

MUNICIPAL MORTGAGE & EQUITY LLC
Form 10-Q
May 15, 2013

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 March 31, 2013

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 001-11981

MUNICIPAL MORTGAGE & EQUITY, LLC
(Exact name of registrant as specified in its charter)

Delaware **52-1449733**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

621 East Pratt Street, Suite 600

Baltimore, Maryland **(443) 263-2900**
(Address of principal executive offices) (Registrant's telephone number, including area code)

21202
(Zip Code)

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

There were 41,429,669 shares of common shares outstanding at May 9, 2013.

Municipal Mortgage & Equity, LLC

TABLE OF CONTENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS	1
Part I – FINANCIAL INFORMATION	
Item 1. Financial Statements	
(a) Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012	2
(b) Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012	3
(d) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 & 2012	5
(e) Consolidated Statements of Equity for the three months ended March 31, 2013	6
(f) Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012	7
(g) Notes to the Consolidated Financial Statements	8
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	40
Item 3. Quantitative and Qualitative Disclosures About Market Risk	56
Item 4. Controls and Procedures	56
PART II – OTHER INFORMATION	
Item 1. Legal Proceedings	57
Item 1A. Risk Factors	57
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	57
Item 3. Defaults Upon Senior Securities	57
Item 4. Mine Safety Disclosures	57
Item 5. Other Information	57
Item 6. Exhibits	57
SIGNATURES	S-1
EXHIBITS	E-1

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This 2013 Quarterly Report on Form 10-Q (“**Report**”) contains forward-looking statements intended to qualify for the safe harbor contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). Forward-looking statements often include words such as “may,” “will,” “should,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “seek,” “would,” “could,” and “may” are made in connection with discussions of future operating or financial performance.

Forward-looking statements reflect our management’s expectations at the date of this Report regarding future conditions, events or results. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ materially from what is anticipated in the forward-looking statements. There are many factors that could cause actual conditions, events or results to differ from those anticipated by the forward-looking statements contained in this Report. They include the factors discussed in Part I, Item 1A, “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2012 (“**2012 Form 10-K**”).

Readers are cautioned not to place undue reliance on forward-looking statements in this Report or that we make from time to time, and to consider carefully the factors discussed in Part I, Item 1A, “Risk Factors” of the 2012 Form 10-K, in evaluating these forward-looking statements. We have not undertaken to update any forward-looking statements.

Part

I – FINANCIAL INFORMATION

Item 1. Financial Statements

Municipal Mortgage & Equity, LLC

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and cash equivalents (includes \$47,668 and \$41,634 in a consolidated subsidiary that has restrictions on distributions)	\$ 57,995	\$ 50,857
Restricted cash (includes \$50,350 and \$53,957 related to CFVs)	70,273	55,313
Bonds available-for-sale (includes \$924,557 and \$925,346 pledged as collateral)	968,814	969,394
Investments in Lower Tier Property Partnerships related to CFVs	325,271	333,335
SA Fund investments (includes \$161,586 and \$161,433 related to CFVs)	161,586	161,433
Real estate held-for-use, net (includes \$17,659 and \$17,756 pledged as collateral and \$110,866 and \$111,931 related to CFVs)	128,525	129,687
Real estate held-for-sale related to CFVs	-	15,338
Investment in preferred stock	31,371	31,371
Other assets (includes \$14,589 and \$14,691 pledged as collateral and \$20,203 and \$17,568 related to CFVs)	55,279	55,024
Total assets	\$ 1,799,114	\$ 1,801,752
LIABILITIES AND EQUITY		
Debt (includes \$49,560 and \$55,433 related to CFVs)	\$ 1,025,517	\$ 1,042,959
Derivative liabilities	3,282	3,544
Accounts payable and accrued expenses	13,065	12,498
Unfunded equity commitments to Lower Tier Property Partnerships related to CFVs	15,881	15,881
Other liabilities (includes \$8,626 and \$6,150 related to CFVs)	16,306	15,145
Total liabilities	\$ 1,074,051	\$ 1,090,027
Commitments and contingencies		
Equity:		
Perpetual preferred shareholders' equity in a subsidiary company, liquidation preference of \$132,000 and \$159,000 at March 31, 2013 and December 31,	\$ 128,706	\$ 155,033

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2012

Noncontrolling interests in CFVs and IHS (net of \$1,533 and \$1,533 of subscriptions receivable)	501,554	511,791
Common shareholders' equity:		
Common shares, no par value (41,234,718 and 40,638,614 shares issued and outstanding and 1,215,877 and 1,873,348 non-employee directors' and employee deferred shares issued at March 31, 2013 and December 31, 2012, respectively)	(54,871)	(93,786)
Accumulated other comprehensive income	149,674	138,687
Total common shareholders' equity	94,803	44,901
Total equity	725,063	711,725
Total liabilities and equity	\$ 1,799,114	\$ 1,801,752

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

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2

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands)

	For the three months ended March 31,	
	2013	2012
Interest income		
Interest on bonds	\$ 15,795	\$ 16,869
Interest on loans and short-term investments	143	214
Total interest income	15,938	17,083
Interest expense ⁽¹⁾		
Bond related debt	5,751	6,226
Non-bond related debt	538	631
Total interest expense	6,289	6,857
Net interest income	9,649	10,226
Non-interest revenue		
Income on preferred stock investment	1,297	1,545
Other income	547	550
Revenue from CFVs	6,247	4,645
Total non-interest revenue	8,091	6,740
Total revenues, net of interest expense	17,740	16,966
Operating and other expenses		
Interest expense ⁽²⁾	4,140	4,848
Salaries and benefits	3,888	2,791
General and administrative	1,299	1,356
Professional fees	2,345	2,254
Impairment on bonds	353	238
Net loan loss recovery	-	(3,412)
Other expenses	2,228	385
Expenses from CFVs	14,546	9,506
Total operating and other expenses	28,799	17,966
Net gains on bonds	182	-
Net gains (losses) on loans	1,169	(28)
Net losses on derivatives	(167)	(224)
Net gains on early extinguishments of liabilities	36,263	486
Net gains related to CFVs	14,987	4,725
Equity in losses from Lower Tier Property Partnerships of CFVs	(6,418)	(12,536)
Net income (loss) from continuing operations before income taxes	34,957	(8,577)

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Income tax benefit (expense)	1,527	(18)	
Income (loss) from discontinued operations, net of tax	5,023	(283)	
Net income (loss)	41,507	(8,878)	
Income allocable to noncontrolling interests:				
Income allocable to perpetual preferred shareholders of a subsidiary company	(2,005)	(2,284)
Net losses (income) allocable to noncontrolling interests in CFVs and IHS:				
Related to continuing operations	964		14,345	
Related to discontinued operations	(1,190)	659	
Net income to common shareholders	\$ 39,276		\$ 3,842	

(1) Represents interest expense related to debt which finances interest-bearing assets. See Note 6, "Debt."

(2) Represents interest expense related to debt which does not finance interest-bearing assets. See Note 6, "Debt."

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

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS – (continued)

(Unaudited)

(in thousands, except per share data)

	For the three months ended March 31,	
	2013	2012
Basic income per common share:		
Income from continuing operations	\$ 0.84	\$ 0.08
Income from discontinued operations	0.09	0.01
Income per common share	\$ 0.93	\$ 0.09
Diluted income per common share:		
Income from continuing operations	\$ 0.81	\$ 0.08
Income from discontinued operations	0.09	0.01
Income per common share	\$ 0.90	\$ 0.09
Weighted-average common shares outstanding:		
Basic	42,445	42,121
Diluted	43,717	42,396

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

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)

	For the three months ended March 31,	
	2013	2012
Net income to common shareholders	\$ 39,276	\$ 3,842
Net income (losses) allocable to noncontrolling interests	2,231	(12,720)
Net income (loss)	\$ 41,507	\$ (8,878)
Other comprehensive income allocable to common shareholders:		
Unrealized gains on bonds available-for-sale:		
Unrealized net holding gains arising during the period	\$ 10,829	\$ 6,977
Reversal of unrealized gains on sold/redeemed bonds	(182)	-
Reclassification of unrealized bonds losses to operations	353	238
Total unrealized gains on bonds available-for-sale	11,000	7,215
Foreign currency translation adjustment	(13)	81
Other comprehensive income allocable to common shareholders	\$ 10,987	\$ 7,296
Other comprehensive loss allocable to noncontrolling interests:		
Foreign currency translation adjustment for SA Fund and IHS	\$ (10,463)	\$ 5,878
Comprehensive income to common shareholders	\$ 50,263	\$ 11,138
Comprehensive loss to noncontrolling interests	(8,232)	(6,842)
Comprehensive income	\$ 42,031	\$ 4,296

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

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(in thousands)

	Common Shares		Accumulated Other Comprehensive Income	Total Common Shareholders' Equity	Perpetual Preferred Shareholders' Equity	Noncontrolling Interest in CFVs and IHS	Total Equity
	Number	Amount					
Balance, January 1, 2013	42,512	\$(93,786)	\$ 138,687	\$ 44,901	\$ 155,033	\$ 511,791	\$711,725
Net income	-	39,276	-	39,276	2,005	226	41,507
Other comprehensive income	-	-	10,987	10,987	-	(10,463)	524
Distributions	-	-	-	-	(2,005)	-	(2,005)
Common shares, (restricted and deferred) issued under employee and non-employee director share plans	25	25	-	25	-	-	25
Mark to market activity for liability classified awards previously classified as equity	-	(11)	-	(11)	-	-	(11)
Employee and non-employee shares cancelled	(32)	-	-	-	-	-	-
Director stock based compensation	-	6	-	6	-	-	6
Common shares repurchases	(54)	(36)	-	(36)	-	-	(36)
Preferred shares repurchases	-	(345)	-	(345)	(26,327)	-	(26,672)
Balance, March 31, 2013	42,451	\$(54,871)	\$ 149,674	\$ 94,803	\$ 128,706	\$ 501,554	\$725,063

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

Municipal Mortgage & Equity, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	For the three months ended March	
	31,	2012
	2013	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 41,507	\$ (8,878)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net (gains) losses on sales of bonds and loans	(1,351)	27
Net gains related to CFVs	(19,962)	(4,725)
Provisions for credit losses and impairment	3,628	960
Stock-based compensation expense	1,104	276
Equity in losses, net from equity investments in partnerships	6,405	12,531
Subordinate debt effective yield amortization and interest accruals	2,965	2,869
Net gains on early extinguishment of liabilities	(36,263)	(486)
Depreciation and other amortization	2,164	2,500
Foreign currency loss (gain)	4,354	