Apollo Commercial Real Estate Finance, Inc.
Form 10-Q
May 10, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2011

¨ **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: 001-34452

Apollo Commercial Real Estate Finance, Inc.

(Exact name of Registrant as specified in its charter)

Maryland	**27-0467113**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**

Apollo Commercial Real Estate Finance, Inc.

c/o Apollo Global Management, LLC

9 West 57th Street, 43rd Floor,

New York, New York 10019

(Address of Registrant s principal executive offices)

(212) 515 3200

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes ¨ 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date.

As of May 10, 2011, there were 17,561,032 shares, par value $0.01, of the registrant s common stock issued and outstanding.

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Part I FINANCIAL INFORMATION

ITEM 1. Financial Statements

Apollo Commercial Real Estate Finance, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

(in thousands except share and per share data)

	March 31, 2011	December 31, 2010
Assets:		
Cash and cash equivalents	$ 48,075	$ 37,894
Contractual deposits	144	
Securities available-for-sale, at estimated fair value	349,662	363,660
Securities at estimated fair value	274,322	279,124
Commercial mortgage loans, held for investment	118,313	109,695
Subordinate loans, held for investment	58,973	58,985
Repurchase agreements, held for investment	41,418	
Principal and interest receivable	8,250	5,553
Deferred financing costs, net	2,459	2,818
Derivative instruments, net	846	387
Other assets	28	31
Total Assets	$ 902,490	$ 858,147
Liabilities and Stockholders Equity		
Liabilities:		
TALF borrowings	$ 289,439	$ 297,334
Borrowings under repurchase agreements	298,392	242,728
Accounts payable and accrued expenses	2,031	2,375
Payable to related party	1,088	683
Dividends payable	7,116	7,189
Deferred underwriting fee ($8,000 of which is payable to the Manager)	10,000	10,000
Total Liabilities	608,066	560,309
Commitments and Contingencies (see Note 13)		
Stockholders Equity:		
Common stock, $0.01 par value, 450,000,000 shares authorized, 17,551,828 shares issued and outstanding in 2011 and 2010	175	175
Additional paid-in-capital	289,767	291,304
Accumulated other comprehensive income	4,482	6,359
Total Stockholders Equity	294,424	297,838
Total Liabilities and Stockholders Equity	$ 902,490	$ 858,147

See notes to unaudited condensed consolidated financial statements.

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Apollo Commercial Real Estate Finance, Inc. and Subsidiaries

Condensed Consolidated Statement of Operations (Unaudited)

(in thousands except share and per share data)

	Three months ended March 31, 2011	Three months ended March 31, 2010
Net interest income:		
Interest income from securities	$ 6,656	$ 3,174
Interest income from commercial mortgage loans	2,313	798
Interest income from subordinate loans	1,909	1,639
Interest income from repurchase agreements	60	
Interest expense	(3,339)	(1,709)
Net interest income	7,599	3,902
Operating expenses:		
General and administrative expenses (includes $351 and $390 of non-cash stock based compensation in 2011 and 2010, respectively)	(1,380)	(1,407)
Management fees to related party	(1,088)	(726)
Total operating expenses	(2,468)	(2,133)
Interest income from cash balances	5	6
Realized loss on sale of security		(33)
Unrealized gain on securities	26	
Unrealized gain on derivative instruments	459	
Realized loss on derivative instruments	(441)	
Net income	$ 5,180	$ 1,742
Basic net income per share of common stock	$ 0.30	$ 0.16
Diluted net income per share of common stock	$ 0.29	$ 0.16
Basic weighted average common shares outstanding	17,551,828	10,752,292
Diluted weighted average common shares outstanding	17,670,787	10,762,500
Dividend declared per share of common stock	$ 0.40	$ 0.35

See notes to unaudited condensed consolidated financial statements.

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Apollo Commercial Real Estate Finance, Inc. and Subsidiaries

Condensed Consolidated Statement of Changes in Stockholders Equity (Unaudited)

(in thousands except share data)

	Common Stock Shares	Common Stock Par	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Comprehensive Loss	Total
Balance at December 31, 2010	17,551,828	$ 175	$ 291,304	$	$ 6,359		$ 297,838
Vesting of restricted stock pursuant to Equity Incentive Plan			351				351
Net income				5,180		$ 5,180	5,180
Change in net unrealized gain on securities available-for-sale					(1,877)	(1,877)	(1,877)
Comprehensive income						$ 3,303	
Dividends on common stock			(1,888)	(5,180)			(7,068)
Balance at March 31, 2011	17,551,828	$ 175	$ 289,767	$	$ 4,482		$ 294,424

See notes to unaudited condensed consolidated financial statements.

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Apollo Commercial Real Estate Finance, Inc. and Subsidiaries

Condensed Consolidated Statement of Cash Flows (Unaudited)

(in thousands)

	For three months ended March 31, 2011	For three months ended March 31, 2010
Cash flows provided by operating activities:		
Net income	$ 5,180	$ 1,742
Adjustments to reconcile net income to net cash provided by operating activities:		
Premium amortization	1,998	662
Amortization of deferred financing costs	358	209
Restricted stock amortization expense	351	390
Unrealized gain on securities available-for-sale	(26)	
Unrealized gain on derivative instruments	(459)	
Realized loss on sale of security		33
Changes in operating assets and liabilities:		
Increase in accrued principal and interest receivable, less purchased interest	(2,696)	(1,571)
Decrease in other assets	3	
Increase in accounts payable and accrued expenses	651	507
Increase (decrease) in payable to related party	405	(22)
Net cash provided by operating activities	5,765	1,950
Cash flows used in investing activities:		
Purchase of securities available-for-sale		(229,498)
Proceeds from sale of securities available-for-sale		12,188
Funding of commercial mortgage loans	(8,800)	(86,000)
Funding of repurchase agreements	(41,418)	
Principal payments received on securities available-for-sale	11,446	77
Principal payments received on securities at estimated fair value	3,505	
Principal payments received on commercial mortgage loans	182	
Principal payments received on subordinate loans	12	
Change in contractual deposits	(144)	90
Net cash used in investing activities	(35,217)	(303,143)
Cash flows from financing activities:		
Payment of offering costs	(494)	(222)
Proceeds from TALF borrowings		178,470
Repayments of TALF borrowings	(7,895)	(127)
Proceeds from repurchase agreement borrowings	58,819	88,905
Repayments of repurchase agreement borrowings	(3,155)	(88,905)
Deferred financing costs	(500)	(1,359)
Dividends on common stock	(7,142)	
Net cash provided by financing activities	39,633	176,762
Net increase (decrease) in cash and cash equivalents	10,181	(124,431)
Cash and cash equivalents, beginning of period	37,894	129,969

Cash and cash equivalents, end of period	$	48,075	$	5,538
Supplemental disclosure of cash flow information:				
Interest paid	$	3,391	$	1,290
Supplemental disclosure of non-cash financing activities:				
Deferred underwriting fee	$		$	10,000
Offering costs payable	$		$	415
Dividend declared, not yet paid	$	7,116	$	3,766
Deferred financing costs, not yet paid	$	500	$	1,294

See notes to unaudited condensed consolidated financial statements.

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Apollo Commercial Real Estate Finance Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(in thousands except share and per share data)

Note 1 Organization

Apollo Commercial Real Estate Finance, Inc. (together with its consolidated subsidiaries, is referred to throughout this report as the Company, ARI, we, us and our) is a real estate investment trust (REIT) that originates, acquires, invests in and manages performing commercial first mortgage loans, commercial mortgage-backed securities (CMBS), mezzanine financings and other commercial real estate-related debt investments in the U.S. These asset classes are referred to as the Company s target assets.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the Company s accounts and those of its consolidated subsidiaries. All significant intercompany amounts have been eliminated. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company s most significant estimates include the fair value of financial instruments, share-based payments and deferred underwriting fees. Actual results could differ from those estimates.

These unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission (the SEC).

The Company currently operates in one business segment.

Recent Accounting Pronouncements

There have been no accounting pronouncements that have been issued but are not yet effective that would have a material impact on our financial position or results of operations.

Note 3 Fair Value Disclosure

GAAP establishes a hierarchy of valuation techniques based on observable inputs utilized in measuring financial instruments at fair values. Market based or observable inputs are the preferred source of values, followed by valuation models using management assumptions in the absence of market inputs. The three levels of the hierarchy are described below:

Level I Quoted prices in active markets for identical assets or liabilities.

Level II Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level III Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used.

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While the Company anticipates that its valuation methods will be appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company will use inputs that are current as of the measurement date, which may include periods of market dislocation, during which price transparency may be reduced.

The estimated fair value of the AAA-rated CMBS portfolio is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. Broker quotes are only indicative of fair value and may not necessarily represent what the Company would receive in an actual trade for the applicable instrument. Management performs additional analysis on prices received based on broker quotes to validate the prices and adjustments are made as deemed necessary by management to capture current market information.

The estimated fair values of the Company s derivative instruments are determined using a discounted cash flow analysis on the expected cash flows of each derivative. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The fair values of interest rate caps are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected cash flows are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities.

The following table summarizes the levels in the fair value hierarchy into which the Company s financial instruments fall as of March 31, 2011:

	Fair Value as of March 31, 2011			
	Level I	Level II	Level III	Total
AAA-rated CMBS (Available-for-Sale)	$	$ 349,662	$	$ 349,662
AAA-rated CMBS (Fair Value Option)		274,322		274,322
Interest rate swaps		(1,123)		(1,123)
Interest rate caps		1,969		1,969
Total	$	$ 624,830	$	$ 624,830

The following table summarizes the levels in the fair value hierarchy into which the Company s financial instruments fall as of December 31, 2010:

	Fair Value as of December 31, 2010			
	Level I	Level II	Level III	Total
AAA-rated CMBS (Available-for-Sale)	$	$ 363,660	$	$ 363,660
AAA-rated CMBS (Fair Value Option)		279,124		279,124
Interest rate swaps		(1,429)		(1,429)
Interest rate caps		1,816		1,816
Total	$	$ 643,171	$	$ 643,171

Note 4 Debt Securities

At March 31, 2011, the Company had AAA-rated CMBS with an aggregate face value of $607,548. Securities available-for-sale with an aggregate face amount of $339,706 were pledged to secure its borrowings under the Term Asset-Backed Securities Loan Facility program administered by the Federal Reserve Bank of New York (the TALF) and securities at estimated fair value with an aggregate face amount of $267,842 were pledged to secure its borrowings under the Company s master repurchase agreement with Wells Fargo Bank, N.A. (the Wells Facility).

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The amortized cost and estimated fair value of the Company s debt securities at March 31, 2011 are summarized as follows:

Security Description	Face Amount	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
AAA-rated CMBS (Available-for-Sale)	$ 339,706	$ 345,180	$ 4,517	$ (35)	$ 349,662
AAA-rated CMBS (Fair Value Option)	267,842	276,061	9	(1,748)	274,322
Total	$ 607,548	$ 621,241	$ 4,526	$ (1,783)	$ 623,984

The temporary impairment of the available-for-sale securities results from the fair value of the securities falling below the amortized cost basis. These unrealized losses are primarily the result of market factors other than credit impairment and the Company believes the carrying value of the securities are fully recoverable over their expected holding period. Management does not intend to sell or expect to be forced to sell the securities prior to the Company recovering the amortized cost. Additionally, all unrealized losses on securities available-for-sale at March 31, 2011 have existed for less than twelve months. As such, management does not believe any of the securities are other than temporarily impaired.

The amortized cost and estimated fair value of the Company s debt securities at December 31, 2010 are summarized as follows:

Security Description	Face Amount	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
AAA-rated CMBS (Available-for-Sale)	$ 351,152	$ 357,301	$ 6,403	$ (44)	$ 363,660
AAA-rated CMBS (Fair Value Option)	271,347	280,890		(1,766)	279,124
Total	$ 622,499	$ 638,191	$ 6,403	$ (1,810)	$ 642,784

The overall statistics for the Company s CMBS investments calculated on a weighted average basis assuming no early prepayments or defaults as of March 31, 2011 are as follows:

Credit Ratings *	AAA
Coupon	5.6%
Yield	4.2%
Weighted Average Life	1.8 years

* Ratings per Fitch, Moody s or S&P

The vintage, property type, and location of the collateral securing the Company s CMBS investments calculated on a weighted average basis as of March 31, 2011 are as follows:

Vintage	Percentage
2006	10%
2007	90
Total	100%

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Property Type	Percentage
Retail	36.6%
Office	26.5
Hotel	13.2
Multifamily	10.9
Other *	12.8
Total	100%

* No other individual category comprises more than 10% of the total.

Location	Percentage
South Atlantic	23.4%
Middle Atlantic	21.3
Pacific	21.0
Other *	34.3
Total	100%

* No other individual category comprises more than 10% of the total.

Note 5 Commercial Mortgage Loans

The Company s commercial mortgage loan portfolio is comprised of the following at March 31, 2011:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Coupon	Amortization Schedule	Property Size	Appraised Loan-to-Value
Hotel - NY, NY	Jan-10	Feb-15	$ 32,000	$ 31,952	8.25%	30 year	151 rooms	40%
Office Condo (Headquarters) - NY, NY	Feb-10	Feb-15	28,000	27,799	8.00	30 year	73,419 sq. ft.	54%
Hotel - Silver Spring, MD	Mar-10	Apr-15	26,000	25,762	9.00	25 year	263 rooms	58%
Hotel NY, NY	Aug-10	Aug-12	24,000	24,000	8.00	Interest only	155 rooms	40%
Multifamily Los Angeles, CA	Mar-11	Jun-11	8,800	8,800	7.50	Interest only	89 units	52%
Total			$ 118,800	$ 118,313	8.25%			

The Company s commercial mortgage loan portfolio is comprised of the following at December 31, 2010:

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Coupon	Amortization Schedule	Property Size	Appraised Loan-to-Value
Hotel - NY, NY	Jan-10	Feb-15	$ 32,000	$ 32,000	8.25%	30 year	151 rooms	55%
Office Condo (Headquarters) - NY, NY	Feb-10	Feb-15	28,000	27,859	8.00	30 year	73,419 sq. ft.	54%
Hotel - Silver Spring, MD	Mar-10	Apr-15	26,000	25,836	9.00	25 year	263 rooms	58%
Hotel NY, NY	Aug-10	Aug-12	24,000	24,000	8.00	Interest only	155 rooms	40%

Total	$ 110,000	$ 109,695	8.31%

The Company evaluates its loans for possible impairment on a quarterly basis. The Company regularly evaluates the extent and impact of any credit migration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower/sponsor on a loan by loan basis. Specifically, a property s operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations are sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan, and/or (iii) the property s liquidation value. The Company also evaluates the financial wherewithal of any loan guarantors as well as the borrower s competency in managing and operating the properties. In addition, the Company considers the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management and finance personnel, who utilize various data sources, including (i) periodic financial data such as debt service coverage ratio, property occupancy, tenant profile, rental rates, operating expenses, the borrower s exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and discussions with market participants. Impairment occurs when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. The Company has determined that an impairment was not necessary at March 31, 2011 and 2010.

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 hereunto duly authorized.

TIVO INC.

Date: August 24, 2011	By:	/s/ Anna Brunelle Anna Brunelle Chief Financial Officer (Principal Financial and Accounting Officer)