payable in cash. This requirement regarding distributions in stock can be terminated by us at any time, provided that we pay the note holders the original rate of interest from the time of such termination.

The junior subordinated notes are unsecured, have maturities of 25 to 28 years, pay interest quarterly at a fixed rate or floating rate of interest based on three-month LIBOR and, absent the occurrence of special events, are not redeemable during the first two years.

At September 30, 2011, the aggregate carrying value under these facilities was $158.1 million with a current weighted average pay rate of 0.50%, however, based upon the accounting treatment for the restructuring mentioned above, the effective rate was 3.85% at September 30, 2011.

Notes Payable

We have a $50.2 million non-recourse note payable at September 30, 2011 related to a prior year exchange of profits interest transaction. During 2008, we recorded a $49.5 million note payable related to the exchange of our POM profits interest for operating partnership units in Lightstone Value Plus REIT, L.P. The note was initially secured by our interest in POM, matures in July 2016 and bears interest at a fixed rate of 4.06% with payment deferred until the closing of the transaction. Upon the closing of the POM transaction in March 2009, the note balance was increased to $50.2 million and is secured by our investment in common and preferred operating partnership units in Lightstone Value Plus REIT, L.P.

In April 2011, we entered into a non-recourse junior loan participation in the amount of $32.0 million on a $50.0 million mezzanine loan. The loan was participated out to a subordinate lender at a discount and we received $28.8 million of proceeds. The subordinate lender will receive its proportionate share of the interest received from the loan which has a variable rate of LIBOR plus 4.35% and a maturity of July 2012. We also have the right to sell our $18.0 million senior participation to the subordinate lender, at face value, in the event of default or if the loan is not repaid by July 9, 2012. The outstanding balance of this junior loan participation was $32.0 million at September 30, 2011. In June 2011, we entered into a non-recourse junior loan participation in the amount of $2.0 million on an $11.8 million mezzanine loan. The participation has a 0% rate of interest and a maturity of August 2012. The outstanding balance of this junior loan participation was $2.0 million at September 30, 2011. We also have a junior loan participation with an outstanding balance at September 30, 2011 of $1.3 million on a $1.3 million bridge loan. Participations have a maturity date equal to the corresponding mortgage loan and are secured by the participant s interest in the mortgage loan. Interest expense is based on the portion of the interest received from the loan that is paid to the junior participant. Our obligation to pay interest on the participation is based on the performance of the related loan.

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In the first quarter of 2010, we entered into an agreement with Wachovia whereby we could retire all of our $335.6 million of debt outstanding at the time the parties began to negotiate the agreement for a discounted payoff amount of $176.2 million, representing 52.5% of the face amount of the debt. The $335.6 million of indebtedness was comprised of $286.1 million of term debt and a $49.5 million working capital facility. The maturity date of the facility was in December 2010 and the facility bore an Interest rate of LIBOR plus 500 basis points or Prime plus 500 basis points. Upon closing on the discounted payoff agreement on June 30, 2010, we recorded a $158.4 million gain to our 2010 Consolidated Statement of Operations, net of $0.4 million of stock warrant expense and $0.6 million of other various expenses and commissions. Estimated state income taxes were approximately $1.8 million, reduced to $0.9 million in the fourth quarter of 2010, and recorded in provision for income taxes resulting in a net gain of approximately $157.5 million.

Mortgage Notes Payable Real Estate Owned

During the first quarter of 2011, we assumed a $55.4 million interest-only first lien mortgage in connection with the acquisition of real property pursuant to bankruptcy proceedings for an entity in which we had a $29.8 million loan secured by a portfolio of multifamily assets. The real estate investment was classified as real estate owned in our Consolidated Balance Sheet in March 2011. The mortgage bears interest at a variable rate of one-month LIBOR plus 1.23% and has a maturity date of March 2014 with a one year and three month extension option. In June 2011, one of the properties in the portfolio was sold to a third party for $1.6 million and the proceeds were used to pay down the first lien mortgage. The outstanding balance of this mortgage was $53.8 million at September 30, 2011.

During the second quarter of 2010, we assumed a $20.8 million interest-only first lien mortgage related to a deed in lieu of foreclosure agreement for an entity in which we had a $5.6 million junior participation loan secured by an apartment building. The real estate investment was classified as real estate owned in April 2010. The mortgage bears interest at a fixed rate of 6.23% and has a maturity date of December 2013 with a five year extension option. The outstanding balance of this mortgage was $20.8 million at September 30, 2011.

Mortgage Note Payable - Held-For-Sale

During the second quarter of 2008, we assumed a $41.4 million first lien mortgage related to the foreclosure of an entity in which we had a $5.0 million mezzanine loan. The real estate investment was originally classified as real estate owned and was reclassified as real estate held-for-sale in September 2009. The mortgage bears interest at a fixed rate of 6.13% and has a maturity date of June 2012. The outstanding balance of this mortgage was $41.4 million at September 30, 2011.

Restrictive Covenants

Our debt facilities contain various financial covenants and restrictions, including minimum net worth, minimum liquidity and maximum debt balance requirements, as well as certain other debt service coverage ratios and debt to equity ratios. We were in compliance with all financial covenants and restrictions at September 30, 2011.

No payment due under the Junior Subordinated Indentures may be paid if there is a default under any senior debt and the senior lender has sent notice to the trustee. The Junior Subordinated Indentures are also cross-defaulted with each other.

Cash Flow From Operations

We continually monitor our cash position to determine the best use of funds to both maximize our return on funds and maintain an appropriate level of liquidity. Historically, in order to maximize the return on our funds, cash generated from operations has generally been used to temporarily pay down borrowings under credit facilities whose primary purpose is to fund our new loans and investments. Consequently, when making distributions in the past, we have borrowed the required funds by drawing on credit capacity available under our credit facilities. Since we have reduced substantially all of our short-term debt, we may have to maintain adequate liquidity from operations to make any future distributions.

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Share Repurchase Plan

In June 2011, the Board of Directors authorized a stock repurchase plan that enables us to buy up to 1.5 million shares of our common stock. At management s discretion, shares may be acquired from time to time on the open market, through privately negotiated transactions or pursuant to a Rule 10b5-1 plan. A Rule 10b5-1 plan permits us to repurchase shares at times when we might otherwise be prevented from doing so. As of September 30, 2011, we repurchased 725,988 shares of our common stock under the stock repurchase plan at a total cost of $3.0 million and an average cost of $4.07 per share. We subsequently repurchased the remaining shares available under the stock repurchase plan in the fourth quarter of 2011.

Contractual Commitments

As of September 30, 2011, we had the following material contractual obligations (dollars in thousands):

Contractual Obligations	**Payments Due by Period (1)**						
	2011	**2012**	**2013**	**2014**	**2015**	**Thereafter**	**Total**
Repurchase agreements and credit facilities	$ 3,187	$	$ 11,721	$	$	$	$ 14,908
Notes payable	1,300	34,000				50,158	85,458
Collateralized debt obligations (2)	56,087	233,402	160,972	193,547	81,625	287,133	1,012,766
Junior subordinated notes (3)						175,858	175,858
Mortgage note payable real estate owned (4)			20,750	53,751			74,501
Mortgage note payable held-for-sale (5)		41,440					41,440
Outstanding unfunded commitments (6)	8,627	5,867	1,922	1,748	1,748	735	20,647
Totals	$ 69,201	$ 314,709	$ 195,365	$ 249,046	$ 83,373	$ 513,884	$ 1,425,578

(1) Represents principal amounts due based on contractual maturities. Does not include total projected interest payments on our debt obligations of $6.9 million in 2011, $28.4 million in 2012, $22.5 million in 2013, $18.1 million in 2014, $13.6 million in 2015 and $109.3 million thereafter based on current LIBOR rates.

(2) Comprised of $173.6 million of CDO I debt, $294.5 million of CDO II debt and $544.7 million of CDO III debt with a weighted average remaining maturity of 1.89, 3.01 and 2.70 years, respectively, as of September 30, 2011. The balance of estimated interest due through maturity on CDO bonds reissued in 2010, which is included in the carrying values of the CDOs, totaled $21.7 million at September 30, 2011. During the nine months ended September 30, 2011, we repurchased, at a discount, $15.7 million of investment grade notes originally issued by our CDO I, CDO II and CDO III issuers and recorded a reduction of the outstanding debt balance of $15.7 million.

(3) Represents the face amount due upon maturity. The carrying value is $158.1 million, which is net of a deferred amount of $17.7 million at September 30, 2011.

(4) Represents a $20.8 million mortgage note payable with a contractual maturity in 2013, related to a real estate investment acquired through deed in lieu of foreclosure in April 2010 and a $55.4 million mortgage note payable with a contractual maturity in 2014, related to a real estate investment purchased out of bankruptcy in the first quarter of 2011, which was paid down in the second quarter of 2011 and had a balance of $53.8 million at September 30, 2011.

(5) Represents a mortgage note payable with a contractual maturity in 2012, related to a real estate investment held-for-sale that is expected to be transferred to the first mortgage lender in 2011.

(6) In accordance with certain loans and investments, we have outstanding unfunded commitments of $20.6 million as of September 30, 2011, that we are obligated to fund as the borrowers meet certain requirements. Specific requirements include, but are not

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limited to, property renovations, building construction, and building conversions based on criteria met by the borrower in accordance with the loan agreements. In relation to the $20.6 million outstanding balance at September 30, 2011, our restricted cash balance and CDO III revolver capacity contained approximately $18.4 million available to fund the portion of the unfunded commitments for loans financed by our CDO vehicles.

Management Agreement

We, ARLP and Arbor Realty SR, Inc. have a management agreement with ACM, pursuant to which ACM provides certain services and we pay ACM a base management fee and under certain circumstances, an annual incentive fee. On August 6, 2009, we amended our management agreement with ACM effective as of January 1, 2009. The amendment was negotiated by a special committee of our Board of Directors, consisting solely of independent directors and was approved unanimously by all of the independent directors.

The base management fee is an arrangement whereby we reimburse ACM for its actual costs incurred in managing our business based on the parties agreement in advance on an annual budget with subsequent quarterly true-ups to actual costs. The 2009 and 2010 base management fees were $8.0 million and $7.6 million, respectively. The 2011 base management fee is estimated to be approximately $8.1 million, which was approved by the audit committee of our Board of Directors. All origination fees on investments are retained by us.

The incentive fee is calculated as (1) 25% of the amount by which (a) our funds from operations per share, adjusted for certain gains and losses including gains from the retirement and restructuring of debt and 60% of any loan loss reserve recoveries (spread over a three year period), exceeds (b) the product of (x) 9.5% per annum or the Ten Year U.S. Treasury Rate plus 3.5%, whichever is greater, and (y) the greater of $10.00 or the weighted average of book value of the net assets contributed by ACM to ARLP per ARLP partnership unit, the offering price per share of our common equity in the private offering on July 1, 2003 and subsequent offerings and the issue price per ARLP partnership unit for subsequent contributions to ARLP, multiplied by (2) the weighted average of our outstanding shares.

The minimum return, or incentive fee hurdle, to be reached before an incentive fee is earned, is a percentage applied on a per share basis to the greater of $10.00 or the average gross proceeds per share. In addition, 60% of any loan loss and other reserve recoveries are eligible to be included in the incentive fee calculation, which recoveries are spread over a three year period.

The management agreement also allows us to consider, from time to time, the payment of additional success-based fees to ACM for accomplishing certain specified corporate objectives; has a termination fee of $10.0 million; and is renewable automatically for successive one-year terms, unless terminated with six months prior written notice.

We incurred $2.1 million and $6.1 million of base management fees for services rendered in the three and nine months ended September 30, 2011, respectively, and $1.9 million and $5.8 million of base management fees for services rendered in the three and nine months ended September 30, 2010, respectively. For the three and nine months ended September 30, 2011 and 2010, ACM did not earn an incentive fee installment and no success-based payments were made.

Additionally, in 2007, ACM received an incentive fee installment totaling $19.0 million which was recorded as a prepaid management fee related to the incentive fee on $77.1 million of deferred revenue recognized on the transfer of control of the 450 West 33rd Street property, one of our equity affiliates.

The incentive fee is measured on an annual basis. However, when applicable, we will pay the annual incentive fee in quarterly installments, each within 60 days of the end of each fiscal quarter. The calculation of each installment is based on results for the twelve months ending on the last day of the fiscal quarter for which the installment is payable. These installments of the annual incentive fee are deemed to be an advance subject to potential reconciliation at the end of such fiscal year, and any overpayments are required to be repaid in accordance with the amended management agreement. Subject to the ownership limitations in our charter, at least 25% of this incentive fee is payable to our manager in shares of our common stock having a value equal to the average closing price per share for the last 20 days of the fiscal quarter for which the incentive fee is being paid.

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The incentive fee is accrued as it is earned. The expense incurred for the incentive fee paid in common stock is determined using the valuation method described above at the quoted market price of our common stock on the last day of each quarter. At December 31 of each year, we remeasure the incentive fee paid to ACM in the form of common stock in accordance with current accounting guidance, which discusses how to determine the expense when certain terms are not known prior to the measurement date. Accordingly, the expense recorded for such common stock is adjusted to reflect the fair value of the common stock on the measurement date when the final calculation of the total incentive fee is determined. In the event that the incentive fee for the full year is an amount less than the total of the installment payments made to ACM for the year, ACM will refund the amount of such overpayment to us in cash regardless of whether such installments were paid in cash or common stock. In such a case, we would record a negative incentive fee expense in the quarter when such overpayment is determined.

Related Party Transactions

Due from related party was $0.6 million at September 30, 2011 and consisted primarily of escrows held by an affiliate of ACM related to a real estate owned transaction. Due from related party was $0.3 million at December 31, 2010 and consisted of escrows held by ACM related to real estate transactions.

Due to related party was $2.1 million at September 30, 2011 and consisted primarily of base management fees due to ACM, of which $0.6 million will be remitted by us in the fourth quarter of 2011. At December 31, 2010, due to related party was $17.4 million and consisted primarily of an incentive management fee for the twelve month period ended December 31, 2010 of $18.8 million, offset by a $3.6 million related party receivable, and base management fees of $2.3 million due to ACM, all of which were remitted by us in the first quarter of 2011.

During the second quarter of 2011, we originated a mortgage loan to a third party borrower secured by property purchased from ACM, our manager. The loan had an unpaid principal balance of $6.2 million, a maturity date of May 2014 and a variable interest rate of LIBOR plus 6.00%. Upon approving the transaction, the independent directors committee of the Board of Directors required us to sell the loan in 90 days and ACM agreed to guarantee the loan until it was sold. In the third quarter of 2011, the loan was sold to an affiliated entity of Mr. Ivan Kaufman for $6.2 million.

During the second quarter of 2011, we originated a loan to a third party borrower for a portfolio of properties with an unpaid principal balance of $24.4 million as of September 30, 2011, of which, one property in the portfolio was previously financed with an $11.7 million loan that was purchased by ACM, our manager. The $11.7 million loan was repaid as part of the $24.4 million loan on the portfolio. The new loan has a maturity date of May 2016 and a variable interest rate of LIBOR plus 4.75%.

During the first quarter of 2011, we originated four mortgage loans totaling $28.4 million to borrowers which were secured by property purchased from ACM, our manager, or its affiliate. Two of the loans totaling $22.4 million have maturity dates of March 2014 and a combined weighted average variable interest rate of 6.23% as of September 30, 2011 and were secured by the same property. The third was a $2.0 million bridge loan with a maturity date of February 2013 and an interest rate of one-month LIBOR plus 6.00%. The fourth was a $4.0 million bridge loan with a maturity date in April 2013 and an interest rate of one-month LIBOR plus 6.00%.

In October 2010, we purchased, at par, a $4.7 million bridge loan from ACM. The loan was originated by ACM in June 2010 to a joint venture that acquired a condo development property in Brooklyn, New York. The loan bears interest at a rate of one-month LIBOR plus 8% with a

LIBOR floor of 0.5% and a LIBOR cap of 1.5% and has a maturity date of June 2012. In addition, ACM contributed $0.9 million for a 50% non-controlling interest in an entity, which owns 28% of this joint venture. In the third quarter of 2011, ACM sold its investment in this joint venture to an affiliated entity of Mr. Ivan Kaufman for $0.9 million. Interest income recorded from this loan for the three and nine months ended September 30, 2011 was approximately $0.1 million and $0.3 million, respectively.

We are dependent upon our manager, ACM, with whom we have a conflict of interest, to provide services to us that are vital to our operations. Our chairman, chief executive officer and president, Mr. Ivan Kaufman, is also the chief executive officer and president of our manager, and, our chief financial officer and treasurer, Mr. Paul Elenio, is the chief financial officer of our manager. In addition, Mr. Kaufman and his affiliated entities (the Kaufman Entities) together beneficially own approximately 92% of the outstanding membership interests of

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ACM, and certain of our employees and directors also hold an ownership interest in ACM. Furthermore, one of our directors is general counsel to ACM and another of our directors also serves as the trustee of one of the Kaufman Entities that holds a majority of the outstanding membership interests in ACM and co-trustee of another Kaufman Entity that owns an equity interest in our manager. ACM currently holds approximately 5.3 million of our common shares, representing 21.6% of the voting power of our outstanding stock as of September 30, 2011.

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Non-GAAP Financial Measures

Funds from Operations

We are presenting funds from operations (FFO) because we believe it to be an important supplemental measure of our operating performance in that it is frequently used by analysts, investors and other parties in the evaluation of real estate investment trusts (REITs). The revised White Paper on FFO approved by the Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, in April 2002 defines FFO as net income (loss) attributable to Arbor Realty Trust, Inc. (computed in accordance with generally accepted accounting principles in the United States (GAAP)), excluding gains (losses) from sales of depreciated real properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. We consider gains and losses on the sales of undepreciated real estate investments to be a normal part of our recurring operating activities in accordance with GAAP and should not be excluded when calculating FFO. For the nine months ended September 30, 2011 and 2010, we have not sold any previously depreciated operating properties, which would be excluded from the FFO calculation. In accordance with the revised white paper, losses from discontinued operations are not excluded when calculating FFO.

FFO is not intended to be an indication of our cash flow from operating activities (determined in accordance with GAAP) or a measure of our liquidity, nor is it entirely indicative of funding our cash needs, including our ability to make cash distributions. Our calculation of FFO may be different from the calculation used by other companies and, therefore, comparability may be limited.

FFO for the three and nine months ended September 30, 2011 and 2010 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Unaudited)	**2011**	**2010**	**2011**	**2010**
Net (loss) income attributable to Arbor Realty Trust, Inc.	$ (2,442,229)	$ (1,408,061)	$ (12,529,815)	$ 154,053,731
Add:				
Depreciation real estate owned and held-for-sale (1)	1,800,461	167,983	4,130,960	377,837
Funds from operations (FFO)	$ (641,768)	$ (1,240,078)	$ (8,398,855)	$ 154,431,568
Diluted FFO per common share	$ (0.03)	$ (0.05)	$ (0.33)	$ 6.04
Diluted weighted average shares outstanding	25,239,590	25,477,410	25,214,832	25,558,270

(1) Includes discontinued operations.

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Adjusted Book Value

We believe that adjusted book value per share is an additional appropriate measure given the magnitude and the deferral structure of the 450 West 33rd Street transaction from 2007, as well as the changes in the fair value of certain derivative instruments. Adjusted book value per share currently reflects the future impact of the 450 West 33rd Street transaction on our financial condition as well as the evaluation of our operating results without the effects of unrealized losses from certain of our derivative instruments. We consider this non-GAAP financial measure to be an effective indicator of our financial performance for both us and our investors. We do not advocate that investors consider this non-GAAP financial measure in isolation from, or as a substitute for, financial measures prepared in accordance with GAAP. In addition, GAAP book value per share and adjusted book value per share calculations do not take into account any dilution from the potential exercise of the warrants issued to Wachovia as part of the 2009 debt restructuring.

GAAP book value per share and adjusted book value per share as of September 30, 2011 and December 31, 2010 is as follows:

	September 30, 2011	December 31, 2010
GAAP Arbor Realty Trust, Inc. Stockholders Equity	$ 195,736,016	$ 204,415,381
Add: 450 West 33rd Street transaction deferred revenue	77,123,133	77,123,133
Unrealized loss on derivative instruments	50,609,699	50,802,533
Subtract: 450 West 33rd Street transaction prepaid management fee	(19,047,949)	(19,047,949)
Adjusted Arbor Realty Trust, Inc. Stockholders Equity	$ 304,420,899	$ 313,293,098
Adjusted book value per share	$ 12.26	$ 12.64
GAAP book value per share	$ 7.89	$ 8.25
Common shares outstanding	24,822,152	24,776,213

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and real estate values. The primary market risks that we are exposed to are real estate risk and interest rate risk.

Market Conditions

We are subject to market changes in the debt and secondary mortgage markets. These markets have experienced disruptions, which have and may in the future have an adverse impact on our earnings and financial condition.

Current conditions in the debt markets include reduced liquidity and increased risk adjusted premiums. These conditions may increase the cost and reduce the availability of debt. We attempt to mitigate the impact of debt market disruptions by obtaining adequate debt facilities from a variety of financing sources. There can be no assurance, however, that we will be successful in these efforts, that such debt facilities will be adequate or that the cost of such debt facilities will be at similar terms.

The secondary mortgage markets are still experiencing disruptions resulting from reduced investor demand for collateralized debt obligations and increased investor yield requirements for these obligations. In light of these conditions, we currently expect to finance a majority of our loan and investment portfolio with our current capital and debt facilities.

Real Estate Risk

Commercial mortgage assets may be viewed as exposing an investor to greater risk of loss than residential mortgage assets since such assets are typically secured by larger loans to fewer obligors than residential mortgage assets. Multi-family and commercial property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, events such as natural disasters including hurricanes and earthquakes, acts of war and/or terrorism (such as the events of September 11, 2001) and others that may cause unanticipated and uninsured performance declines and/or losses to us or the owners and operators of the real estate securing our investment; national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, construction delays, construction cost, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs). In the event net operating income decreases, a borrower may have difficulty repaying our loans, which could result in losses to us. In addition, decreases in property values reducing the value of collateral, and a lack of liquidity in the market, could reduce the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses. Even when the net operating income is sufficient to cover the related property s debt service, there can be no assurance that this will continue to be the case in the future.

Interest Rate Risk

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

Our operating results will depend in large part on differences between the income from our loans and our borrowing costs. Most of our loans and borrowings are variable-rate instruments, based on LIBOR. The objective of this strategy is to minimize the impact of interest rate changes on our net interest income. In addition, we have various fixed rate loans in our portfolio, which are financed with variable rate LIBOR borrowings. We have entered into various interest swaps (as discussed below) to hedge our exposure to interest rate risk on our variable rate LIBOR borrowings as it relates to our fixed rate loans. Certain of these swaps are scheduled to mature on the original maturity dates of their corresponding loans. However, loans are sometimes extended and, consequently, do not pay off on their original maturity dates. If a loan is extended, whether it is through an existing extension option or a modification, our exposure to interest rate risk may be increased. In these instances, we could have a fixed rate loan in our portfolio financed with variable debt and, since the corresponding interest swap already matured, a

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portion of our debt is no longer protected against interest rate risk. Some of our loans and borrowings are subject to various interest rate floors. As a result, the impact of a change in interest rates may be different on our interest income than it is on our interest expense.

One month LIBOR approximated 0.24% at September 30, 2011 and 0.26 % at December 31, 2010.

Based on our loans, securities available-for-sale, securities held-to-maturity and liabilities as of September 30, 2011, and assuming the balances of these loans, securities and liabilities remain unchanged for the subsequent twelve months, a 0.25% increase in LIBOR would increase our annual net income and cash flows by approximately $0.7 million. This is partially offset by various interest rate floors that are in effect at a rate that is above a 0.25% increase in LIBOR which would limit the effect of a 0.25% increase, and increased expense on variable rate debt, partially offset by our interest rate swaps that effectively convert a portion of the variable rate LIBOR based debt, as it relates to certain fixed rate assets, to a fixed basis that is not subject to a 0.25% increase. Based on the loans, securities available-for-sale, securities held-to-maturity and liabilities as of September 30, 2011, and assuming the balances of these loans, securities and liabilities remain unchanged for the subsequent twelve months, a 0.25% decrease in LIBOR would decrease our annual net income and cash flows by approximately $0.3 million. This is partially offset by various interest rate floors which limit the effect of a decrease on interest income and decreased expense on variable rate debt, partially offset by our interest rate swaps that effectively converted a portion of the variable rate LIBOR based debt, as it relates to certain fixed rate assets, to a fixed basis that is not subject to a 0.25% decrease.

Based on our loans, securities available-for-sale and liabilities as of December 31, 2010, and assuming the balances of these loans, securities and liabilities remain unchanged for the subsequent twelve months, a 0.25% increase in LIBOR would increase our annual net income and cash flows by approximately $0.7 million. This is partially offset by various interest rate floors that are in effect at a rate that is above a 0.25% increase in LIBOR which would limit the effect of a 0.25% increase, and increased expense on variable rate debt, partially offset by our interest rate swaps that effectively convert a portion of the variable rate LIBOR based debt, as it relates to certain fixed rate assets, to a fixed basis that is not subject to a 0.25% increase. Based on the loans, securities available-for-sale and liabilities as of December 31, 2010, and assuming the balances of these loans, securities and liabilities remain unchanged for the subsequent twelve months, a 0.25% decrease in LIBOR would decrease our annual net income and cash flows by approximately $0.7 million. This is partially offset by various interest rate floors which limit the effect of a decrease on interest income and decreased expense on variable rate debt, partially offset by our interest rate swaps that effectively converted a portion of the variable rate LIBOR based debt, as it relates to certain fixed rate assets, to a fixed basis that is not subject to a 0.25% decrease.

In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to us, which could adversely affect our liquidity and operating results. Further, such delinquencies or defaults could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

In connection with our CDOs described in Management s Discussion and Analysis of Financial Condition and Results of Operations, we entered into interest rate swap agreements to hedge the exposure to the risk of changes in the difference between three-month LIBOR and one-month LIBOR interest rates. These interest rate swaps became necessary due to the investor s return being paid based on a three-month LIBOR index while the assets contributed to the CDOs are yielding interest based on a one-month LIBOR index.

As of September 30, 2011 and December 31, 2010, we had nine of these interest rate swap agreements outstanding that had combined notional values of $0.9 billion and $1.1 billion, respectively. The market value of these interest rate swaps is dependent upon existing market interest rates and swap spreads, which change over time. If there were a 25 basis point increase in forward interest rates as of September 30, 2011 and December 31, 2010, respectively, the value of these interest rate swaps would have decreased by less than $0.1 million for both periods. If there were a 25 basis point decrease in forward interest rates as of September 30, 2011 and December 31, 2010, respectively, the value of these interest rate swaps would have increased by less than $0.1 million for both periods.

We also have interest rate swap agreements outstanding to hedge current and outstanding LIBOR based debt relating to certain fixed rate loans within our portfolio. We had 25 of these interest rate swap agreements outstanding that had a combined notional value of $548.5 million as of September 30, 2011 compared to 30 interest rate swap agreements outstanding with combined notional values of $639.7 million as of December 31, 2010. The fair market value of these interest rate swaps is dependent upon existing market interest rates and swap spreads, which change over time. If there had been a 25 basis point increase in forward interest rates as of September 30, 2011 and December 31, 2010, respectively, the fair market value of these interest rate swaps would have increased by approximately $3.6 million and $4.6 million, respectively. If there were a 25 basis point decrease in forward interest rates as of September 30, 2011 and December 31, 2010, respectively, the fair market value of these interest rate swaps would have decreased by approximately $3.7 million and $4.7 million, respectively.

We also had three LIBOR Caps with a combined notional value of $86.3 million as of as of September 30, 2011 compared to one LIBOR Cap with a notional value of $7.0 million as of December 31, 2010. If there were a 25 basis point increase in forward interest rates as of September 30, 2011 and December 31, 2010, respectively, the value of the LIBOR Caps would have increased by less than $0.1 million for both periods. If there were a 25 basis point decrease in forward interest rates as of September 30, 2011 and December 31, 2010, respectively, the value of the LIBOR Caps would have decreased by less than $0.1 million for both periods.

Certain of our interest rate swaps, which are designed to hedge interest rate risk associated with a portion of our loans and investments, could require the funding of additional cash collateral for changes in the market value of these swaps. Due to the prolonged volatility in the financial markets that began in 2007, the value of these interest rate swaps have declined substantially. As a result, at September 30, 2011 and December 31, 2010, we funded approximately $24.0 million and $21.3 million, respectively, in cash related to these swaps. If we continue to experience significant changes in the outlook of interest rates, these contracts could continue to decline in value, which would require additional cash to be funded. However, at maturity the value of these contracts return to par and all cash will be recovered. If we do not have available cash to meet these requirements, this could result in the early termination of these interest rate swaps, leaving us exposed to interest rate risk associated with these loans and investments, which could adversely impact our financial condition.

Our hedging transactions using derivative instruments also involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. The counterparties to our derivative arrangements are major financial institutions with high credit ratings with which we and our affiliates may also have other financial relationships. As a result, we do not anticipate that any of these counterparties will fail to meet their obligations. There can be no assurance that we will be able to adequately protect against the foregoing risks and will ultimately realize an economic benefit that exceeds the related amounts incurred in connection with engaging in such hedging strategies.

We utilize interest rate swaps to limit interest rate risk. Derivatives are used for hedging purposes rather than speculation. We do not enter into financial instruments for trading purposes.

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Item 4. CONTROLS AND PROCEDURES

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based upon such evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act of 1934 is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

There have not been any changes in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are not involved in any material litigation nor, to our knowledge, is any material litigation threatened against us other than the following:

On June 15, 2011, three related lawsuits were filed by the Extended Stay Litigation Trust (the Trust), a post-bankruptcy litigation trust alleged to have standing to pursue claims previously held by Extended Stay, Inc. and the Homestead Village L.L.C. family of companies (together ESI) (formerly Chapter 11 debtors, together the Debtors) which have now emerged from bankruptcy. Two of the lawsuits were filed in the United States Bankruptcy Court for the Southern District of New York, and the third in the Supreme Court of the State of New York, New York County. There are 73 defendants in the aggregate in the three lawsuits, including 55 corporate and partnership entities and 18 individuals. A subsidiary of ours and certain other entities that are affiliates of ours are included as defendants.

As a factual basis and background for the litigation, the Trust makes certain allegations surrounding the June 2007 sale of ESI from affiliates of Blackstone Capital. In connection with the buyout, our subsidiary, Arbor ESH II, LLC, made a $115.0 million investment in the Series A1 Preferred Units of a holding company of Extended Stay, Inc. The New York State Court action and one of the two federal court actions name as defendants, Arbor ESH II, LLC, Arbor Commercial Mortgage, LLC and ABT-ESI LLC, an entity in which we have a membership interest, among the broad group of defendants. These two actions were commenced by substantially identical complaints. The defendants are alleged in these complaints, among other things, to have breached fiduciary and contractual duties by causing or allowing the Debtors to pay illegal dividends or other improper distributions of value at a time when the Debtors were insolvent. These two complaints also allege that the defendants aided and abetted, induced, or participated in breaches of fiduciary duty, waste, and unjust enrichment (Fiduciary Duty Claims) and also name as defendants a director of ours, and a former general counsel of Arbor Commercial Mortgage, LLC, each of whom had served on the Board of Directors of ESI for a period of time. We are defending these two defendants and paying the costs of such defense. On the basis of the foregoing allegations, the Trust has asserted claims under a number of common law theories, seeking the return of assets transferred by the

Debtors prior to the Debtors bankruptcy filing.

In the third action, filed in Bankruptcy Court, the same plaintiff, the Trust, has named Arbor Commercial Mortgage, LLC and ABT-ESI LLC, together with a number of other defendants and asserts claims, including constructive and fraudulent conveyance claims under state and federal statutes, as well as a claim under the Federal Debt Collection Procedure Act.

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The complaints seek among other things, damages of not less than $2.1 billion, plus punitive damages, on a joint and several basis, from each defendant in connection with the Fiduciary Duty Claims and the return of in excess of $50.0 million which is alleged to have been wrongfully received by the holders of the Series A1 Preferred Units, including Arbor ESH II, LLC. We intend to vigorously defend against all of the referenced actions.

Item 1A. RISK FACTORS

There have been no material changes to the risk factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010 other than the following:

The effects of government regulation could negatively impact the market value of loans related to development projects.

Loans related to development projects bear additional risk in that government regulation could impact the value of the project by limiting the development of the property. If the proper approvals for the completion of the project are not granted, the value of the collateral may be adversely affected which may negatively impact the value of the loan.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchases

During the three months ended September 30, 2011, we made the following purchases of shares of our common stock that are registered pursuant to Section 12(b) of the Securities Exchange Act of 1934.

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan (1)
July 1, 2011 through July 31, 2011	56,800	$	4.62	56,800	1,408,350
August 1, 2011 through August 31, 2011	332,372	$	3.94	332,372	1,075,978
September 1, 2011 through September 30, 2011	301,966	$	4.08	301,966	774,012

(1) On June 14, 2011, we announced that the Board of Directors authorized a stock repurchase plan that enables us to buy up to 1.5 million shares of our common stock. At management s discretion, shares may be acquired from time to time on the open market, through privately negotiated transactions or pursuant to a Rule 10b5-1 plan. A Rule 10b5-1 plan permits us to repurchase shares at times when we might otherwise be prevented from doing so. All of the 691,138 shares above were purchased in the open market. We subsequently repurchased the remaining shares available under the stock repurchase plan in the fourth quarter of 2011.

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Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. RESERVED

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about Arbor or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

• should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

• have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

• may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

• were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about Arbor may be found elsewhere in this report and Arbor s other public filings, which are available without charge through the SEC s website at http://www.sec.gov.

Exhibit Number	Description
3.1	Articles of Incorporation of Arbor Realty Trust, Inc. *
3.2	Articles of Amendment to Articles of Incorporation of Arbor Realty Trust, Inc. ( )
3.3	Articles Supplementary of Arbor Realty Trust, Inc. *
3.4	Amended and Restated Bylaws of Arbor Realty Trust, Inc. ( )
4.1	Form of Certificate for Common Stock. *
4.2	Common Stock Purchase Warrant, Certificate No. W-1, dated July 23, 2009, issued to Wachovia Bank, National Association.
4.3	Common Stock Purchase Warrant, Certificate No. W-2, dated July 23, 2009, issued to Wachovia Bank, National Association.
4.4	Common Stock Purchase Warrant, Certificate No. W-3, dated July 23, 2009, issued to Wachovia Bank, National Association.
10.1	Second Amended and Restated Management Agreement, dated August 6, 2009, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership and Arbor Realty SR, Inc. vvv
10.2	Services Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC and Arbor Realty Limited Partnership. *
10.3	Non-Competition Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Realty Limited Partnership and Ivan Kaufman. *
10.4	

	Second Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership, dated January 18, 2005, by and among Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership, Arbor Realty LPOP, Inc. and Arbor Realty GPOP, Inc.
10.5	Registration Rights Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor Commercial Mortgage, LLC. *
10.6	Pairing Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership, Arbor Realty LPOP, Inc. and Arbor Realty GPOP, Inc. *
10.7	2003 Omnibus Stock Incentive Plan, (as amended and restated on June 18, 2009). vvv
10.8	Form of Restricted Stock Agreement. *
10.9	Benefits Participation Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor

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	Management, LLC. *
10.10	Form of Indemnification Agreement. *
10.11	Structured Facility Warehousing Credit and Security Agreement, dated July 1, 2003, between Arbor Realty Limited Partnership and Residential Funding Corporation. *
10.12	Amended and Restated Loan Purchase and Repurchase Agreement, dated July 12, 2004, by and among Arbor Realty Funding LLC, as seller, Wachovia Bank, National Association, as purchaser, and Arbor Realty Trust, Inc., as guarantor. **
10.13	Master Repurchase Agreement, dated as of November 18, 2002, by and between Nomura Credit and Capital, Inc. and Arbor Commercial Mortgage, LLC. *
10.14	Revolving Credit Facility Agreement, dated as of December 7, 2004, by and between Arbor Realty Trust, Inc., Arbor Realty Limited Partnership and Watershed Administrative LLC and the lenders named therein.
10.15	Indenture, dated January 19, 2005, by and between Arbor Realty Mortgage Securities Series 2004-1, Ltd., Arbor Realty Mortgage Securities Series 2004-1 LLC, Arbor Realty SR, Inc. and LaSalle Bank National Association.
10.16	Indenture, dated January 11, 2006, by and between Arbor Realty Mortgage Securities Series 2005-1, Ltd., Arbor Realty Mortgage Securities Series 2005-1 LLC, Arbor Realty SR, Inc. and LaSalle Bank National Association.
10.17	Master Repurchase Agreement, dated as of October 26, 2006, by and between Column Financial, Inc. and Arbor Realty SR, Inc. and Arbor TRS Holding Company Inc., as sellers, Arbor Realty Trust, Inc., Arbor Realty Limited Partnership, as guarantors, and Arbor Realty Mezzanine LLC.
10.18	Note Purchase Agreement, dated January 19, 2005, by and between Arbor Realty Mortgage Securities Series 2004-1, Ltd., Arbor Realty Mortgage Securities Series 2004-1 LLC and Wachovia Capital Markets, LLC.
10.19	Note Purchase Agreement, dated January 11, 2006, by and between Arbor Realty Mortgage Securities Series 2005-1, Ltd., Arbor Realty Mortgage Securities Series 2005-1 LLC and Wachovia Capital Markets, LLC.
10.20	Indenture, dated December 14, 2006, by and between Arbor Realty Mortgage Securities Series 2006-1, Ltd., Arbor Realty Mortgage Securities Series 2006-1 LLC, Arbor Realty SR, Inc. and Wells Fargo Bank, National Association. w
10.21	Note Purchase and Placement Agreement, dated December 14, 2006, by and between Arbor Realty Mortgage Securities Series 2006-1, Ltd., Arbor Realty Mortgage Securities Series 2006-1 LLC and Wachovia Capital Markets, LLC and Credit Suisse Securities (USA) LLC. w
10.22	Note Purchase Agreement, dated December 14, 2006, by and between Arbor Realty Mortgage Securities Series 2006-1, Ltd., Arbor Realty Mortgage Securities Series 2006-1 LLC and Wells Fargo Bank, National Association. w
10.23	Master Repurchase Agreement, dated as of March 30, 2007, by and between Variable Funding Capital Company LLC, as purchaser, Wachovia Bank, National Association, as swingline purchaser, Wachovia Capital Markets, LLC, as deal agent, Arbor Realty Funding LLC, Arbor Realty Limited Partnership and ARSR Tahoe, LLC, as sellers, Arbor Realty Trust, Inc., Arbor Realty Limited Partnership and Arbor Realty SR, Inc., as guarantors. ww
10.24	Credit Agreement, dated November 6, 2007, by and between Arbor Realty Funding, LLC, ARSR Tahoe, LLC, Arbor Realty Limited Partnership, and ART 450 LLC, as Borrowers, Arbor Realty Trust, Inc., Arbor Realty Limited Partnership, and Arbor Realty SR, Inc., as Guarantors, and Wachovia Bank, National Association, as Administrative Agent. www
10.25	Equity Placement Program Sales Agreement, dated August 15, 2008, between Arbor Realty Trust, Inc. and JMP Securities LLC. v
10.26	Junior Subordinated Indenture, dated May 6, 2009, between Arbor Realty SR, Inc. and The Bank of New York Mellon Trust Company, National Association, as Trustee relating to $29,400,000 aggregate principal amount of Junior Subordinated Notes due 2034. vv
10.27	Junior Subordinated Indenture, dated May 6, 2009, between Arbor Realty SR, Inc. and The Bank of New York Mellon Trust Company, National Association, as Trustee relating to $168,000,000 aggregate principal amount of Junior Subordinated Notes due 2034. vv
10.28	Junior Subordinated Indenture, dated May 6, 2009, among Arbor Realty SR, Inc. Arbor Realty Trust, Inc., as Guarantor, and Wilmington Trust Company, as Trustee, relating to $21,224,000 aggregate principal amount of Junior Subordinated Notes due 2035. vv

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10.29	Junior Subordinated Indenture, dated May 6, 2009, among Arbor Realty SR, Inc. Arbor Realty Trust, Inc., as Guarantor, and Wilmington Trust Company, as Trustee, relating to $2,632,000 aggregate principal amount of Junior Subordinated Notes due 2036. vv
10.30	Junior Subordinated Indenture, dated May 6, 2009, among Arbor Realty SR, Inc. Arbor Realty Trust, Inc., as Guarantor, and Wilmington Trust Company, as Trustee, relating to $47,180,000 aggregate principal amount of Junior Subordinated Notes due 2037. vv
10.31	Exchange Agreement, dated May 6, 2009, among Arbor Realty Trust, Inc., Arbor Realty SR, Inc., Kodiak CDO II, Ltd., Attentus CDO I, Ltd. and Attentus CDO III, Ltd. vv
10.32	Exchange Agreement, dated May 6, 2009, among Arbor Realty SR, Inc., Arbor Realty Trust, Inc., Taberna Preferred Funding I, Ltd., Taberna Preferred Funding II, Ltd., Taberna Preferred Funding III, Ltd., Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VII, Ltd. and Taberna Preferred Funding VIII, Ltd. vv
10.33	First Amended and Restated Credit Agreement, dated as of July 23, 2009, among Arbor Realty Funding, LLC, a Delaware limited liability company, as a Borrower, ARSR Tahoe, LLC, a Delaware limited liability company, as a Borrower, Arbor ESH II LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Limited Partnership, a Delaware limited partnership, as a Borrower and a Guarantor, ART 450 LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Trust, Inc., a Maryland corporation, as a Guarantor, Arbor Realty SR, Inc., a Maryland corporation, as a Borrower and a Guarantor, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder.vvv
10.34	First Amended and Restated Revolving Loan Agreement, dated as of July 23, 2009, among Arbor Realty Trust, Inc., a Maryland corporation, Arbor Realty GPOP, Inc., a Delaware corporation, Arbor Realty LPOP, Inc., a Delaware corporation, Arbor Realty Limited Partnership, a Delaware limited partnership, Arbor Realty SR, Inc., a Maryland corporation, Arbor Realty Collateral Management, LLC, as Borrowers, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder and initial lender. vvv
10.35	Registration Rights Agreement, dated as of July 23, 2009, by and between Arbor Realty Trust, Inc. and Wachovia Bank, National Association, a national banking association.
10.36	First Amendment to First Amended and Restated Credit Agreement, dated as of December 16, 2009, among Arbor Realty Funding, LLC, a Delaware limited liability company, as a Borrower, ARSR Tahoe, LLC, a Delaware limited liability company, as a Borrower, Arbor ESH II LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Limited Partnership, a Delaware limited partnership, as a Borrower and a Guarantor, ART 450 LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Trust, Inc., a Maryland corporation, as a Guarantor, Arbor Realty SR, Inc., a Maryland corporation, as a Borrower and a Guarantor, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder.
10.37	Second Amendment to First Amended and Restated Credit Agreement, dated as of December 24, 2009, among Arbor Realty Funding, LLC, a Delaware limited liability company, as a Borrower, ARSR Tahoe, LLC, a Delaware limited liability company, as a Borrower, Arbor ESH II LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Limited Partnership, a Delaware limited partnership, as a Borrower and a Guarantor, ART 450 LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Trust, Inc., a Maryland corporation, as a Guarantor, Arbor Realty SR, Inc., a Maryland corporation, as a Borrower and a Guarantor, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders and Wells Fargo Bank, National Association, a national banking association, as the custodian.
10.38	First Amendment to First Amended and Restated Revolving Loan Agreement, dated as of December 24, 2009, among Arbor Realty Trust, Inc., a Maryland corporation, Arbor Realty GPOP, Inc., a Delaware corporation, Arbor Realty LPOP, Inc., a Delaware corporation, Arbor Realty Limited Partnership, a Delaware limited partnership, Arbor Realty SR, Inc., a Maryland corporation, Arbor Realty Collateral Management, LLC, as Borrowers, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder and initial lender.

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10.39	Third Amendment and Waiver to First Amended and Restated Credit Agreement, dated as of January 20, 2010, among Arbor Realty Funding, LLC, a Delaware limited liability company, as a Borrower, ARSR Tahoe, LLC, a Delaware limited liability company, as a Borrower, Arbor ESH II LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Limited Partnership, a Delaware limited partnership, as a Borrower and a Guarantor, ART 450 LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Trust, Inc., a Maryland corporation, as a Guarantor, Arbor Realty SR, Inc., a Maryland corporation, as a Borrower and a Guarantor, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder.
10.40	Waiver to First Amended and Restated Revolving Loan Agreement, dated as of January 20, 2010, among Arbor Realty Trust, Inc., a Maryland corporation, Arbor Realty GPOP, Inc., a Delaware corporation, Arbor Realty LPOP, Inc., a Delaware corporation, Arbor Realty Limited Partnership, a Delaware limited partnership, Arbor Realty SR, Inc., a Maryland corporation, Arbor Realty Collateral Management, LLC, as Borrowers, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder and initial lender.
10.41	Second Amendment and Waiver to First Amended and Restated Revolving Loan Agreement, dated as of February 2, 2010, among Arbor Realty Trust, Inc., a Maryland corporation, Arbor Realty GPOP, Inc., a Delaware corporation, Arbor Realty LPOP, Inc., a Delaware corporation, Arbor Realty Limited Partnership, a Delaware limited partnership, Arbor Realty SR, Inc., a Maryland corporation, Arbor Realty Collateral Management, LLC, as Borrowers, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder and initial lender.
10.42	Fourth Amendment and Waiver to First Amended and Restated Credit Agreement, dated as of February 2, 2010, among Arbor Realty Funding, LLC, a Delaware limited liability company, as a Borrower, ARSR Tahoe, LLC, a Delaware limited liability company, as a Borrower, Arbor ESH II LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Limited Partnership, a Delaware limited partnership, as a Borrower and a Guarantor, ART 450 LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Trust, Inc., a Maryland corporation, as a Guarantor, Arbor Realty SR, Inc., a Maryland corporation, as a Borrower and a Guarantor, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder.
10.43	Exchange Agreement, dated as of February 26, 2010, among Arbor Realty SR, Inc. and Taberna Preferred Funding I, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VII, Ltd. and Taberna Preferred Funding VIII, Ltd.
10.44	Revolving Bridge Loan and Security Agreement dated as of July 22, 2011, by and between Capital One, National Association as lender and Arbor Realty SR, Inc. as borrower, and Arbor Realty Trust, Inc. as guarantor.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	Financial statements from the Quarterly Report on Form 10-Q of Arbor Realty Trust, Inc. for the quarter ended September 30, 2011, filed on November 4, 2011, formatted in XBRL: (i) the Consolidated Balance Sheet, (ii) the Consolidated Statement of Operations, (iii) the Consolidated Statement of Changes in Equity, (iv) the Consolidated Statement of Cash Flows and (v) the Notes to Consolidated Financial Statements.

Exhibit Index

Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

Incorporated by reference to Exhibit 99.2 of the Registrant s Current Report on Form 8-K (No. 001-32136) which was filed with the Securities and Exchange Commission on December 11, 2007.

* Incorporated by reference to the Registrant s Registration Statement on Form S-11 (Registration No. 333-110472), as amended. Such registration statement was originally filed with the Securities and Exchange Commission on November 13, 2003.

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**	Incorporated by reference to the Registrant s Quarterly Report of Form 10-Q for the quarter ended September 30, 2004.
	Incorporated by reference to the Registrant s Annual Report of Form 10-K for the year ended December 31, 2004.
	Incorporated by reference to the Registrant s Annual Report of Form 10-K for the year ended December 31, 2005.
	Incorporated by reference to the Registrant s Quarterly Report of Form 10-Q for the quarter ended September 30, 2006.
w	Incorporated by reference to the Registrant s Annual Report of Form 10-K for the year ended December 31, 2006.
ww	Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.
www	Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
v	Incorporated by reference to Exhibit 1.1 of the Registrant s Current Report on Form 8-K (No. 001-32136) which was filed with the Securities and Exchange Commission on August 15, 2008.
vv	Incorporated by reference to the Registrant s Quarterly Report of Form 10-Q for the quarter ended March 31, 2009.
vvv	Incorporated by reference to the Registrant s Quarterly Report of Form 10-Q for the quarter ended June 30, 2009.
	Incorporated by reference to the Registrant s Annual Report of Form 10-K for the year ended December 31, 2009.
	Incorporated by reference to the Registrant s Quarterly Report of Form 10-Q for the quarter ended June 30, 2011.

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about Arbor or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

• should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

• have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

• may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

• were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about Arbor may be found elsewhere in this report and Arbor s other public filings, which are available without charge through the SEC s website at http://www.sec.gov.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

ARBOR REALTY TRUST, INC.
(Registrant)

By:	/s/ Ivan Kaufman
Name:	Ivan Kaufman
Title:	Chief Executive Officer
By:	/s/ Paul Elenio
Name:	Paul Elenio
Title:	Chief Financial Officer

Date: November 4, 2011