

ARBOR REALTY TRUST INC

Form 424B3

August 04, 2004

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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-116223

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

Form 10-Q

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

For the quarterly period ended June 30, 2004

or

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
New York, NY
(Address of principal executive offices)

11553
Zip Code

(516) 832-8002

(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 No .

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date. Common stock, \$0.01 par value per share: 15,670,038 outstanding as of July 28, 2004.

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, endeavor, 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 from time to time in our SEC reports. 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 Critical Accounting Policies.

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.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

| | June 30, 2004 | December 31, 2003 |
|--|--------------------------|------------------------------|
| | (Unaudited) | |
| Assets: | | |
| Cash | \$ 6,166,645 | \$ 6,115,525 |
| Loans and investments, net | 637,388,563 | 286,036,610 |
| Related party loans, net | 26,935,784 | 35,940,881 |
| Available-for-sale securities, at fair value | 54,082,735 | |
| Investment in equity affiliates | 10,439,417 | 5,917,542 |
| Other assets | 8,261,184 | 4,153,874 |
| | <hr/> | <hr/> |
| Total assets | \$743,274,328 | \$338,164,432 |
| | <hr/> | <hr/> |
| Liabilities and Stockholders' Equity: | | |
| Notes payable and repurchase agreements | \$425,713,693 | \$172,528,471 |
| Dividends Payable | 6,516,355 | |
| Other liabilities | 22,780,743 | 10,888,245 |
| | <hr/> | <hr/> |
| Total liabilities | 455,010,791 | 183,416,716 |
| | <hr/> | <hr/> |
| Minority interest | 48,716,537 | 43,631,602 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value: 100,000,000 shares authorized; 3,146,724 shares issued and outstanding | 31,467 | 31,467 |
| Common stock, \$0.01 par value: 500,000,000 shares authorized; 15,471,433 and 8,199,567 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively | 154,715 | 81,996 |
| Additional paid-in capital | 241,341,916 | 112,215,649 |
| Distributions in excess of earnings | (338,428) | (691,865) |
| Deferred compensation | (279,116) | (521,133) |
| Accumulated other comprehensive loss | (1,363,554) | |
| | <hr/> | <hr/> |
| Total stockholders' equity | 239,547,000 | 111,116,114 |
| | <hr/> | <hr/> |
| Total liabilities and stockholders' equity | \$743,274,328 | \$338,164,432 |
| | <hr/> | <hr/> |

See notes to consolidated financial statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

(Unaudited)

| | Three Months Ended June 30, 2004 | Six Months Ended June 30, 2004 |
|---------------------------------------|-------------------------------------|-----------------------------------|
| Revenue: | | |
| Interest income | \$ 11,939,350 | \$ 20,102,741 |
| Other income | 5,427 | 26,531 |
| Total revenue | <u>11,944,777</u> | <u>20,129,272</u> |
| Expenses: | | |
| Interest expense | 3,310,544 | 5,934,437 |
| Employee compensation and benefits | 617,137 | 1,230,443 |
| Stock based compensation | 92,806 | 207,007 |
| Selling and administrative | 366,843 | 611,154 |
| Management fee | 540,939 | 834,057 |
| Total expenses | <u>4,928,269</u> | <u>8,817,098</u> |
| Income before minority interest | 7,016,508 | 11,312,174 |
| Income allocated to minority interest | 1,236,560 | 2,427,899 |
| Net income | <u>\$ 5,779,948</u> | <u>\$ 8,884,275</u> |
| Basic earnings per common share | <u>\$ 0.39</u> | <u>\$ 0.77</u> |
| Diluted earnings per common share | <u>\$ 0.38</u> | <u>\$ 0.76</u> |
| Dividends declared per common share | <u>\$ 0.35</u> | <u>\$ 0.73</u> |

See notes to consolidated financial statements.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

For the Six Months Ended June 30, 2004
(Unaudited)

| | Preferred Stock Shares | Preferred Stock Par Value | Common Stock Shares | Common Stock Par Value | Additional Paid-in Capital | Distribution In Excess of Earnings | Deferred Compensation | Accumulated Other Comprehensive Loss | Total |
|--|------------------------------|------------------------------------|---------------------------|------------------------------|----------------------------------|--|--------------------------|---|---------------|
| Balance at January 1, 2004 | 3,146,724 | \$31,467 | 8,199,567 | \$ 81,996 | \$112,215,649 | \$ (691,865) | \$(521,133) | | \$111,116,114 |
| Issuance of common stock | | | 7,274,200 | 72,742 | 134,115,399 | | | | 134,188,141 |
| Stock based compensation | | | | | | | 207,007 | | 207,007 |
| Distributions common stock | | | | | | (8,530,838) | | | (8,530,838) |
| Forfeited unvested restricted stock | | | (2,334) | (23) | (34,987) | | 35,010 | | |
| Adjustment to minority interest from increased ownership in ARLP | | | | | (4,954,145) | | | | (4,954,145) |
| Net unrealized loss on securities held for sale | | | | | | | | (1,363,554) | (1,363,554) |
| Net income | | | | | | 8,884,275 | | | 8,884,275 |
| Balance June 30, 2004 | 3,146,724 | \$31,467 | 15,471,433 | \$154,715 | \$241,341,916 | \$ (338,428) | \$(279,116) | \$(1,363,554) | \$239,547,000 |

See notes to consolidated financial statements.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CASH FLOWS**

| | Six Months Ended June 30, 2004 |
|--|---|
| | (Unaudited) |
| Operating activities: | |
| Net income | \$ 8,884,275 |
| Adjustments to reconcile net income to cash provided by operating activities | |
| Stock based compensation | 207,007 |
| Minority interest | 2,427,899 |
| Amortization of premium on securities held for sale | 123,960 |
| Changes in operating assets and liabilities: | |
| Other assets | (4,107,310) |
| Other liabilities | 10,318,715 |
| Net cash provided by operating activities | <u>17,854,546</u> |
| Investing activities: | |
| Loans and investments originated and purchased, net | (406,282,504) |
| Payoffs and paydowns of loans and investments | 63,935,648 |
| Securities held for sale | (57,228,552) |
| Prepayments on securities held for sale | 1,658,303 |
| Investments in equity affiliates, net | (4,521,875) |
| Net cash used in investing activities | <u>(402,438,980)</u> |
| Financing activities: | |
| Proceeds from notes payable and repurchase agreements | 345,270,649 |
| Payoffs and paydowns of notes payable and repurchase agreements | (92,085,427) |
| Issuance of common stock | 145,484,000 |
| Offering expenses paid | (9,722,076) |
| Distributions paid to minority interest | (1,195,756) |
| Distributions paid on common stock | (3,115,836) |
| Net cash provided by financing activities | <u>384,635,554</u> |
| Net increase in cash | 51,120 |
| Cash at beginning of period | <u>6,115,525</u> |
| Cash at end of period | <u>\$ 6,166,645</u> |
| Supplemental cash flow information: | |
| Cash used to pay interest | <u>\$ 5,679,753</u> |
| Supplemental schedule of non-cash financing activities: | |
| Common stock dividends declared but not paid | <u>\$ 5,415,002</u> |
| Distributions declared on operating partnership units | <u>\$ 1,101,353</u> |

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Accrued offering expenses

\$ 1,573,783

See notes to consolidated financial statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

(Unaudited)

Note 1 Description of Business and Basis of Presentation

Arbor Realty Trust, Inc. (the Company) is a Maryland corporation that was formed in June 2003 to invest in real estate related bridge and mezzanine loans, preferred equity and, in limited cases, mortgage backed securities, discounted mortgage notes and other real estate related assets. The Company has not invested in any discounted mortgage notes for the period presented. The Company conducts substantially all of its operations through its operating partnership, Arbor Realty Limited Partnership (ARLP).

On April 13, 2004 the Company sold 6,750,000 shares of its common stock in a public offering at a price to the public of \$20.00 per share, for net proceeds of approximately \$124.4 million after deducting the underwriting discount and the other estimated offering expenses. The Company used the proceeds to pay down indebtedness. After giving effect to this offering, the Company had 14,949,567 shares of common stock outstanding. In addition, on May 6, 2004, the underwriters exercised a portion of their over-allotment option, which resulted in the issuance of 524,200 additional shares on May 11, 2004. The Company received net proceeds of approximately \$9.8 million after deducting the underwriting discount and the Company had 15,473,767 shares of common stock outstanding after giving effect to the exercise of the over-allotment. On June 11, 2004, 2,334 shares of unvested restricted stock were forfeited. After giving effect to this, the Company had 15,471,433 shares issued and outstanding.

The Company is organized and conducts its operations to qualify as a real estate investment trust (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 that portion of its REIT taxable income (Taxable Income) which is distributed to its stockholders, provided that at least 90% of Taxable Income is distributed and provided that certain other requirements are met.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information 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 accounting principles generally accepted in the United States for complete financial statements, although management believes that the disclosures presented herein are adequate to make the information presented not misleading. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the financial statements and the related management's discussion and analysis of financial condition and results of operations included in the form S-11 of Arbor Realty Trust, Inc. (File No. #333-110472) for the period ended December 31, 2003. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2004 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2004.

Note 2 Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated interim financial statements in conformity with accounting principals generally accepted in the United States of America 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.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

(Unaudited)

Note 2 Summary of Significant Accounting Policies (Continued)

Available-For-Sale Securities

The Company invests in agency-sponsored whole pool mortgage related securities. Pools of Federal National Mortgage Association, or FNMA, and Federal Home Loan Mortgage Corporation, or FHLMC, adjustable rate residential mortgage loans underlie these mortgage related securities. The Company will receive payments from the payments that are made on these underlying mortgage loans, which have a fixed rate of interest for three years and adjust annually thereafter. These securities are carried at their estimated fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income pursuant to SFAS No. 115 Accounting for certain Investments in Debt and Equity Securities. Unrealized losses other than temporary losses are recognized currently in income.

Revenue Recognition

Interest income available-for-sale securities Discounts or premiums are accreted into interest income on an effective yield or interest method over the remaining fixed rate term of the securities, adjusted for actual prepayment activity. Income is not accrued on non-performing securities; cash received on such securities is treated as income to the extent of interest previously accrued.

Recently Issued Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), which requires a variable interest entity (VIE) to be consolidated by its primary beneficiary (PB). The PB is the party that absorbs a majority of the VIE s anticipated losses and/or a majority of the expected returns.

In adopting FIN 46 and FIN 46-R, the Company has evaluated its loans and investments and investments in equity affiliates to determine whether they are VIE s. This evaluation resulted in the Company determining that its mezzanine loans, preferred equity investments and investments in equity affiliates were potential variable interests. For each of these investments, the Company has evaluated (1) the sufficiency of the fair value of the entities equity investments at risk to absorb losses, (2) that as a group the holders of the equity investments at risk have (a) the direct or indirect ability through voting rights to make decisions about the entities significant activities, (b) the obligation to absorb the expected losses of the entity and their obligations are not protected directly or indirectly, (c) the right to receive the expected residual return of the entity and their rights are not capped, (3) the voting rights of some of these investors are proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected returns of the equity, or both, and (4) that substantially all of the entities activities do not involve or are not conducted on behalf of an investor that has disproportionately few voting rights. For these investments the Company has determined that the entities have sufficient equity at risk and, accordingly, they are not VIE s. As such, the Company has continued to account for the mezzanine loans and preferred equity investments and investments in equity investments as a loan, joint venture or real estate, as appropriate.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2004
(Unaudited)

Note 3 Loans and Investments

| | June 30, 2004 | December 31, 2003 |
|------------------------------|--------------------------|------------------------------|
| Bridge loans | \$ 268,240,737 | \$ 127,971,220 |
| Mezzanine loans | 329,401,012 | 124,210,000 |
| Preferred equity investments | 40,437,173 | 33,428,173 |
| Other | 1,948,985 | 1,967,867 |
| | <u>640,027,907</u> | <u>287,577,260</u> |
| Unearned revenue | (2,639,344) | (1,540,650) |
| | <u>637,388,563</u> | <u>286,036,610</u> |

Concentration of Borrower Risk

The Company is subject to concentration risk in that, as of June 30, 2004, the unpaid principal balance related to 18 loans with five unrelated borrowers represented approximately 37.8% of total assets. The Company had 55 loans and investments as of June 30, 2004.

Note 4 Available-For-Sale Securities

The following is a summary of the Company's available-for-sale securities at June 30, 2004.

| | Amortized Cost | Gross Unrealized Loss | Estimated Fair Value |
|---|---------------------------|--------------------------------------|---------------------------------|
| Federal Home Loan Mortgage Corporation, variable rate security, fixed rate of interest for three years at 3.797% and adjustable rate interest thereafter, due March 2034 (including unamortized premium of \$592,345) | \$ 24,593,951 | \$ (592,345) | \$ 24,001,606 |
| Federal Home Loan Mortgage Corporation, variable rate security, fixed rate of interest for three years at 3.758% and adjustable rate interest thereafter, due March 2034 (including unamortized premium of \$261,153) | 10,851,420 | (261,153) | 10,590,267 |
| Federal National Mortgage Association, variable rate security, fixed rate of interest for three years at 3.800% and adjustable rate interest thereafter, due March 2034 (including unamortized premium of \$510,056) | 20,000,918 | (510,056) | 19,490,862 |
| | <u>\$ 55,446,289</u> | <u>\$(1,363,554)</u> | <u>\$ 54,082,735</u> |

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As of June 30, 2004, all available-for-sale securities were carried at their estimated fair market value based on current market quotes received from financial sources that trade such securities.

During the quarter ended June 30, 2004, the Company received prepayments of \$1.7 million on these securities and amortized \$124,000 of the premium paid for these securities against interest income.

These securities are pledged as collateral for borrowings under a repurchase agreement See Note 6.

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2004****(Unaudited)****Note 5 Investment in Equity Affiliates**

During the second quarter, the Company invested \$7.2 million of new investments in equity affiliates as follows:

The Company invested \$3.5 million in exchange for a preferred interest in a joint venture, which purchased a commercial property for the purpose of converting it into condominium units for sale. The property was acquired in July 2004 at which time the Company's equity interest was converted to a loan as part of a \$26.5 million mezzanine loan funding by the Company. The loan requires monthly interest payments based on LIBOR and matures in February 2007.

The Company invested \$3.7 million in exchange for a 50% equity interest in a joint venture that owns a commercial property that is being converted to condominium units for sale. In addition, as of June 30, 2004, the Company had a \$22.1 million bridge loan outstanding to this joint venture. There is a limited guarantee on the loan of 50% by the chief executive officer of the Company and 50% by the key principal of the joint venture. The loan requires monthly interest payments based on LIBOR and matures in July 2007.

Note 6 Notes Payable and Repurchase Agreements

The Company utilizes warehouse lines of credit and repurchase agreements to finance its loans and investments. Borrowings underlying these arrangements are secured by substantially all the Company's loans and investments.

| | June 30, 2004 | December 31, 2003 |
|---|--------------------------|------------------------------|
| Structured transaction facility, financial institution, \$250 million committed line, expiration June 2006, interest rate variable based on one-month LIBOR; the weighted average note rate was 3.70% and 3.54%, respectively | \$ 147,578,664 | \$ 58,630,626 |
| Repurchase agreement, financial institution, \$100 million committed line, expiration December 2004, interest is variable based on one-month LIBOR; the weighted average note rate was 3.52% and 3.41%, respectively | 46,559,172 | 63,722,845 |
| Repurchase agreement, financial institution, \$250 million committed line, expiration December 2006, interest is variable based on one-month LIBOR; the weighted average note rate was 2.89% and 3.71%, respectively | 231,575,857 | 50,175,000 |
| Repurchase agreement, financial institution, \$50 million committed line, expiration November 2005, interest rate variable based on one-month LIBOR | | |
| Notes payable and repurchase agreements | \$ 425,713,693 | \$ 172,528,471 |

The \$250 million repurchase agreement includes \$51.2 million of borrowings associated with the purchase of securities available-for-sale. These borrowings equal 97% of the estimated fair value of the securities (net of principal payment receivables of \$1.1 million) and bear interest at a rate of one month LIBOR plus .10%. If the estimated fair value of the securities decreases, the Company may be required to pay down borrowings from the repurchase agreement due to such a decline in the estimated fair value of the securities collateralizing the repurchase agreement. In July 2004, we amended this repurchase agreement increasing the amount of available financing to \$350 million and amending

certain terms of this agreement, which are generally more favorable to us. The \$100 million increase to the facility has a term of one year with

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

(Unaudited)

Note 6 Notes Payable and Repurchase Agreements (Continued)

a one year extension option. In addition we entered into a new \$100 million repurchase agreement with the same financial institution to finance our securities held for sale. This facility has a term of one year and an interest rate of LIBOR plus .15%

The \$250 million structured transaction facility contains profit-sharing arrangements between the Company and the lender, which provide for profit sharing percentages ranging from 17.5% to 45.0% of net interest income of the loans and investments financed. This cost is included in interest expense.

Each of the credit facilities contains various financial covenants and restrictions, including minimum net worth and debt-to-equity ratios. The Company is in compliance with all covenants and restrictions for the period presented.

Note 7 Minority Interest

On July 1, 2003, Arbor Commercial mortgage, LLC (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, the Company's operating partnership. This transaction was accounted for as minority interest and entitles ACM to a 28% profits interest in the Company, which is recorded under the equity method. On April 13, 2004, the Company sold 6,750,000 shares of its common stock in a public offering. In addition, on May 6, 2004, the underwriters exercised a portion of their over-allotment option, which resulted in the issuance of 524,200 additional shares on May 11, 2004. These transactions resulted in ACM's profits interest in the Company being reduced to 17%. Minority interest was adjusted by \$5.0 million to properly reflect ACM's 17% limited partnership interest in ARLP.

Note 8 Commitments and Contingencies

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.

Note 9 Stockholders 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 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 the Company completed a private placement for the sale of 1,610,000 units (including an over-allotment option), each consisting of five shares of the Company's common stock and one warrant to purchase one share of common stock, at \$75.00 per unit, for proceeds of approximately \$110.1 million, net of expenses. 8,050,000 shares of common stock were sold in the offering. In addition, the Company issued 149,500 shares of stock under the stock incentive plan.

On April 13, 2004, the Company sold 6,750,000 shares of its common stock in a public offering at a price to the public of \$20.00 per share, for net proceeds of approximately \$125.4 million after deducting the underwriting discount and the other estimated offering expenses. The Company used the proceeds to pay down indebtedness. After giving effect to this offering, the Company had 14,949,567 shares of common

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stock outstanding. In addition, on May 6, 2004, the underwriters exercised a portion of their over-allotment option, which resulted in the issuance of 524,200 additional shares on May 11, 2004. The Company received net

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2004****(Unaudited)****Note 9 Stockholders Equity (Continued)**

proceeds of approximately \$9.8 million after deducting the underwriting discount and the Company had 15,473,767 shares of common stock outstanding after giving effect to the over-allotment. On June 11, 2004, 2,334 shares of unvested restricted stock were forfeited. After giving effect to this, the Company had 15,471,433 shares issued and outstanding.

Note 10 Net Earnings Per Share

Earnings per share is computed in accordance with SFAS No. 128, Earnings Per Share. Basic earnings per share (EPS) is calculated by dividing net income by the weighted average number of shares of common stock outstanding during each period inclusive of unvested restricted stock which participate fully in dividends. Diluted EPS is calculated by dividing income before minority interest by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period. The Company's common stock equivalents are its operating partnership units, warrants to purchase additional shares of common stock and warrants to purchase additional operating partnership units. The dilutive effect of the warrants is calculated using the treasury stock method.

The following is a reconciliation of the numerator and denominator of the basic and diluted net earnings per share computations for the three and six month periods ended June 30, 2004.

| | Three Months Ended June 30, 2004 | | Six Months Ended June 30, 2004 | |
|--|-------------------------------------|--------------|-----------------------------------|---------------|
| | Basic | Diluted | Basic | Diluted |
| Net income | \$ 5,779,948 | \$ 5,779,948 | \$ 8,884,275 | \$ 8,884,275 |
| Add: Income allocated to minority interest | | 1,236,560 | | 2,427,899 |
| Earnings per EPS calculation | \$ 5,779,948 | \$ 7,016,508 | \$ 8,884,275 | \$ 11,312,174 |
| Weighted average number of common shares outstanding | 14,764,377 | 14,764,377 | 11,497,612 | 11,497,612 |
| Operating partnership units | | 3,146,724 | | 3,146,724 |
| Dilutive effect of warrants | | 521,177 | | 260,589 |
| Total weighted average common shares outstanding | 14,764,377 | 18,432,278 | 11,497,612 | 14,904,925 |
| Earnings per common share | \$ 0.39 | \$ 0.38 | \$ 0.77 | \$ 0.76 |

Note 11 Related Party Transactions

Related Party Loans:

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| | <u>June 30, 2004</u> | <u>December 31, 2003</u> |
|--------------------------|--------------------------|------------------------------|
| Bridge loans | \$20,448,385 | \$30,809,391 |
| Mezzanine loans | <u>6,487,399</u> | <u>5,131,490</u> |
| Related party loans, net | <u>\$26,935,784</u> | <u>\$35,940,881</u> |

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004
(Unaudited)

Note 11 Related Party Transactions (Continued)

ACM, the manager of the Company, has a 50% non-controlling interest in a joint venture, which was formed to acquire, develop and/or sell real estate assets. At June 30, 2004, ACM's investment in this joint venture was approximately \$2.6 million. At June 30, 2004, the Company had a \$5.5 million bridge loan outstanding to the joint venture, which is collateralized by a first lien position on a commercial real estate property. There is a limited guarantee on the loan of 50% by the chief executive officer of the Company and 50% by the key principal of the joint venture. The loan requires monthly interest payments based on one month LIBOR and matures in May 2006. The Company agreed to provide the borrower with additional mezzanine financing in the amount of up to \$8.0 million of which \$6.5 million was outstanding as of June 30, 2004. The mezzanine financing requires interest payments based on one month LIBOR and matures in May 2006. This additional financing is secured by a second mortgage lien on the property. Interest income recorded from these loans was approximately \$259,000 and \$570,000 for the three and six months ended June 30, 2004, respectively.

As of June 30, 2004, the Company had a \$13.75 million first mortgage loan and a \$1.2 million second mortgage loan, each of which bears interest at a variable rate of one month LIBOR plus 4.25% and matures in March 2005, outstanding to a not-for-profit corporation that holds and manages investment property from the endowment of a private academic institution. Two of the Company's directors are members of the board of trustees of the borrower and that institution. Interest income recorded from these loans was approximately \$202,000 and \$403,000 for the three and six months ended June 30, 2004, respectively.

In addition, as of June 30, 2004, approximately \$605,000 of interest payments from borrowers due from ACM was included in other assets. These payments were remitted in July 2004. As of December 31, 2003, approximately \$152,000 of structuring fees due from ACM related to one of the Company's loan fundings was included in other assets. These fees were paid in January 2004.

Note 12 Distributions

On June 24, 2004, the Company declared distributions of \$0.35 per share of common stock, payable with respect to the three months ended June 30, 2004 to stockholders of record at the close of business on July 6, 2004. These distributions were paid on July 15, 2004.

Note 13 Management Agreement

The Company and ARLP have entered into a management agreement with ACM, which provides that for performing services under the management agreement, the Company will pay ACM a base management fee and incentive compensation fee. No incentive compensation was earned or paid for the three and six months ended June 30, 2004. As of June 30, 2004, approximately \$180,000 of base management fees due to ACM for the month ended June 30, 2004 that were paid in July 2004 were included in other liabilities.

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THE STRUCTURED FINANCE BUSINESS OF
ARBOR COMMERCIAL MORTGAGE, LLC
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF REVENUE AND DIRECT OPERATING EXPENSES

| | Three Months Ended June 30, 2003 | Six Months Ended June 30, 2003 |
|---|-------------------------------------|-----------------------------------|
| | (Unaudited) | (Unaudited) |
| Revenue: | | |
| Interest income | \$4,281,984 | \$7,688,465 |
| Other income | 340,699 | 1,552,414 |
| | | |
| Total revenue | 4,622,683 | 9,240,879 |
| Direct operating expenses: | | |
| Interest expense | 1,846,587 | 3,468,275 |
| Employee compensation and benefits | 862,869 | 1,751,147 |
| Selling and administrative | 268,362 | 458,266 |
| Provision for loan losses | 60,000 | 60,000 |
| | | |
| Total direct operating expenses | 3,037,818 | 5,737,688 |
| | | |
| Revenue in excess of direct operating expenses | 1,584,865 | 3,503,191 |
| | | |
| Gain on sale of loans and real estate | 1,024,268 | 1,024,268 |
| | | |
| Revenue and gain on sale of loan and real estate in excess of direct operating expenses | \$2,609,133 | \$4,527,459 |

See notes to consolidated financial statement.

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**THE STRUCTURED FINANCE BUSINESS OF ARBOR COMMERCIAL MORTGAGE, LLC
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENT
June 30, 2003
(Unaudited)**

Note 1 Description of Business and Basis of Presentation

On July 1, 2003, Arbor Commercial Mortgage, LLC (*ACM*) contributed a portfolio of structured finance investments and related debt to ARLP, the operating partnership of Arbor Realty Trust, Inc. (*ART*). In addition, certain employees of *ACM* were transferred to ARLP. These assets, liabilities and employees represent a substantial portion of *ACM*'s structured finance business (*SF Business*). Through its *SF Business*, *ACM* invested in real estate related bridge and mezzanine loans, preferred equity and other real estate related assets.

The *SF Business* of *ACM* is not a legal entity and the assets and liabilities associated with the *SF Business* are components of a larger business. Accordingly, the information included in the accompanying consolidated interim financial statements has been obtained from *ACM*'s consolidated historical accounting records. The *SF Business* never operated as a separate business entity or division of *ACM*, but rather as an integrated part of *ACM*'s consolidated business. Accordingly, the statement of revenue and direct operating expenses do not include charges from *ACM* for corporate general and administrative expense because *ACM* considered such items to be corporate expenses and did not allocate them to individual business units. Such expenses included costs for *ACM*'s executive management, corporate facilities and overhead costs, corporate accounting and treasury functions, corporate legal matters and other similar costs.

The statement of revenue and direct operating expenses include the revenue and direct operating expenses that relate to the *SF Business*. Direct operating expenses include interest expense applicable to the funding costs of the *SF Business* loans and investments, salaries and related fringe benefit costs, provision for loan losses and other expenses directly associated with revenue-generating activities. Direct operating expenses also include allocations of certain expenses, such as telephone, office equipment rental and maintenance, office supplies and marketing, which were directly associated with the *SF Business* and were allocated based on headcount of the *SF Business* in relation to the total headcount of *ACM*. All of these allocations are based on assumptions that management believes are reasonable under the circumstances.

The statement of revenue and direct operating expenses do not purport to be a complete presentation of the historical results of operations of the *SF Business*. The historical operating results of the *SF Business* may not be indicative of the future operating results of *ART*. The accompanying consolidated interim financial statements were prepared for inclusion in the Form 10-Q of *ART* and do not purport to reflect the results of operations that would have resulted if the *SF Business* had operated as an unaffiliated independent company.

Note 2 Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated interim financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions in determining the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The revenue recognition policies of the *SF Business* are as follows:

Interest income Interest income is recognized on the accrual basis as it is earned. In most instances, the borrower pays an origination fee, an additional amount of interest at the time the loan is closed, and deferred interest upon maturity of the loan. This additional income, as well as any direct loan

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**THE STRUCTURED FINANCE BUSINESS OF ARBOR COMMERCIAL MORTGAGE, LLC
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

**June 30, 2003
(Unaudited)**

Note 2 Summary of Significant Accounting Policies (Continued)

origination costs incurred, is deferred and recognized over the life of the related loan as a yield adjustment. Income recognition is suspended for loans when in the opinion of management a full recovery of income and principal becomes doubtful. Income recognition is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. Several of the 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 regarding collectibility, interest income is recognized only upon actual receipt.

Other income Other income includes several types of income, which are recorded upon receipt. Certain of the loans and investments of the SF Business provide for additional payments based on the borrower's operating cash flow, appreciation of the underlying collateral, payments calculated based on the timing of when the loan pays off and changes in interest rates. Such amounts are not readily determinable and are recorded as other income upon receipt.

Gain on Sale of Loans and Real Estate

For the sale of loans and real estate, recognition occurs when all the incidence of ownership passes to the buyer.

Income Taxes

No provision or benefit for income taxes has been provided in the accompanying consolidated financial statements due to the fact that the SF Business was not operated as a stand-alone unit and no allocation of ACM's income tax provision/benefit has been made to the SF Business. ACM is a limited liability company (which is taxed as a partnership), and accordingly, the taxable income or loss of ACM is included in the federal and state income tax returns of ACM's individual members.

Note 3 Commitments and Contingencies

Litigation

In the normal course of business, ACM is subject to various legal proceedings and claims, the resolution of which, in management's opinion, will not have a material adverse effect on the financial position or the results of operations of ACM or the SF Business.

Note 4 Subsequent Events

In June 2003 ART, a real estate investment trust, was formed to invest in structured finance assets, particularly real estate related bridge and mezzanine loans, preferred equity and, in limited cases, discounted mortgage notes and other real estate related assets. On July 1, 2003, in exchange for a commensurate equity ownership in ART's operating partnership ARLP, ACM contributed \$213.1 million of structured finance assets and \$169.2 million of borrowings supported by \$43.9 million of equity. In addition, certain employees of ACM were transferred to ARLP. These assets, liabilities and employees represent the substantial portion of the SF Business.

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**THE STRUCTURED FINANCE BUSINESS OF ARBOR COMMERCIAL MORTGAGE, LLC
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

**June 30, 2003
(Unaudited)**

Note 4 Subsequent Events (Continued)

On July 1, 2003 ART completed a private placement of ART's units, each consisting of five shares of common stock and one warrant to purchase one share of common stock. Gross proceeds from the private financing combined with the concurrent equity contribution by ACM totaled approximately \$164 million in equity capital. ART is externally managed and advised by ACM and pays ACM a management fee in accordance with the management agreement. ACM will also originate, underwrite and service all structured finance assets on behalf of ARLP.

Note 5 Unaudited Pro Forma Consolidated Financial Information

In June, 2003 ACM formed ART, a real estate investment trust, to operate and expand its SF Business. On July 1, 2003, ACM contributed a portfolio of structured finance investments and related debt to ARLP, the operating partnership of ART. In addition, certain employees of ACM were transferred to ARLP. These assets, liabilities and employees represent a substantial portion of the SF Business.

ART is externally managed and advised by ACM and pays ACM a management fee in accordance with the terms of the management agreement among ACM, ART and ARLP. ACM also sources originations, provides underwriting services and services all structured finance assets on behalf of ARLP. As a result, the operating expenses as presented in the historical consolidated interim financial statements would have been affected had ART been formed at an earlier time. Employee compensation and benefits expense would have decreased by \$896,000 and \$1.3 million for the three and six months ended June 30, 2003, respectively, because these costs would have been borne by ACM under terms of the management agreement. Similarly, selling and administrative expense would have decreased by \$66,000 and \$95,000 for the three and six months ended June 30, 2003, respectively.

In accordance with the terms of the management agreement, ACM receives a management fee, composed of a base management fee and incentive compensation. At least 25% of this incentive compensation is paid to ACM in shares of ART's common stock, subject to ownership limitations in ART's charter. ART has also agreed to share with ACM a portion of the origination fees that it receives on loans it originates through ACM.

This pro forma information does not reflect the results of the private financing. However, gross proceeds from the private financing totaled \$120.2 million, which combined with ACM's equity contribution of \$43.9 million, resulted in total contributed capital of \$164.1 million. Offering expenses of \$10.1 million were paid by ART, resulting in stockholders equity and minority interest of ART of \$154.0 million at its inception.

The pro forma consolidated interim financial information is limited to adjustments that are directly attributable to the private placement, expected to have a continuing impact on ART and are factually supportable. These adjustments are based on the assumption that certain compensation and benefits expenses and certain selling and administrative expenses incurred by the SF Business would not have been incurred if ART had been in operation during the periods presented. The pro forma financial results do not include what the impact would have been had the gross proceeds from the private financing been available to ACM during the entire period. Had these proceeds been available to ACM during the entire period, there would have been an impact on certain revenues and expenses, including the management fees payable pursuant to the management agreement. The management fees are calculated based on such factors as funds from operations and the equity of ARLP, each as defined in the management agreement. Such amounts represent speculative and forward-looking information that is not factually supportable.

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**THE STRUCTURED FINANCE BUSINESS OF ARBOR COMMERCIAL MORTGAGE, LLC
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

**June 30, 2003
(Unaudited)**

Note 5 Unaudited Pro Forma Consolidated Financial Information (Continued)

The financial statements of the SF Business include the results of operations of the structured finance business segment of ACM and are not limited to the results of the structured finance assets that were transferred to ART. In addition, ACM retained certain transactions in its structured finance portfolio, primarily because they were not deemed to be suitable investments for ART. Had these retained assets been excluded from the financial statements of the SF Business, additional adjustments to the expense base would have been necessary to estimate what expenses would have been had these assets not been in the portfolio. Such adjustments would have been speculative. Lastly, operating results for assets that matured before the contribution of structured finance assets to ART, but were in the portfolio of assets of the SF Business during the reporting period are also included in these statements.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

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 that was formed in June 2003 to invest in real estate-related bridge and mezzanine loans, preferred equity and, in limited cases, discounted mortgage notes and other real estate-related assets. We also invest in mortgage-related securities. We conduct substantially all of our operations through our operating partnership.

Our operating performance is primarily driven by several 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 increases, this will have a positive impact on earnings. Similarly, if the cost of borrowings decreases, this will have a positive impact on earnings. Conversely, if the yield earned on our assets decreases, or the cost of our borrowings increases, this will have a negative impact on earnings. Net interest income is also directly impacted by the size of our asset portfolio.

Credit quality of our assets Effective asset and portfolio management is essential to maximizing 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.

Cost control We seek to minimize our operating costs, which consist primarily of employee compensation and related costs and other general and administrative expenses. As the size of the portfolio increases, certain of these expenses, particularly employee compensation expenses, may increase.

We are organized and conduct our operations to qualify as a real estate investment trust (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 that portion of its REIT taxable income (Taxable Income) which is distributed to its stockholders provided that at least 90% of Taxable Income is distributed and provided that certain other requirements are met.

On April 13, 2004, we sold 6,750,000 shares of our common stock in a public offering at a price to the public of \$20.00 per share, for net proceeds of approximately \$124.4 million after deducting the underwriting discount and the other estimated offering expenses. We used the proceeds to pay down indebtedness. After giving effect to this offering, we had 14,949,567 shares of common stock outstanding. In addition, on May 6, 2004, the underwriters exercised a portion of their over-allotment option, which resulted in the issuance of 524,200 additional shares on May 11, 2004. We received net proceeds of approximately \$9.8 million after deducting the underwriting discount and we had 15,473,767 shares of common stock outstanding after giving effect to the over-allotment. On June 11, 2004, 2,334 shares of unvested restricted stock were forfeited. After giving effect to this, the Company had 15,471,433 shares issued and outstanding.

Changes in Financial Condition

During the quarter, we originated eighteen loans and investments totaling \$230.5 million, of which \$213.8 million was funded. Of the new loans and investments, four were junior participating interests totaling \$71.5 million, six were mezzanine loans totaling \$69.5 million, four were bridge loans totaling \$58.2 million, two were Preferred equity investments totaling \$7.4 million and two were direct equity investments totaling \$7.2 million. We have received full satisfaction of two loans totaling \$9.5 million and partial repayment on two loans totaling \$11.9 million.

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Our loan portfolio balance at June 30, 2004 was \$664.3 million, with a weighted average current interest pay rate of 7.19%, as compared to \$323.5 million with a weighted average interest pay rate of 7.49% at December 31, 2003. At June 30, 2004, advances on financing facilities totaled \$374.5 million, with a weighted average funding cost of 3.53% as compared to \$172.5 million, with a weighted average funding cost of 3.40%, at December 31, 2003.

In addition, in March 2004, we purchased \$57.4 million (including 0.1 million of purchased interest) of agency-sponsored whole pool mortgage related securities. Pools of FNMA and FHLMC adjustable rate residential mortgage loans underlie these mortgage related securities. We will receive payments from the payments that are made on these underlying mortgage loans. The loans have a fixed rate of interest for three years and adjust annually thereafter. These loans have a weighted average coupon rate of 3.7%. Of these mortgage-related securities, \$20.6 million were issued by FNMA and \$36.7 million were issued by FHLMC. We financed \$55.5 million under our existing \$250 million master repurchase agreement at one month LIBOR plus 0.10% and funded the remaining \$1.9 million with our own capital. At June 30, 2004, the outstanding balance of these securities was \$54.4 million. We are carrying these securities at their estimated fair value of \$53.0 million, which resulted in a \$1.4 million unrealized loss that was recorded in other comprehensive loss. At June 30, 2004 the outstanding debt balance on the financing of these securities was \$51.2 million.

Sources of Operating Revenues

We derive our operating revenues primarily through interest received from making real estate-related bridge and mezzanine loans and preferred equity investments. For the quarter ended June 30, 2004, interest on these loans and investments represented approximately 97% of our total revenues. We provide bridge loans secured by first lien mortgages on the property to borrowers who are typically seeking short term capital to be used in an acquisition of property. The bridge loans we make typically range in size from \$1 million to \$30 million and have terms of up to seven years. We provide real property owners with mezzanine loans that are secured by pledges of ownership interests in entities that directly or indirectly control the real property or second mortgages. These loans typically range in size from \$2 million to \$30 million and have terms of up to seven years. We also make preferred equity investments in entities that directly or indirectly own real property.

We will also derive interest income from our investments in mortgage related securities. For the quarter ended June 30, 2004, interest on these investments represented approximately 3% of our total revenues.

We also derive operating revenues from other income that represents miscellaneous asset management fees associated with our loans and investments portfolio. For the quarter ended June 30, 2004, revenue from other income was approximately \$5,000.

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

We may derive income from the gain on sale of loans and real estate. We may acquire (1) real estate for our own investment and, upon stabilization, disposition at an anticipated return and (2) 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.

We may also derive income from equity affiliates relating to joint ventures that were formed with equity partners to acquire, develop and/or sell real estate assets. Such investments are recorded under the equity method. We record our share of net income from the underlying properties in which we invest through these joint ventures.

Critical Accounting Policies

Refer to the section of our Registration Statement on Form S-11 (No. 333-110472) declared effective on April 6, 2004 by the SEC (the Registration Statement) entitled Management's Discussion and Analysis of Financial Condition and Results of Operations of Arbor Realty Trust and Subsidiaries Significant Accounting Estimates and Critical Accounting Policies for a discussion of our critical accounting policies. During the three months ended March 31, 2004, there was one new critical accounting policy, which is listed below. In addition there were no material changes to critical accounting policies disclosed in the Registration Statement.

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Available-For-Sale Securities

We invest in agency-sponsored whole pool mortgage related securities. Pools of FNMA and FHLMC adjustable rate residential mortgage loans underlie these mortgage related securities. We will receive payments from the payments that are made on these underlying mortgage loans, which have a fixed rate of interest for three years and adjust annually thereafter. These securities are carried at their estimated fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income pursuant to SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities. Unrealized losses other-than-temporary losses are recognized currently in income. These available for sale securities are pledged as collateral for borrowings under a repurchase agreement See Liquidity and Capital Resources.

Revenue Recognition

Interest income available-for-sale securities Discounts or premiums are accreted into interest income on an effective yield or interest method adjusted for actual prepayment activity. Income is not accrued on non-performing securities; cash received on such securities is treated as income to the extent of interest previously accrued.

Recently Issued Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), which requires a variable interest entity (VIE) to be consolidated by its primary beneficiary (PB). The PB is the party that absorbs a majority of the VIE s anticipated losses and/or a majority of the expected returns.

In adopting FIN 46 and FIN 46-R, we have evaluated our loans and investments and investments in equity affiliates to determine whether they are VIE s. This evaluation resulted in us determining that our mezzanine loans, preferred equity investments and investments in equity affiliates were potential variable interests. For each of these investments, we have evaluated (1) the sufficiency of the fair value of the entities equity investments at risk to absorb losses, (2) that as a group the holders of the equity investments at risk have (a) the direct or indirect ability through voting rights to make decisions about the entities significant activities, (b) the obligation to absorb the expected losses of the entity and their obligations are not protected directly or indirectly, (c) the right to receive the expected residual return of the entity and their rights are not capped, (3) the voting rights of some of these investors are proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected returns of the equity, or both, and (4) that substantially all of the entities activities do not involve or are not conducted on behalf of an investor that has disproportionately few voting rights. For these investments, we have determined that the entities have sufficient equity at risk and, accordingly, they are not VIE s. As such, we have continued to account for the mezzanine loans and preferred equity investments and investments in equity investments as a loan, joint venture or real estate, as appropriate.

Table of Contents**Results of Operations*****For the Three and Six Months Ended June 30, 2004***

The following table sets forth our results of operations for the three and six months ended June 30, 2004:

| | Three Months Ended June 30, 2004 | Six Months Ended June 30, 2004 |
|---------------------------------------|---|---|
| Revenue: | | |
| Interest income | \$ 11,939,350 | \$ 20,102,741 |
| Other income | 5,427 | 26,531 |
| | <hr/> | <hr/> |
| Total revenue | 11,944,777 | 20,129,272 |
| | <hr/> | <hr/> |
| Expenses: | | |
| Interest expense | 3,310,544 | 5,934,437 |
| Employee compensation and benefits | 617,137 | 1,230,443 |
| Stock based compensation | 92,806 | 207,007 |
| Selling and administrative | 366,843 | 611,154 |
| Management fee | 540,939 | 834,057 |
| | <hr/> | <hr/> |
| Total expenses | 4,928,269 | 8,817,098 |
| | <hr/> | <hr/> |
| Income before minority interest | 7,016,508 | 11,312,174 |
| Income allocated to minority interest | 1,236,560 | 2,427,899 |
| | <hr/> | <hr/> |
| Net income | \$ 5,779,948 | \$ 8,884,275 |
| | <hr/> | <hr/> |

Revenue. Interest income was \$11.9 million for the quarter ended June 30, 2004 of which \$11.5 million was from our loan and investment portfolio. The average balance of the loan and investment portfolio was \$584.9 million during the quarter ended June 30, 2004 and the average yield on these assets was 7.79%. Interest income was \$20.1 million for the six months ended June 30, 2004 of which \$19.7 million was from our loan and investment portfolio. The average balance of the loan and investment portfolio was \$495.6 million during the six months ended June 30, 2004 and the average yield on those assets was 7.86%.

Other income was \$5,000 and \$21,000 for the quarter and six months ended June 30, 2004, respectively. This income represents miscellaneous asset management fees associated with our loans and investments portfolio.

Expenses. Interest expense was \$3.3 million for the quarter ended June 30, 2004 of which \$3.2 million was from the debt financing of our loan and investment portfolio. The average balance of debt financing on our loan and investment portfolio was \$300.8 million during the quarter ended June 30, 2004 and the average cost of these borrowings was 4.14%. Interest expense was \$5.9 million for the six months ended June 30, 2004 of which \$5.8 million was from the debt financing of our loan and investment portfolio. The average balance of debt financing on our loan and investment portfolio was \$275.2 million during the six months ended June 30, 2004 and the average cost of these borrowings was 4.15%.

Employee compensation and benefits expense was \$617,000 and \$1.2 million for the quarter and six months ended June 30, 2004 respectively, which represents salaries, benefits and incentive compensation for the 16 employees employed by us during these periods.

Stock-based compensation expense was \$93,000 and \$207,000 for the quarter and six months ended June 30, 2004, respectively. These expenses represent the cost of restricted stock granted to certain of our employees, executive officers and directors and certain executive officers and employees of our manager. Of the total shares granted, two-thirds of the shares granted vested immediately and the remaining one-third will vest over three years. The amount of compensation expense recorded for the quarter and six months ended June 30, 2004 represents a ratable

portion of the expense of the unvested shares.

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Selling and administrative expense was \$357,000 and \$611,000 for the quarter and six months ended June 30, 2004 respectively. These amounts are comprised primarily of professional fees, including legal and accounting services, insurance expense and director's fees.

Management fees were \$541,000 and \$834,000 for the quarter and six months ended June 30, 2004 respectively. These amounts represent the base management fee as provided for in the management agreement with our manager. The management agreement also provides for incentive compensation; however, the requirements for incentive compensation were not satisfied and no incentive compensation was recorded in the periods.

Income Allocated to Minority Interest. Income allocated to minority interest was \$1.2 million and \$2.4 million for the quarter and six months ended June 30, 2004 respectively. These amounts represent the portion of our income allocated to our manager, which owns a 17% limited partnership interest in our operating partnership at June 30, 2004 and was allocated a percentage of our income for the quarter and six months ended June 30, 2004.

Liquidity and Capital Resources

Sources of Liquidity

Liquidity is a measurement of the ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain loans and investments and other general business needs. Our primary sources of funds for liquidity consist of funds raised from our private equity offering in July 2003, net proceeds from our initial public offering in April 2004, borrowings under credit agreements, net cash provided by operating activities, repayments of outstanding loans and investments and the issuance of common, convertible and/or preferred equity securities.

On April 13, 2004, we sold 6,750,000 shares of our common stock in a public offering at a price to the public of \$20.00 per share for net proceeds of approximately \$125.4 million after deducting the underwriting discount and the other estimated offering expenses. We used the proceeds to pay down indebtedness. In addition, on May 6, 2004 the underwriters exercised a portion of their over allotment option, which resulted in the issuance of 524,200 additional shares on May 11, 2004. We received net proceeds of approximately \$9.8 million after deducting the underwriting discount.

We also maintain liquidity through one warehouse credit agreement and three master repurchase agreements with four different financial institutions.

We have a \$250.0 million warehouse credit agreement with a financial institution, dated as of July 1, 2003, with a term of three years. In the event this facility is not renewed, we have nine months to repay all outstanding advances. In addition to LIBOR-based interest obligations, this warehouse credit facility includes a profit sharing agreement, whereby the institution shares in the net interest spread of the assets financed. The profit sharing component represents the percentage of the net profits earned over the life of a loan that are payable to the lender upon repayment of the underlying investment. Net profits are based on interest income, interest expense and deferred interest payable at repayment of an investment. On June 30, 2004, the outstanding balance under this facility was \$147.6 million.

We have a \$100.0 million master repurchase agreement with a second financial institution, dated as of November 18, 2002, with a one-year term, renewable annually. On June 30, 2004, the outstanding balance under this facility was \$46.6 million.

We have a \$50.0 million master repurchase agreement with a third financial institution, dated as of July 1, 2003, which matures in November 2005. This facility has not yet been utilized.

We have a \$250.0 million master repurchase agreement with a fourth financial institution, dated as of December 23, 2003, with a term of three years and an interest rate based on LIBOR. On June 30, 2004, the outstanding balance under this facility was \$231.6 million. Included in the \$231.6 million outstanding on June 30, 2004 were \$51.2 million of borrowings associated with the purchase of securities available-for-sale. These borrowings equal 97% of the estimated fair value of the securities (net of principal payment receivables).

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of \$1.1 million) and bear interest at a rate of one month LIBOR plus .10%. If the estimated fair value of the securities decreases, we may be required to pay down borrowings from the repurchase agreement due to such a decline in the estimated fair value of the securities collateralizing the repurchase agreement. In July 2004 we amended this repurchase agreement increasing the amount of available financing to \$350 million and amending certain terms of this agreement, which are generally more favorable to us. The \$100 million increase to the facility has a term of one year with a one year extension option. In addition we entered into a new \$100 million repurchase agreement with the same financial institution to finance our securities held for sale. This facility has a term of one year and an interest rate of LIBOR plus .15%.

The warehouse credit agreement and the three master repurchase agreements require that we pay interest monthly, based on our pricing over LIBOR. The amount of our pricing over LIBOR varies depending upon the structure of the loan or investment financed pursuant to the warehouse credit agreement or the master repurchase agreement. Our pricing over LIBOR is summarized in the table on the following page.

The warehouse credit agreement and the three master repurchase agreements require that we pay down borrowings under these facilities pro-rata as principal payments on our loans and investments are received. In addition, if upon maturity of a loan or investment we decide to grant the borrower an extension option, the financial institutions have the option to extend the borrowings or request payment in full on the outstanding borrowings of the loan or investment extended. The financial institutions also have the right to request immediate payment of any outstanding borrowings on any loan or investment that is at least 60 days delinquent.

We believe our existing sources of funds will be adequate for purposes of meeting our short-term liquidity (within one year) and long-term liquidity needs. These liquidity needs, which are present in the short-term and long-term, include ongoing commitments to repay borrowings, fund future investments, fund operating costs and fund distributions. Our loans and investments are financed under existing credit facilities 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. If we are unable to renew our sources of financing on substantially similar terms or at all it would have an adverse effect on our business and results of operations. 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.

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The maximum borrowing capacities, advance rates and other principal terms of our credit facilities are listed below (LIBOR refers to one-month LIBOR). These facilities have an aggregate capacity of \$650 million and as of June 30, 2004, borrowings were approximately \$425.7 million.

| | Warehouse Facility | Repurchase Agreement | Repurchase Agreement | Repurchase Agreement |
|---|-----------------------|-------------------------|-------------------------|-------------------------|
| Total facility amount | \$ 250,000,000 | \$ 100,000,000 | \$ 50,000,000 | \$ 250,000,000 |
| Sublimits based on investment type | \$ 125,000,000 | N/A | \$ 50,000,000 | N/A |
| Bridge loan sublimit amount maximum advance rate(1) | 85%(2) | 80% | 80% | 70%-80%(3) |
| Pricing over LIBOR | 2.00% | 2.00% | 1.25% | 1.75%- 2.875%(3) |
| Profit share(4) | 20.0% | | | |
| Mezzanine loans/preferred equity | \$ 175,000,000 | \$ 25,000,000 | \$ 50,000,000 | \$ 90,000,000 |
| Sublimit amount | | | | |
| Maximum advance rate(1) | 80%(5) | 65% | 75% | 55%-70%(3) |
| Pricing over LIBOR | 2.75% | 2.75% | 2.50% | 2.10%- 3.225%(3) |
| Profit share(4) | 20.0% | | | |
| Note acquisitions sublimit amount | \$ 125,000,000 | | | |
| Maximum advance rate(5) | 80%(6) | | | |
| Pricing over LIBOR | 2.50% | | | |
| Property acquisitions total line | \$ 125,000,000 | | | |
| Maximum advance rate | 80% | | | |
| Pricing over LIBOR | 2.50% | | | |
| Financial covenants: | | | | |
| Minimum net worth | \$ 115,000,000(7) | \$ 45,000,000(7) | (8) | \$ 75,000,000 |
| Leverage (debt to net worth) ratio must not exceed | 6 to 1 | 8 to 1 | 6 to 1 | 4 to 1 |
| Minimum liquidity(9) | \$ 3,000,000 | N/A | N/A | \$ 15,000,000 |

- (1) Advance rates for certain investments funded under the credit facilities are negotiated on an individual basis and may differ from the maximum advance rate listed.
- (2) Maximum loan amount advanced per bridge loan equal to \$20.0 million.
- (3) Advance rates and pricing over LIBOR vary due to the type of asset financed.
- (4) Certain investments are financed under prior profit sharing agreements between the financial institution and Arbor Commercial Mortgage with profit sharing percentages ranging from 17.5% to 45.0% of net interest income of the loans and investments financed.
- (5) Maximum loan amount advanced per mezzanine loan equal to \$20.0 million.
- (6) Maximum loan amount advanced per acquisition equal to \$20.0 million.
- (7) Minimum net worth is defined as net worth of our operating partnership.
- (8) Minimum net worth is equal to 75% of the highest level reached over the preceding twelve consecutive calendar months.
- (9) Minimum liquidity is defined as liquid assets and available financing under the facilities.

In addition to the financial covenants presented in the table above, our warehouse credit agreement and master repurchase agreements contain covenants that prohibit us from effecting a change in control or disposing of or encumbering assets being financed and restrict us from making any material amendment to our underwriting guidelines without approval of the lender. Furthermore, the credit facilities include various covenants not deemed to be restrictive including preservation of company existence, conduct of business, compliance with applicable laws, financial statement reporting requirements, maintenance of paper records and files and loan performance and servicing date reporting requirements. If we violate these covenants in any of these agreements, we could be required to repay all or a portion of our indebtedness before

maturity at a

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time when we might be unable to arrange financing for such repayment on attractive terms, if at all. Violations of these covenants may result in our being unable to borrow unused amounts under a line of credit, even if repayment of some or all borrowings is not required. As of June 30, 2004, we are in compliance with all covenants and restrictions.

Related Party Transactions

Arbor Commercial Mortgage, LLC (ACM), our manager, has a 50% non-controlling interest in a joint venture, which was formed to acquire, develop and/or sell real estate assets. At June 30, 2004, ACM 's investment in this joint venture was approximately \$2.6 million. At June 30, 2004, we had a \$5.5 million bridge loan outstanding to the joint venture, which is collateralized by a first lien position on a commercial real estate property. There is a limited guarantee on the loan of 50% by our chief executive officer and 50% by the key principal of the joint venture. The loan requires monthly interest payments based on one month LIBOR and matures in May 2006. We agreed to provide the borrower with additional mezzanine financing in the amount of up to \$8.0 million, of which \$6.5 million was outstanding as of June 30, 2004. The mezzanine financing requires interest payments based on one month LIBOR and matures in May 2006. This additional financing is secured by a second mortgage lien on the property. Interest income recorded from these loans was approximately \$259,000 and \$570,000 for the three and six months ended June 30, 2004.

As of June 30, 2004, we had a \$13.75 million first mortgage loan and a \$1.2 million second mortgage loan, each of which bears interest at a variable rate of one month LIBOR plus 4.25% and matures in March 2005, outstanding to a not-for-profit corporation that holds and manages investment property from the endowment of a private academic institution. Two of our directors are members of the board of trustees of the borrower and that institution. Interest income recorded from these loans was approximately \$202,000 and \$403,000 for the three and six months ended June 30, 2004.

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**MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS OF THE STRUCTURED FINANCE BUSINESS OF
ARBOR COMMERCIAL MORTGAGE, LLC AND SUBSIDIARIES**

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

Overview and Basis of Presentation

On July 1, 2003, Arbor Commercial Mortgage, LLC (ACM) contributed a portfolio of structured finance investments and related liabilities to our operating partnership. In addition, certain employees of ACM related to its structured finance business became our employees. These assets, liabilities and employees represented a substantial portion of ACM's structured finance business (the SF Business), which historically invested in real estate related bridge and mezzanine loans, preferred equity and other real estate related assets.

The SF Business is not a separate legal entity and the assets and liabilities associated with ACM's structured finance business are components of a larger business. We obtained the information in the consolidated financial statements included elsewhere in this 10-Q from ACM's consolidated historical accounting records.

The SF Business never operated as a separate business segment or division of ACM, but as an integrated part of ACM's consolidated business. Accordingly, the statement of revenue and direct operating expenses do not include charges from ACM for corporate general and administrative expense because ACM considered such items to be corporate expenses and did not allocate them to individual business units. These expenses included costs for ACM's executive management, corporate facilities and overhead costs, corporate accounting and treasury functions, corporate legal matters and other similar costs.

The information in the statement of revenue and direct operating expenses include the revenue and direct operating expenses that relate to the SF Business. Direct operating expenses include interest expense applicable to the funding costs of the SF Business loans and investments, salaries and related fringe benefit costs, provision for loan losses and other expenses directly associated with revenue-generating activities. Direct operating expenses also include allocations of certain expenses, such as telephone, office equipment rental and maintenance, office supplies and marketing, which were directly associated with the SF Business and were allocated based on headcount of the SF Business in relation to the total headcount of ACM. All of these allocations are based on assumptions that management believes are reasonable under the circumstances.

The statement of revenue and direct operating expenses do not purport to be a complete presentation of the historical results of operations of the SF Business. The historical operating results of the SF Business may not be indicative of our future operating results. The accompanying unaudited consolidated interim financial statements were prepared for inclusion in this Form 10-Q and do not purport to reflect the results of operations that would have resulted if the SF Business had operated as an unaffiliated independent company.

Sources of Operating Revenues

ACM derives its operating revenues primarily from interest received from making real estate related bridge and mezzanine loans and preferred equity investments. ACM provides bridge loans secured by first lien mortgages on the property to borrowers who are typically seeking short term capital to be used in an acquisition of property. The bridge loans ACM makes typically range in size from \$1 million to \$25 million and have terms of up to seven years. ACM provides real property owners with mezzanine loans that are secured by pledges of ownership interests in entities that directly or indirectly control the real property or second mortgages. These loans typically range in size from \$2 million to \$15 million and have terms of up to seven years. ACM also makes preferred equity investments in entities that directly or indirectly own real property. Interest represented 93% of total revenue for the three months ended June 30, 2003.

ACM also derives operating revenue from other income that includes several types of income that are recorded upon receipt. Certain of ACM's loans and investments provide for additional payments based on the

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borrower's operating cash flow, appreciation of the underlying collateral, payments calculated based on timing of when the loan pays off and changes in interest rates. Such amounts are not readily determinable and are recorded as other income upon receipt. Other income also includes the recognition of deferred revenue on loans that prepay, asset management fees related to our loans and investment portfolio and satisfactions on impaired loans in excess of carrying values. Other income represented 7% of total revenue for the three months ended June 30, 2003.

Significant Accounting Estimates and Critical Accounting Policies

Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements included in this Form 10-Q. Certain of the accounting policies used in the preparation of these consolidated financial statements are particularly important for an understanding of the financial position and results of operations presented in the historical consolidated financial statements included in this Form 10-Q and require the application of significant judgment by management and, as a result, are subject to a degree of uncertainty.

Revenue Recognition

The revenue recognition policies for the SF Business are as follows:

Interest Income. Interest income is recognized on the accrual basis as it is earned. In most instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, and deferred interest upon maturity of the loan. This additional income as well as any direct loan origination costs incurred, is deferred and recognized over the life of the related loan as a yield adjustment. Income recognition is suspended for loans when in the opinion of management a full recovery of income and principal becomes doubtful. Income recognition is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. Several of the 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 regarding collectibility, interest income is recognized only upon actual receipt.

Results of Operations

| | Three Months Ended June 30, 2003 (Unaudited) | Six Months Ended June 30, 2003 |
|--|--|-----------------------------------|
| Revenue: | | |
| Interest income | \$4,281,984 | \$7,688,465 |
| Other income | 340,699 | 1,552,414 |
| Total revenue | <u>4,622,683</u> | <u>9,240,879</u> |
| Direct operating expenses: | | |
| Interest expense | 1,846,587 | 3,468,275 |
| Employee compensation and benefits | 862,869 | 1,751,147 |
| Selling and administrative | 268,362 | 458,266 |
| Provision for loan losses | 60,000 | 60,000 |
| Total direct operating expenses | <u>3,037,818</u> | <u>5,737,688</u> |
| Revenue in excess of direct operating expenses | <u>1,584,865</u> | <u>3,503,191</u> |
| Gain on sale of loans and real estate | <u>1,024,268</u> | <u>1,024,268</u> |
| Revenue and gain on sale of loans and real estate in excess of direct operating expenses | <u>\$2,609,133</u> | <u>\$4,527,459</u> |

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Interest income was \$4.3 million for the quarter ended June 30, 2003. The average balance of the loan and investment portfolio was \$222.4 million and the average yield on these assets was 7.70%. Interest income was \$7.7 million for the six months ended June 30, 2003. The average balance of the loan and investment portfolio was \$213.1 million and the average yield on these assets was 7.22%.

Other income was \$341,000 for the quarter ended June 30, 2003, which represents increased accelerated amortization of revenue of \$270,000 on loans with early payoffs and asset management fees of \$71,000. Other income was \$1.6 million for the six months ended June 30, 2003, which represents (a) increased funds received on paid off loans of \$539,000 (b) the partial satisfaction of an impaired loan for an amount \$350,000 in excess of the loan's carrying value resulting in the recognition of other income for this amount (c) increased accelerated amortization of revenue of \$467,000 on loans with early payoffs and (d) asset management fees of \$197,000 earned on our loan and investment portfolio.

Interest expense was \$1.9 million for the quarter ended June 30, 2003. The average balance of debt financing was \$157.7 million and the average cost of these borrowings was 4.68%. Interest expense was \$3.5 million for the six months ended June 30, 2003. The average balance of debt financing was \$152.4 million and the average cost of these borrowings was 4.55%.

Employee compensation and benefits was \$863,000 and \$1.8 million for the quarter and six months ended June 30, 2003, respectively, which represents salaries, benefits and incentive compensation for the employees related to the origination and asset management of our loans and investments.

Selling and administrative expenses was \$268,000 and \$458,000 for the quarter and six months ended June 30, 2003, respectively, which represents legal, travel, meals and entertainment and marketing expenses associated with our lending and investment activities, and operating expenses incurred for a real estate owned asset.

Provision for loan losses was \$60,000 for the quarter and the six months ended June 30, 2003, which represents provisions to reflect certain loans at their estimated fair values.

Gain on sale of loans and real estate was \$1.0 million for the quarter and six months ended June 30, 2003, which represents a partial liquidation of a joint venture interest in 2003.

Pro Forma Effect of Arbor Commercial Mortgage's Asset Contribution on Results of Operations

We were formed in June 30, 2003 by ACM to operate and expand the SF Business. On July 1, 2003, ACM contributed a portfolio of structured finance investments and related debt to Arbor Realty Limited Partnership (ARLP), our operating partnership. In addition, certain employees of ACM were transferred to ARLP. These assets, liabilities and employees represent a substantial portion of the SF Business.

We are externally managed and advised by ACM and pay ACM a management fee in accordance with the terms of the management agreement among us. ACM also sources originations, provides underwriting services and services all structured finance assets on behalf of ARLP. As a result, the operating expenses as presented in the historical consolidated interim financial statements would have been affected had we been formed at an earlier time. Employee compensation and benefits expense would have decreased by \$896,000 and \$1.5 million for the quarter and six months ended June 30, 2003, respectively, because these costs would have been borne by ACM under terms of the management agreement. Similarly, selling and administrative expense would have decreased by \$66,000 and \$128,000 for the quarter and six months ended June 30, 2003, respectively.

In accordance with the terms of the management agreement, ACM receives a management fee, composed of a base management fee and incentive compensation. At least 25% of this incentive compensation is paid to ACM in shares of our common stock, subject to ownership limitations in ART's charter. We have also agreed to share with ACM a portion of the origination fees that we receive on loans we originate through ACM.

This pro forma information does not reflect the results of the private financing. However, gross proceeds from the private financing totaled \$120.2 million, which combined with ACM's equity contribution of

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\$43.9 million, resulted in total contributed capital of \$164.1 million. Offering expenses of \$10.1 million were paid by us, resulting in our stockholders equity and minority interest of \$154.0 million at our inception.

The pro forma consolidated interim financial information is limited to adjustments that are directly attributable to the private placement, expected to have a continuing impact on us and are factually supportable. These adjustments are based on the assumption that certain compensation and benefits expenses and certain selling and administrative expenses incurred by the SF Business would not have been incurred if we had been in operation during the periods presented. The pro forma financial results do not include what the impact would have been had the gross proceeds from the private financing been available to ACM during the entire period. Had these proceeds been available to ACM during the entire period, there would have been an impact on certain revenues and expenses, including the management fees payable pursuant to the management agreement. The management fees are calculated based on such factors as funds from operations and the equity of ARLP, each as defined in the management agreement. Such amounts represent speculative and forward-looking information that is not factually supportable.

The financial statements of the SF Business include the results of operations of the structured finance business segment of ACM and are not limited to the results of the structured finance assets that were transferred to us. In addition, ACM retained certain transactions in its structured finance portfolio, primarily because they were not deemed to be suitable investments for us. Had these retained assets been excluded from the financial statements of the SF Business, additional adjustments to the expense base would have been necessary to estimate what expenses would have been had these assets not been in the portfolio. Such adjustments would have been speculative. Lastly, operating results for assets that matured before the contribution of structured finance assets to us, but were in the portfolio of assets of the SF Business during the reporting period are also included in these statements.

Liquidity and Capital Resources

Liquidity is a measurement of the ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain loans and investments and other general business needs. On July 1, 2003, ACM contributed a portfolio of structured finance investments and related liabilities to our operating partnership. In addition, certain employees of ACM became our employees. These assets, liabilities and employees represented a substantial portion of the structured finance business of ACM.

On July 1, 2003, we completed the private placement, resulting in gross proceeds of \$120.2 million. Gross proceeds from the private placement combined with the concurrent equity contribution by ACM totaled approximately \$164.1 in equity capital.

Subsequent to and as a result of the private placement, substantially all of the operations of the SF Business have been conducted by us. Therefore, a description of the liquidity and capital resources of the SF Business is not presented. A description of our liquidity and capital resources is presented in the section of this Form 10-Q entitled "Management's Discussion & Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries - Liquidity and Capital Resources."

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, interest rate risk, market value risk and prepayment risk.

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, national, regional and local economic conditions (which may be adversely affected by industry

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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, 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 reduce the value of the collateral and 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. Many 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. Based on the loans and liabilities as of June 30, 2004, and assuming the balances of these loans and liabilities remain unchanged for the subsequent months, a 1% increase in LIBOR would increase our annual net income and cash flows by approximately \$1.8 million because the principal amount of loans that would be subject to an interest rate adjustment under this scenario is greater than the amount of liabilities that would subject to an interest rate adjustment. A 1% decrease in LIBOR would increase our annual net income and cash flows by approximately \$600,000 because the principal amount of loans currently subject to interest rate floors (and, therefore, would not be subject to a downward interest rate adjustment) exceeds the amount of liabilities currently subject to interest rate floors. As the size of the portfolio increases and the percentage of borrowings as a percent of loans increases, a change in interest rates may have a negative impact on our net income.

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.

We invest in securities, which are designated as available-for-sale. These securities are adjustable rate securities that have a fixed component for three years and, thereafter, generally reset annually. These securities are financed with a repurchase agreement that bears interest at a rate of one month LIBOR plus .10%. Since the repricing of the debt obligations occurs more quickly than the repricing of the securities, on average our cost of borrowings will rise more quickly in response to an increase in market interest rates than the earnings rate on the securities. This will result in a reduction our net interest income and cash flows related to these securities. Based on the securities and borrowings as of June 30, 2004, and assuming the balances of these securities and borrowings remain unchanged for the subsequent months, a 1% increase in LIBOR would reduce our annual net income and cash flows by approximately \$512,000. A 1% decrease in LIBOR would increase our annual net income and cash flows by approximately \$512,000.

Market Value Risk

Our available-for-sale securities are reflected at their estimated fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income pursuant to SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities. The estimated fair value of these securities fluctuate primarily due to changes in interest rates and other factors; however, given that these securities are guaranteed as to principal and/or interest by an agency of the U.S. Government, such fluctuations are generally not based on the creditworthiness of the mortgages securing these securities. Generally, in a rising interest rate environment, the estimated fair value of these securities would be expected to decrease; conversely, in a

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decreasing interest rate environment, the estimated fair value of these securities would be expected to increase.

Prepayment Risk

As we receive repayments of principal on these securities, premiums paid on such securities are amortized against interest income using the effective yield method through the expected maturity dates of the securities. In general, an increase in prepayment rates will accelerate the amortization of purchase premiums, thereby reducing the interest income earned on the securities.

Item 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information 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. In designing and evaluating the disclosure controls procedures, our management recognized that any controls and procedures no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision of our chief executive officer and chief financial officer, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

There have been no significant changes in our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting during our most recent fiscal quarter.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Not applicable.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS, ISSUER PURCHASES OF EQUITY SECURITIES

Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

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(a) Exhibits filed with this Form 10-Q:

| Exhibit Number | Description |
|-------------------|--|
| 3.1 | Articles of Incorporation of the Registrant* |
| 3.2 | Bylaws of the Registrant* |
| 4.1 | Form of Certificate for Common Stock* |
| 4.2 | Form of Global Units Certificate* |
| 4.3 | Form of Warrant Certificate (included as Exhibit A to Exhibit 4.4)* |
| 4.4 | Warrant Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and American Stock Transfer & Trust Company* |
| 4.5 | Registration Rights Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and JMP Securities, LLC* |
| 10.1 | Management Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC and Arbor Realty Limited Partnership* |
| 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 | Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership, dated July 1, 2003, by and among Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership, Arbor Realty LPOP, Inc. and Arbor Realty GPOP, Inc.* |
| 10.5 | Warrant Agreement, dated July 1, 2003, between Arbor Realty Limited Partnership, Arbor Realty Trust, Inc. and Arbor Commercial Mortgage Commercial Mortgage, LLC* |
| 10.6 | Registration Rights Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor Commercial Mortgage, LLC* |
| 10.7 | 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.* |
| 10.8 | Amended and Restated 2003 Omnibus Stock Incentive Plan |
| 10.9 | Form of Restricted Stock Agreement* |
| 10.10 | Benefits Participation Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor Management, LLC* |
| 10.11 | Form of Indemnification Agreement* |
| 10.12 | Structured Facility Warehousing Credit and Security Agreement, dated July 1, 2003, between Arbor Realty Limited Partnership and Residential Funding Corporation* |
| 10.13 | Loan Purchase and Repurchase Agreement, dated December 23, 2003, by and among Arbor Realty Funding LLC, as seller, Wachovia Bank, National Association, as purchaser, and Arbor Realty Trust, Inc., as guarantor* |
| 10.14 | Master Repurchase Agreement, dated as of November 18, 2002, by and between Nomura Credit and Capital, Inc. and Arbor Commercial Mortgage, LLC* |
| 10.15 | Assignment and Assumption Agreement, dated as of July 1, 2003, by and between Arbor Commercial Mortgage, LLC and Arbor Realty Limited Partnership* |
| 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 |

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| Exhibit Number | Description |
|-------------------|---|
| 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 |

* 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.

(b) *Reports on Form 8-K filed by the registrant during its fiscal quarter ended June 30, 2004:*

Form 8-K dated as of May 6, 2004 announcing earnings for the quarterly period ended March 31, 2004, filed pursuant to Item 12 of Form 8-K.

Form 8-K dated as of June 14, 2004, announcing the resignation of Daniel Palmier, Executive Vice President of Asset Management, filed pursuant to Item 5 of Form 8-K.

Form 8-K, dated as of June 24, 2004, announcing that the declaration of a quarterly cash dividend, filed pursuant to Item 5 of Form 8-K.

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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/ FREDERICK C. HERBST

Name: Frederick C. Herbst
Title: Chief Financial Officer

Date: August 3, 2004

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EXHIBIT 10.8

ARBOR REALTY TRUST, INC.

2003 OMNIBUS STOCK INCENTIVE PLAN

(AS AMENDED AND RESTATED ON JULY 29, 2004)

SECTION 1. GENERAL PURPOSE OF PLAN; DEFINITIONS.

The name of this plan is the Arbor Realty Trust, Inc. 2003 Omnibus Stock Incentive Plan, as amended (the "Plan"). The Plan was adopted by the Board (defined below) on June 25, 2003 and approved by the stockholders of the Company (defined below) on July 1, 2003, and was subsequently approved by the Board on June 23, 2004 to be amended and restated, subject to the approval of the Company's stockholders. The purpose of the Plan is to enable the Company to attract and retain highly qualified personnel who will contribute to the Company's success and to provide incentives to Participants (defined below) that are linked directly to stockholder value and will therefore inure to the benefit of all stockholders of the Company.

For purposes of the Plan, the following terms shall be defined as set forth below:

(a) "Administrator" means the Board, or if and to the extent the Board does not administer the Plan, the Committee in accordance with Section 2 below.

(b) "Award" means any award under the Plan.

(c) "Award Agreement" means, with respect to each Award, the signed written agreement between the Company and the Participant setting forth the terms and conditions of the Award.

(d) "Board" means the Board of Directors of the Company.

(e) "Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.

(f) "Committee" means any committee the Board may appoint to administer the Plan. If at any time or to any extent the Board shall not administer the

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Plan, then the functions of the Board specified in the Plan shall be exercised by the Committee.

(g) "Common Stock" means the common stock, par value \$.01 per share, of the Company.

(h) "Company" means Arbor Realty Trust, Inc., a Maryland corporation (or any successor corporation).

(i) "Disability" means the inability of a Participant to perform substantially his or her duties and responsibilities to the Company or to any Parent or Subsidiary by reason of a physical or mental disability or infirmity (i) for a continuous period of six months, or (ii) at such earlier time as the Participant submits medical evidence satisfactory to the Administrator that the Participant has a physical or mental disability or infirmity that will likely prevent the Participant from returning to the performance of the Participant's work duties for six months or longer. The date of such Disability shall be the last day of such six-month period or the day on which the Participant submits such satisfactory medical evidence, as the case may be.

(j) "Eligible Recipient" means an officer, director, employee, consultant (including employees of the Manager who provide services to the Company) or advisor of the Company or of any Parent or Subsidiary.

(k) "Fair Market Value" as of a particular date shall mean the fair market value of a share of Common Stock as determined by the Administrator in its sole discretion; provided, however, that (i) if the Common Stock is admitted to trading on a national securities exchange, fair market value of a share of Common Stock on any date shall be the closing sale price reported for such share on such exchange on such date or, if no sale was reported on such date, on the last date preceding such date on which a sale was reported, (ii) if the Common Stock is admitted to quotation on the National Association of Securities Dealers Automated Quotation ("Nasdaq") System or other comparable quotation system and has been designated as a National Market System ("NMS") security, fair market value of a share of Common Stock on any date shall be the closing sale price reported for such share on such system on such date or, if no sale was reported on such date, on the last date preceding such date on which a sale was reported, or (iii) if the Common Stock is admitted to quotation on the Nasdaq System but has not been designated as an NMS security, fair market value of a share of Common Stock on any date shall be the average of the highest bid and lowest asked prices of such share on such system

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on such date or, if no bid and ask prices were reported on such date, on the last date preceding such date on which both bid and ask prices were reported.

(l) "Manager" means Arbor Commercial Mortgage, LLC, a New York limited liability company.

(m) "Parent" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations in the chain (other than the Company) owns stock possessing 50% or more of the combined voting power of all classes of stock in one of the other corporations in the chain.

(n) "Participant" means any Eligible Recipient selected by the Administrator, pursuant to the Administrator's authority in Section 2 below, to receive awards of Restricted Stock.

(o) "Restricted Stock" means Shares subject to certain restrictions granted pursuant to Section 6 below.

(p) "Shares" means shares of Common Stock reserved for issuance under the Plan, as adjusted pursuant to Sections 3 and 4, and any successor security.

(q) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations (other than the last corporation) in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

SECTION 2. ADMINISTRATION.

The Plan shall be administered by the Board or, at the Board's sole discretion, by the Committee, which shall be appointed by the Board, and which shall serve at the pleasure of the Board. Pursuant to the terms of the Plan, the Administrator shall have the power and authority:

(a) to select those Eligible Recipients who shall be Participants;

(b) to determine whether and to what extent awards of Restricted Stock are to be granted hereunder to Participants;

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(c) to determine the number of Shares to be covered by each Award granted hereunder;

(d) to determine the terms and conditions, not inconsistent with the terms of the Plan, of each Award granted hereunder; and

(e) to determine the terms and conditions, not inconsistent with the terms of the Plan, which shall govern all written instruments evidencing awards of Restricted Stock granted hereunder.

The Administrator shall have the authority, in its sole discretion, to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable; to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any Award Agreement relating thereto); and to otherwise supervise the administration of the Plan.

All decisions made by the Administrator pursuant to the provisions of the Plan shall be final, conclusive and binding on all persons, including the Company and the Participants.

SECTION 3. SHARES SUBJECT TO PLAN.

The total number of shares of Common Stock reserved and available for issuance under the Plan shall be 435,000 shares. Such shares may consist, in whole or in part, of authorized and unissued shares or treasury shares.

To the extent that any Shares subject to any award of Restricted Stock are forfeited, such Shares shall again be available for issuance in connection with future Awards granted under the Plan.

SECTION 4. CORPORATE TRANSACTIONS.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend or other change in corporate structure affecting the Common Stock, an equitable substitution or proportionate adjustment shall be made in (i) the aggregate number of Shares reserved for issuance under the Plan, and (ii) the kind, number and purchase price of Shares subject to outstanding awards of

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Restricted Stock granted under the Plan, in each case as may be determined by the Administrator, in its sole discretion. Such other substitutions or adjustments shall be made as may be determined by the Administrator, in its sole discretion. In connection with any event described in this paragraph, the Administrator may provide, in its sole discretion, for the cancellation of any outstanding awards and payment in cash or other property therefor.

SECTION 5. ELIGIBILITY.

Eligible Recipients shall be eligible to be granted awards of Restricted Stock or other awards. The Participants under the Plan shall be selected from time to time by the Administrator, in its sole discretion, from among the Eligible Recipients.

SECTION 6. RESTRICTED STOCK.

Awards of Restricted Stock may be issued either alone or in addition to other Awards granted under the Plan. The Administrator shall determine the Eligible Recipients to whom, and the time or times at which, awards of Restricted Stock shall be made; the number of Shares to be awarded; the price, if any, to be paid by the Participant for the acquisition of Restricted Stock; the Restricted Period (as defined in Section 6(b)) applicable to awards of Restricted Stock. The Administrator may also condition the grant of the award of Restricted Stock upon any such criteria as the Administrator may determine, in its sole discretion. The provisions of the awards of Restricted Stock need not be the same with respect to each Participant.

(a) Awards and Certificates. The prospective recipient of awards of Restricted Stock shall not have any rights with respect to any such Award, unless and until such recipient has executed an Award Agreement evidencing the Award (a "Restricted Stock Award Agreement") and delivered a fully executed copy thereof to the Company, within a period of sixty days (or such other period as the Administrator may specify) after the award date. Except as otherwise provided below in Section 6(b), each Participant who is granted an award of Restricted Stock shall be issued a stock certificate in respect of such shares of Restricted Stock, which certificate shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to any such Award.

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The Company may require that the stock certificates evidencing Restricted Stock granted hereunder be held in the custody of the Company until the restrictions thereon shall have lapsed, and that, as a condition of any award of Restricted Stock, the Participant shall have delivered a stock power, endorsed in blank, relating to the Shares covered by such Award.

(b) Restrictions and Conditions. The awards of Restricted Stock granted pursuant to this Section 6 shall be subject to the following restrictions and conditions:

(i) Subject to the provisions of the Plan and the Restricted Stock Award Agreement governing any such Award, during such period as may be set by the Administrator commencing on the date of grant (the "Restricted Period"), the Participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock awarded under the Plan; provided, however, that the Administrator may, in its sole discretion, provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part based on such factors and such circumstances as the Administrator may determine, in its sole discretion.

(ii) Except as provided in Section 6(b)(i), the Participant shall generally have the rights of a stockholder of the Company with respect to Restricted Stock during the Restricted Period. Certificates for unrestricted Shares shall be delivered to the Participant promptly after, and only after, the Restricted Period shall expire without forfeiture in respect of such awards of Restricted Stock except as the Administrator, in its sole discretion, shall otherwise determine.

(iii) The rights of Participants granted awards of Restricted Stock upon termination of employment or service as a director, consultant or advisor to the Company or to any Parent or Subsidiary terminates for any reason during the Restricted Period shall be set forth in the Restricted Stock Award Agreement governing such Awards.

SECTION 7. AMENDMENT AND TERMINATION.

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The Board may amend, alter or discontinue the Plan, but no amendment, alteration, or discontinuation shall be made that would impair the rights of a Participant under any Award theretofore granted without such Participant's consent. To the extent necessary and desirable, the Board shall obtain approval of the stockholders (as described below), for any amendment that would:

(a) except as provided in Sections 3 or 4 of the Plan, increase the total number of Shares reserved for issuance under the Plan; or

(b) change the class of officers, directors, employees, consultants and advisors eligible to participate in the Plan.

The Administrator may amend the terms of any Award theretofore granted, prospectively or retroactively, but, subject to Section 4 of Plan, no such amendment shall impair the rights of any Participant without his or her consent.

SECTION 8. UNFUNDED STATUS OF PLAN.

The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

SECTION 9. GENERAL PROVISIONS.

(a) Shares shall not be issued pursuant to any Award granted hereunder unless such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the requirements of any stock exchange upon which the Common Stock may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) The Administrator may require each person acquiring Shares to represent to and agree with the Company in writing that such person is acquiring the Shares without a view to distribution thereof. The certificates for such Shares may include any legend which the Administrator deems appropriate to reflect any restrictions on transfer.

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All certificates for Shares delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Administrator may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, and any applicable Federal or state securities law, and the Administrator may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions.

(c) Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval, if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of the Plan shall not confer upon any Eligible Recipient any right to continued employment or service with the Company or any Parent or Subsidiary, as the case may be, nor shall it interfere in any way with the right of the Company or any Parent or Subsidiary to terminate the employment or service of any of its Eligible Recipients at any time.

(d) Each Participant shall, no later than the date as of which the value of an Award first becomes includible in the gross income of the Participant for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld with respect to such Award. The obligations of the Company under the Plan shall be conditional on the Participant's making of such payments or arrangements, and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant.

(e) No member of the Board or the Administrator, nor any officer or employee of the Company acting on behalf of the Board or the Administrator, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Administrator and each and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination or interpretation.

SECTION 10. STOCKHOLDER APPROVAL; EFFECTIVE DATE OF PLAN.

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(a) The grant of any Award hereunder shall be contingent upon stockholder approval of the Plan being obtained within 12 months before or after the date the Board adopts the Plan.

(b) Subject to the approval of the Plan by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted by the Board, the Plan shall be effective as of June 25, 2003 (the "Effective Date").

SECTION 11. TERM OF PLAN.

No Award shall be granted pursuant to the Plan on or after the tenth anniversary of the Effective Date, but Awards theretofore granted may extend beyond that date.

SECTION 12. GOVERNING LAW.

This Plan and all questions relating to its validity, interpretation, performance and enforcement shall be governed by and construed, interpreted and enforced in accordance with the laws of the State of New York, notwithstanding any New York or other conflict-of-law provisions to the contrary.

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Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Ivan Kaufman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arbor Realty Trust, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ IVAN KAUFMAN

Chief Executive Officer

August 3, 2004

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Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Frederick C. Herbst, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arbor Realty Trust, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ FREDERICK C. HERBST

Chief Financial Officer

August 3, 2004

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Exhibit 32.1

**CERTIFICATION OF CEO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Arbor Realty Trust, Inc. (the Company) for the quarterly period ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the Report), Ivan Kaufman, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ IVAN KAUFMAN

Chief Executive Officer

August 3, 2004

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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Exhibit 32.2

**CERTIFICATION OF CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Arbor Realty Trust, Inc. (the Company) for the quarterly period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the Report), Frederick C. Herbst, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ FREDERICK C. HERBST

Chief Financial Officer

August 3, 2004

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.