

ARBOR REALTY TRUST INC
Form 10-Q
August 07, 2009

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, 2009

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, Suite 900

Uniondale, NY

(Address of principal executive offices)

11553

(Zip Code)

(516) 506-4200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 ☒

Non-accelerated filer ☐

Smaller reporting
company ☐

(Do not check if a 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 ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common stock, \$0.01 par value per share: 25,387,410 outstanding (excluding 279,400 shares held in the treasury) as of August 7, 2009.

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, seek, anticipate, estimate, underestimate, believe, could, project, predict, continue or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in economic conditions generally and the real estate market specifically; adverse changes in the financing markets we access affecting our ability to finance our loan and investment portfolio; changes in interest rates; the quality and size of the investment pipeline and the rate at which we can invest our cash; impairments in the value of the collateral underlying our loans and investments; changes in the markets; legislative/regulatory changes; completion of pending investments; the availability and cost of capital for future investments; competition within the finance and real estate industries; and other risks detailed in our Annual Report on Form 10-K for the year ending December 31, 2008. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management's views as of the date of this report. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement. For a discussion of our critical accounting policies, see Management's Discussion and Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries Significant Accounting Estimates and Critical Accounting Policies in our Annual Report on Form 10-K for the year ending December 31, 2008.

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.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

	June 30, 2009 (Unaudited)	December 31, 2008
Assets:		
Cash and cash equivalents	\$ 29,517,467	\$ 832,041
Restricted cash	66,605,006	93,219,133
Loans and investments, net	1,925,689,370	2,181,683,619
Available-for-sale securities, at fair value	146,973	529,104
Securities held-to-maturity, net	68,884,086	58,244,348
Investment in equity affiliates	66,264,744	29,310,953
Real estate owned, net	48,267,318	46,478,994
Due from related party		2,933,344
Prepaid management fee related party	26,340,397	26,340,397
Other assets	71,054,687	139,664,556
 Total assets	 \$ 2,302,770,048	 \$ 2,579,236,489
 Liabilities and Equity:		
Repurchase agreements	\$ 4,388,250	\$ 60,727,789
Collateralized debt obligations	1,113,600,316	1,152,289,000
Junior subordinated notes to subsidiary trust issuing preferred securities	259,173,610	276,055,000
Notes payable	442,186,353	518,435,437
Note payable related party		4,200,000
Mortgage note payable	41,440,000	41,440,000
Due to related party	4,745,351	993,192
Due to borrowers	5,983,548	32,330,603
Deferred revenue	77,123,133	77,123,133
Other liabilities	82,187,665	134,647,667
 Total liabilities	 2,030,828,226	 2,298,241,821
 Commitments and contingencies		
Equity:		
Arbor Realty Trust, Inc. stockholders' equity:		
Preferred stock, \$0.01 par value: 100,000,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.01 par value: 500,000,000 shares authorized; 25,666,810 shares issued, 25,387,410 shares outstanding at June 30, 2009 and 25,421,810 shares issued, 25,142,410 shares outstanding at December 31, 2008	256,668	254,218
Additional paid-in capital	449,733,531	447,321,186
Treasury stock, at cost - 279,400 shares	(7,023,361)	(7,023,361)

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Accumulated deficit	(115,754,033)	(62,939,722)
Accumulated other comprehensive loss	(57,210,449)	(96,606,672)
Total Arbor Realty Trust, Inc. stockholders' equity	270,002,356	281,005,649
Noncontrolling interest in consolidated entity	1,939,466	(10,981)
Total equity	271,941,822	280,994,668
Total liabilities and equity	\$ 2,302,770,048	\$ 2,579,236,489

See notes to consolidated financial statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Six Months Ended June 30, 2009 and 2008

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue:				
Interest income	\$ 31,687,984	\$ 51,869,164	\$ 62,188,007	\$ 107,285,494
Property operating income	1,587,692		3,058,488	
Other income	782,410	28,629	798,660	49,322
 Total revenue	 34,058,086	 51,897,793	 66,045,155	 107,334,816
 Expenses:				
Interest expense	21,091,121	27,857,322	40,241,937	59,161,421
Employee compensation and benefits	3,509,911	2,686,002	5,901,895	4,663,345
Selling and administrative	2,681,579	2,793,161	4,763,921	4,331,227
Property operating expenses	1,612,965		2,944,110	
Depreciation and amortization	283,022		566,044	
Other-than-temporary impairment	382,130		382,130	
Provision for loan losses	23,000,000	2,000,000	90,500,000	5,000,000
Loss on restructured loans	23,790,835		32,827,749	
Management fee related party	6,277,623	2,153,838	7,000,000	4,733,272
 Total expenses	 82,629,186	 37,490,323	 185,127,786	 77,889,265
 (Loss) income before gain on exchange of profits interest, gain on extinguishment of debt, loss on termination of swaps and loss from equity affiliates	 (48,571,100)	 14,407,470	 (119,082,631)	 29,445,551
Gain on exchange of profits interest			55,988,411	
Gain on extinguishment of debt	21,464,957		47,731,990	
Loss on termination of swaps	(8,729,408)		(8,729,408)	
Loss from equity affiliates	(12,664,152)	(562,000)	(10,157,018)	(562,000)
 Net (loss) income	 (48,499,703)	 13,845,470	 (34,248,656)	 28,883,551
Net income attributable to noncontrolling interest	57,292	2,117,464	18,562,077	4,450,754
 Net (loss) income attributable to Arbor Realty Trust, Inc.	 \$ (48,556,995)	 \$ 11,728,006	 \$ (52,810,733)	 \$ 24,432,797
 Basic (loss) earnings per common share	 \$ (1.92)	 \$ 0.56	 \$ (2.09)	 \$ 1.18
 Diluted (loss) earnings per common share	\$ (1.92)	\$ 0.56	\$ (2.09)	\$ 1.18

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Dividends declared per common share	\$	\$	0.62	\$	\$	1.24
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Weighted average number of shares of
common stock outstanding:

Basic	25,333,564	20,906,383	25,238,515	20,739,081
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Diluted	25,333,564	24,721,660	25,238,515	24,562,520
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See notes to consolidated financial statements.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended June 30, 2009

(Unaudited)

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Arbor Realty Trust, Inc. Stockholders Equity	
Comprehensive Income (1)	25,421,810	\$254,218	\$447,321,186	(279,400)	\$(7,023,361)	\$(62,939,722)	\$(96,606,672)	\$281,005,649	\$
	245,000	2,450	2,412,345					2,414,795	
						(3,578)		(3,578)	
\$(34,248,656)						(52,810,733)		(52,810,733)	
16,622,907							16,622,907	16,622,907	
22,773,316							22,773,316	22,773,316	
\$ 5,147,567	25,666,810	\$256,668	\$449,733,531	(279,400)	\$(7,023,361)	\$(115,754,033)	\$(57,210,449)	\$270,002,356	\$

(1) Comprehensive income for the six months ended June 30, 2008 was \$26,881,924.

See notes to consolidated financial statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2009 and 2008

(Unaudited)

	Six Months Ended June 30,	2009	2008
Operating activities:			
Net (loss) income	\$	(34,248,656)	\$ 28,883,551
Adjustments to reconcile net (loss) income to cash provided by operating activities:			
Depreciation and amortization		566,044	170,913
Stock-based compensation		2,414,795	2,055,922
Other-than-temporary impairment		382,130	
Gain on exchange of profits interest		(55,988,411)	
Gain on extinguishment of debt		(47,731,990)	
Provision for loan losses		90,500,000	5,000,000
Loss on restructured loans		32,827,749	
Loss on termination of swaps		8,729,408	
Amortization and accretion of interest and fees		1,890,442	(766,404)
Change in fair value of non-qualifying swaps		3,349,773	(674,397)
Non-cash incentive compensation to manager related party			1,385,918
Loss from equity affiliates		10,157,018	562,000
Changes in operating assets and liabilities:			
Other assets		15,186,786	(11,797,584)
Other liabilities		(5,871,052)	(13,394,474)
Deferred fees		2,467,808	1,014,315
Due to (from) related party		7,738,692	(957,704)
Net cash provided by operating activities	\$	32,370,536	\$ 11,482,056
Investing activities:			
Loans and investments funded, originated and purchased, net		(4,169,262)	(287,005,064)
Payoffs and paydowns of loans and investments		90,719,093	427,986,599
Proceeds from sale of loans		23,250,000	
Due to borrowers		(6,141,287)	(9,873,294)
Principal collection on securities held-to-maturity		1,377,569	
Purchase of securities held-to-maturity		(10,670,000)	(58,062,500)
Investment in real estate, net		(59,986)	(1,073,153)
Distributions from equity affiliates		1,151,217	177,499
Net cash provided by investing activities	\$	95,457,344	\$ 72,150,087
Financing activities:			
Proceeds from notes payable and repurchase agreements		10,680,633	212,693,265
Payoffs and paydowns of notes payable and repurchase agreements		(123,478,929)	(219,647,463)
Payoff of junior subordinated notes to subsidiary trust issuing preferred securities		(1,265,625)	
Payoff of notes payable related party		(4,200,000)	

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Proceeds from collateralized debt obligations	500,000	27,000,000
Payoffs and paydowns of collateralized debt obligations	(14,570,938)	(48,360,000)
Change in restricted cash	26,614,127	(4,963,532)
Payments on swaps to hedge counterparties	(46,420,588)	(79,770,000)
Receipts on swaps from hedge counterparties	56,105,000	83,810,000
Distributions paid to noncontrolling interest	(111,630)	(4,682,326)
Distributions paid on stock	(3,578)	(25,736,290)
Payment of deferred financing costs	(2,990,926)	
Net cash used in financing activities	\$ (99,142,454)	\$ (59,656,346)
Net increase in cash and cash equivalents	\$ 28,685,426	\$ 23,975,797
Cash and cash equivalents at beginning of period	832,041	22,219,541
Cash and cash equivalents at end of period	\$ 29,517,467	\$ 46,195,338

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW *(Continued)*

For the Six Months Ended June 30, 2009 and 2008

(Unaudited)

	Six Months Ended June 30,	2009	2008
Supplemental cash flow information:			
Cash used to pay interest	\$	32,868,099	\$ 60,253,699
Cash (received) used for taxes	\$	(78,943)	\$ 57,160
Supplemental schedule of non-cash financing activities:			
Investment in real estate, net	\$	2,925,428	\$
Margin calls applied to repurchase agreements	\$	4,845,810	\$
Termination of swaps	\$	17,034,929	\$
Retirement of common equity in trust preferred securities	\$	7,726,385	\$
Collateral on swaps to hedge counterparties	\$		\$ 3,500,000
Assumption of mortgage note payable	\$		\$ 41,440,000
Redemption of operating partnership units for common stock	\$		\$ 67,306,291
Issuance of common stock for management incentive fee	\$		\$ 2,235,313

See notes to consolidated financial statements.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(Unaudited)

Note 1 Description of Business/Form of Ownership

Arbor Realty Trust, Inc. (the Company) is a Maryland corporation that was formed in June 2003 to invest in a diversified portfolio of multi-family and commercial real estate related assets, primarily consisting of bridge loans, mezzanine loans, junior participating interests in first mortgage loans, and preferred and direct equity. The Company may also directly acquire real property and invest in real estate-related notes and certain mortgage-related securities. The Company conducts substantially all of its operations through its operating partnership, Arbor Realty Limited Partnership (ARLP), and ARLP's wholly-owned subsidiaries. The Company is externally managed and advised by Arbor Commercial Mortgage, LLC (ACM).

The Company is organized and conducts its operations to qualify as a real estate investment trust (REIT) for federal income tax purposes. A REIT is generally not subject to federal income tax on its REIT taxable income that it distributes to its stockholders, provided that it distributes at least 90% of its REIT taxable income and meets certain other requirements. Certain assets of the Company that produce non-qualifying income are owned by its taxable REIT subsidiaries, the income of which is subject to federal and state income taxes.

The Company's charter provides for the issuance of up to 500 million shares of common stock, par value \$0.01 per share, and 100 million shares of preferred stock, par value \$0.01 per share. The Company was incorporated in June 2003 and was initially capitalized through the sale of 67 shares of common stock for \$1,005.

On July 1, 2003, 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. 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 (the SF Business). The Company is externally managed and advised by ACM and pays ACM a management fee in accordance with a management agreement. ACM also sources originations, provides underwriting services and services all structured finance assets on behalf of ARLP, and its wholly owned subsidiaries.

On July 1, 2003, the Company completed a private equity offering of 1,610,000 units (including an overallotment option), each consisting of five shares of common stock and one warrant to purchase one share of common stock at \$75.00 per unit. The Company sold 8,050,000 shares of common stock in the offering. Gross proceeds from the private equity offering totaled \$120.2 million. Gross proceeds from the private equity offering combined with the concurrent equity contribution by ACM totaled approximately \$164.1 million in equity capital. The Company paid and accrued offering expenses of \$10.1 million resulting in Arbor Realty Trust, Inc. stockholders equity and noncontrolling interest of \$154.0 million as a result of the private placement.

In April 2004, the Company sold 6,750,000 shares of its common stock in a public offering at a price of \$20.00 per share, for net proceeds of approximately \$124.4 million after deducting the underwriting discount and other estimated offering expenses. The Company used the proceeds to pay down indebtedness. In May 2004, the underwriters exercised a portion of their over-allotment option, which resulted in the issuance of 524,200 additional shares. The Company received net proceeds of approximately \$9.8 million after deducting the underwriting discount. In October 2004, ARLP received proceeds of approximately \$9.4 million from the exercise of warrants for 629,345 operating partnership units. Additionally, in 2004 and 2005, the Company issued 973,354 and 282,776 shares of common stock, respectively, from the exercise of warrants under its Warrant Agreement dated July 1, 2003, the (Warrant Agreement) and received net proceeds of \$12.9 million and \$4.2 million, respectively.

On March 2, 2007, the Company filed a shelf registration statement on Form S-3 with the SEC under the Securities Act of 1933, as amended (the 1933 Act) with respect to an aggregate of \$500.0 million of debt securities, common stock, preferred stock, depositary shares and warrants, that may be sold by the Company from time to time pursuant to Rule 415 of the 1933 Act. On April 19, 2007, the Commission declared this shelf registration statement effective.

In June 2007, the Company completed a public offering in which it sold 2,700,000 shares of its common stock registered for \$27.65 per share, and received net proceeds of approximately \$73.6 million after deducting the

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(Unaudited)

underwriting discount and the other estimated offering expenses. The Company used the proceeds to pay down debt and finance its loan and investment portfolio. The underwriters did not exercise their over allotment option for additional shares. At June 30, 2009, the Company had \$425.3 million remaining under the previously mentioned shelf registration.

In June 2008, the Company's external manager exercised its right to redeem its approximate 3.8 million operating partnership units in the Company's operating partnership for shares of the Company's common stock on a one-for-one basis. In addition, the special voting preferred shares paired with each operating partnership unit, pursuant to a pairing agreement, were redeemed simultaneously and cancelled by the Company.

The Company had 25,387,410 shares of common stock outstanding at June 30, 2009 and 25,142,410 shares of common stock outstanding at December 31, 2008.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by 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 accompanying unaudited consolidated interim financial statements presented not misleading.

The accompanying unaudited consolidated financial statements include the financial statements of the Company, its wholly owned subsidiaries, and partnerships or other joint ventures which the Company controls. Entities which the Company does not control and entities which are variable interest entities in which the Company is not the primary beneficiary, are accounted for under the equity method. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. All significant inter-company transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current period presentation. Upon adoption of SFAS No. 160 Noncontrolling Interest in Consolidated Financial Statements an Amendment of ARB No. 51, noncontrolling interest in consolidated entity is classified in the Company's Consolidated Balance Sheet in the Equity section of the current quarter's presentation and was disclosed as a separate mezzanine section in prior quarter's presentation and net (loss) income is split out between noncontrolling interest and Arbor Realty Trust, Inc. and was disclosed as one line in prior quarter's presentation.

The preparation of consolidated interim financial statements in conformity with Generally Accepted Accounting Principles in the United States (GAAP) requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated interim financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Further, in connection with preparation of the consolidated interim financial statements and in accordance with the recently issued Statement of Financial Accounting Standards No. 165 Subsequent Events (SFAS 165), the Company evaluated subsequent events after the balance sheet date of June 30, 2009 through August 7, 2009.

The results of operations for the six months ended June 30, 2009 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2009. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the Company's audited consolidated annual financial statements and the related Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(Unaudited)

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Company places its cash and cash equivalents in high quality financial institutions. The consolidated account balances at each institution periodically exceeds FDIC insurance coverage and the Company believes that this risk is not significant.

Restricted Cash

At June 30, 2009 and December 31, 2008, the Company had restricted cash of \$66.6 million and \$93.2 million, respectively, most of which was on deposit with the trustees for the Company's collateralized debt obligations (CDOs), see Note 8 Debt Obligations. Restricted cash primarily represents proceeds from loan repayments which will be used to purchase replacement loans as collateral for the CDOs and interest payments received from loans in the CDOs which are remitted to the Company quarterly in the month following the quarter.

Loans and Investments

Statement of Financial Accounting Standards (SFAS) No. 115 Accounting for Certain Investments in Debt and Equity Securities, (SFAS 115) requires that at the time of purchase, the Company designate a security as held-to-maturity, available-for-sale, or trading depending on ability and intent. The Company does not have any securities designated as trading at this time. Securities available-for-sale are reported at fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive loss, while securities and investments held to maturity are reported at amortized cost. Unrealized losses that are determined to be other-than-temporary are recognized in earnings in accordance with SFAS 115. The determination of other-than-temporary impairment is a subjective process requiring judgments and assumptions. The process may include, but is not limited to, assessment of recent market events and prospects for near term recovery, assessment of cash flows, internal review of the underlying assets securing the investments, credit of the issuer and the rating of the security, as well as the Company's ability and intent to hold the investment. Management closely monitors market conditions on which it bases such decisions.

In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2 (FSP FAS 115-2 and FAS 124-2), Recognition and Presentation of Other-Than-Temporary Impairments. FSP FAS 115-2 and FAS 124-2 provides greater clarity about the credit and noncredit component of an other-than-temporary impairment event and more effectively communicates when it has occurred. FSP FAS 115-2 and FAS 124-2 requires the recording of a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other-than-temporary impairment on debt securities from retained earnings to accumulated other comprehensive income. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a material effect on the Company's Consolidated Financial Statements and no such reclassification was necessary in the second quarter of 2009.

In April 2009, the Securities and Exchange Commission's (SEC) Office of the Chief Accountant and Division of Corporation Finance issued SEC Staff Accounting Bulletin 111 (SAB 111). SAB 111 amends and replaces SAB Topic 5M, Miscellaneous Accounting Other Than Temporary Impairment of Certain Investments in Equity Securities to reflect FSP FAS 115-2 and FAS 124-2. The amended SAB Topic 5M maintains the prior staff views related to equity securities but has been amended to exclude debt securities from its scope. SAB 111 became effective upon the adoption of FSP FAS 115-2 and FAS 124-2. The adoption of SAB 111 did not have a material effect on the Company's Consolidated Financial Statements.

In accordance with Emerging Issues Task Force (EITF) 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets as amended by FSP EITF 99-20-1

Amendments to the Impairment Guidance of EITF Issue No. 99-20 the Company also assesses certain of its held-to-maturity securities, other than those of high credit quality, to determine whether significant changes in estimated cash flows or unrealized losses on these securities, if any, reflect a decline in value which is

other-than-temporary and, accordingly, written down to its fair value against earnings. On a quarterly basis, the

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Company reviews these changes in estimated cash flows, which could occur due to actual prepayment and credit loss experience, to determine if an other-than-temporary impairment is deemed to have occurred. The determination of other-than-temporary impairment is a subjective process requiring judgments and assumptions. The Company calculates a revised yield based on the current amortized cost of the investment, including any other-than-temporary impairments recognized to date, and the revised yield is then applied prospectively to recognize interest income.

In January 2009, the FASB issued FASB Staff Position No. EITF 99-20-1 (FSP EITF 99-20-1), Amendments to the Impairment Guidance of EITF Issue No. 99-20. FSP EITF 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets, to achieve a more consistent determination of whether an other-than-temporary impairment has occurred. It also retains and emphasizes the objective of an other-than-temporary impairment assessment and related disclosure in SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities and requires judgment in assessing the probability of collecting future cash flows. FSP EITF 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. The adoption of FSP EITF 99-20-1 did not have a material effect on the Company's Consolidated Financial Statements.

Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and net of the allowance for loan losses when such loan or investment is deemed to be impaired. The Company invests in preferred equity interests that, in some cases, allow the Company to participate in a percentage of the underlying property's cash flows from operations and proceeds from a sale or refinancing. At the inception of each such investment, management must determine whether such investment should be accounted for as a loan, joint venture or as real estate. To date, management has determined that all such investments are properly accounted for and reported as loans.

Impaired Loans and Allowance for Loan Losses

The Company considers a loan impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. Specific valuation allowances are established for impaired loans based on the fair value of collateral on an individual loan basis. The fair value of the collateral is determined by selecting the most appropriate valuation methodology, or methodologies, among several generally available and accepted in the commercial real estate industry. The determination of the most appropriate valuation methodology is based on the key characteristics of the collateral type. These methodologies include the evaluation of operating cash flow from the property during the projected holding period, and the estimated sales value of the collateral computed by applying an expected capitalization rate to the stabilized net operating income of the specific property, less selling costs, discounted at market discount rates.

If upon completion of the valuation, the fair value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, an allowance is created with a corresponding charge to the provision for loan losses. The allowance for each loan is maintained at a level believed adequate by management to absorb probable losses. The Company had an allowance for loan losses of \$221.0 million relating to 22 loans with an aggregate carrying value, before reserves, of approximately \$605.7 million at June 30, 2009 and \$130.5 million in allowance for loan losses relating to ten loans with an aggregate carrying value, before reserves, of approximately \$443.2 million at December 31, 2008.

Revenue Recognition

Interest Income Interest income is recognized on the accrual basis as it is earned from loans, investments, and securities. In many instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, and deferred interest upon maturity. In some cases interest income may also include the amortization or accretion of premiums and discounts arising from the purchase or origination of the loan or security. This additional

income, net of any direct loan origination costs incurred, is deferred and accreted into interest income on an effective yield or interest method adjusted for actual prepayment activity over the life of the related

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loan or security 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 above the current pay rate is recognized only upon actual receipt. Additionally, interest income is recorded when earned from equity participation interests, referred to as equity kickers. These equity kickers have the potential to generate additional revenues to the Company as a result of excess cash flows being distributed and/or as appreciated properties are sold or refinanced. The Company did not record interest income on such investments for the three and six month periods ended June 30, 2009 as compared to \$0.3 million for the six months ended June 30, 2008. No such income had been recognized for the three months ended June 30, 2008. These amounts represent profits interest received in accordance with the contractual agreement with the borrower.

Property operating income Property operating income represents operating income associated with the operations of two commercial real estate properties recorded as real estate owned, net. See Note 7 Real Estate Owned, Net for further details. For the three and six month periods ended June 30, 2009, the Company recorded approximately \$1.6 million and \$3.1 million, respectively, of property operating income relating to the Company's real estate owned. There was no property operating income for the three and six months ended June 30, 2008.

Other income Other income represents fees received for loan structuring and defeasance fees, and miscellaneous asset management fees associated with the Company's loans and investments portfolio.

Income or Losses from Equity Affiliates

The Company invests in joint ventures that are formed to acquire, develop, and/or sell real estate assets. These joint ventures are not majority owned or controlled by the Company, and are not consolidated in its financial statements. These investments are recorded under either the equity or cost method of accounting as appropriate. The Company records its share of the net income and losses from the underlying properties and any other-than-temporary impairment on these investments on a single line item in the Consolidated Statements of Operations as income or losses from equity affiliates.

Stock Based Compensation

The Company records stock-based compensation expense at the grant date fair value of the related stock-based award in accordance with SFAS No. 123R, Accounting for Stock-Based Compensation (SFAS 123R). The Company measures the compensation costs for these shares as of the date of the grant, with subsequent remeasurement for any unvested shares granted to non-employees of the Company with such amounts expensed against earnings, at the grant date (for the portion that vest immediately) or ratably over the respective vesting periods. The cost of these grants is amortized over the vesting term using an accelerated method in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 28 Accounting for Stock Appreciation Rights and Other Variable Stock Options or Award Plans (FIN 28), and SFAS 123R. Dividends are paid on the restricted shares as dividends are paid on shares of the Company's common stock whether or not they are vested. Stock based compensation was disclosed in the Company's Consolidated Statements of Operations under employee compensation and benefits for employees and under selling and administrative expense for non-employees.

Income Taxes

The Company is organized and conducts its operations to qualify as a REIT for federal income tax purposes. A REIT is generally not subject to federal income tax on its REIT taxable income that it distributes to its stockholders, provided that it distributes at least 90% of its REIT taxable income and meets certain other requirements. Certain assets of the Company that produce non-qualifying income are owned by its taxable REIT subsidiaries, the income of which are subject to federal and state income taxes. The Company did not record a

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provision for income taxes related to the assets that are held in taxable REIT subsidiaries for the three and six months ended June 30, 2009 and 2008. The Company's accounting policy with respect to interest and penalties related to tax uncertainties is to classify these amounts as provision for income taxes. The Company has not recognized any interest and penalties related to tax uncertainties for the three and six months ended June 30, 2009 and 2008.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS 109 *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation was effective January 1, 2007.

Other Comprehensive Income / (Loss)

SFAS No. 130 *Reporting Comprehensive Income*, divides comprehensive income or loss into net income (loss) and other comprehensive income (loss), which includes unrealized gains and losses on available for sale securities. In addition, to the extent the Company's derivative instruments qualify as hedges under SFAS No. 133,

Accounting for Derivative Instruments and Hedging Activities, net unrealized gains or losses are reported as a component of accumulated other comprehensive income/(loss), see *Derivatives and Hedging Activities* below. At June 30, 2009 and December 31, 2008, accumulated other comprehensive loss was \$57.2 million and \$96.6 million, respectively, and consisted of net unrealized losses on derivatives designated as cash flow hedges.

Derivatives and Hedging Activities

The Company accounts for derivative financial instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* (SFAS 138). SFAS 133, as amended by SFAS 138, requires an entity to recognize all derivatives as either assets or liabilities in the consolidated balance sheets and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either accumulated other comprehensive loss in Arbor Realty Trust, Inc. Stockholders' Equity until the hedged item is recognized in earnings or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. The Company relies on quotations from a third party to determine these fair values.

As required by SFAS 133, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether a company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting under SFAS 133.

SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of SFAS No. 133 (SFAS 161), amends and expands the disclosure requirements of SFAS 133 with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its

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related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

In the normal course of business, the Company may use a variety of derivative financial instruments to manage, or hedge, interest rate risk. These derivative financial instruments must be effective in reducing its interest rate risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income for each period until the derivative instrument matures or is settled. Any derivative instrument used for risk management that does not meet the hedging criteria is marked-to-market with the changes in value included in net income. Derivatives are used for hedging purposes rather than speculation. See Note 9 Derivative Financial Instruments for further details.

Variable Interest Entities

FASB issued Interpretation No. 46(R), 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.

The Company has evaluated its loans and investments and investments in equity affiliates to determine whether they are VIEs. This evaluation resulted in the Company determining that its bridge loans, junior participation loans, 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) substantially all of the entities' activities do not involve or are not conducted on behalf of an investor that has disproportionately fewer voting rights in terms of its obligation to absorb the expected losses or its right to receive expected residual returns of the entity, or both. In addition, the Company has evaluated its investments in collateralized debt obligation securities and has determined that the issuing entities are considered VIEs under the provisions of FIN 46, but has determined that the Company is not the primary beneficiary. As of June 30, 2009, the Company has identified 40 loans and investments which were made to entities determined to be VIEs with an aggregate carrying amount of \$864.5 million. These VIE entities had exposure to real estate debt of approximately \$3.4 billion at June 30, 2009.

For the 40 VIEs identified, the Company has determined that it is not the primary beneficiary, and as such the VIEs should not be consolidated in the Company's financial statements. The Company's maximum exposure to loss would not exceed the carrying amount of such investments. For all other investments, the Company has determined they are not VIEs. As such, the Company has continued to account for these loans and investments as a loan or investment, as appropriate.

Entities that issue junior subordinated notes are considered VIEs. However, it is not appropriate to consolidate these entities under the provisions of FIN 46 as equity interests are variable interests only to the extent that the investment is considered to be at risk. Since the Company's investments were funded by the entities that issued the junior subordinated notes, they are not considered to be at risk.

Recently Issued Accounting Pronouncements

SFAS No. 168 In July 2009, the FASB issued Statement of Financial Accounting Standards No. 168 (SFAS 168), The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. SFAS 168 replaces SFAS No. 162 The Hierarchy of Generally Accepted Accounting Principles by establishing the FASB Accounting Standards

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Codification as the source of authoritative accounting principles recognized by the FASB to be applied to nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. Accounting Standards Updates will serve to update the Codification. SFAS 168 is effective for reporting periods that end on or after September 15, 2009. The adoption of SFAS 168 is not expected to have a material effect on the Company's Consolidated Financial Statements.

SFAS No. 167 In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167 (SFAS 167), Amendments to FASB Interpretation No. 46(R). SFAS 167 amends FIN No. 46(R) Consolidation of Variable Interest Entities an interpretation of ARB No. 51 by prescribing an ongoing qualitative rather than quantitative assessment of the Company's ability to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and the Company's rights or obligations to receive benefits or absorb losses in order to determine whether those entities will be required to be consolidated in the Company's Consolidated Financial Statements. SFAS 167 is effective for fiscal years beginning after November 15, 2009. The Company is currently evaluating the potential effect of adopting SFAS 167 on the Company's Consolidated Financial Statements.

SFAS No. 166 In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166 (SFAS 166), Accounting for Transfers of Financial Assets an amendment of Statement No. 140. SFAS 166 amends the de-recognition guidance in FASB Statement No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities a replacement of FASB Statement No. 125, eliminating the exemption from consolidation for qualifying special-purpose entities, and requires more disclosure about the transfer and the transfer's continuing involvement in the assets. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The adoption of SFAS 166 is not expected to have a material effect on the Company's Consolidated Financial Statements.

SFAS No. 165 In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165 (SFAS 165), Subsequent Events. SFAS 165 establishes general standards of accounting and disclosure for events that occur after the balance sheet date but before financial statements are available to be issued, including disclosure of the date through which subsequent events have been evaluated and whether the date corresponds with the release of the financial statements. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. The adoption of SFAS 165 did not have a material effect on the Company's Consolidated Financial Statements.

FSP FAS 141(R)-1 In April 2009, the FASB issued FASB Staff Position No. FAS 141(R)-1 (FSP FAS 141(R)-1), Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. FSP FAS 141(R)-1 provides guidance on accounting for business combinations. It addresses issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 applies to all assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of FSP FAS 141(R)-1 did not have a material effect on the Company's Consolidated Financial Statements.

FSP FAS 157-4 In April 2009, the FASB issued FASB Staff Position No. FSP 157-4 (FSP FAS 157-4), Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FSP FAS 157-4 provides additional guidance on determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurement under SFAS 157, Fair Value Measurement. FSP FAS 157-4 applies to all fair value measurements prospectively and is effective for interim and annual periods ending after June 15, 2009. The adoption of FSP FAS 157-4 did not have a material effect on the Company's Consolidated Financial Statements.

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Note 3 Loans and Investments

The following table sets forth the composition of the Company's loan and investment portfolio at the dates indicated.

					At June 30, 2009	At December 31, 2008		
	June 30, 2009 (Unaudited)	Percent of Total	December 31, 2008	Percent of Total	Loan Count (Unaudited)	Wtd. Avg. Pay Rate	Loan Count	Wtd. Avg. Pay Rate
Bridge loans	\$ 1,318,849,841	61%	\$ 1,441,846,251	62%	58	5.52%	58	6.22%
Mezzanine loans	343,430,781	16%	364,937,818	16%	37	5.82%	42	7.03%
Junior participation loans	298,227,590	14%	298,278,363	13%	16	4.79%	16	6.60%
Preferred equity Investments	195,407,490	9%	205,247,126	9%	18	2.87%	18	4.05%
Other			12,418,110	nm			2	8.73%
	2,155,915,702	100%	2,322,727,668	100%	129	5.23%	136	6.22%
Unearned revenue	(9,226,332)		(10,544,049)					
Allowance for loan losses	(221,000,000)		(130,500,000)					
Loans and investments, net	\$ 1,925,689,370		\$ 2,181,683,619					

nm not meaningful

Concentration of Borrower Risk

The Company is subject to concentration risk in that, as of June 30, 2009, the unpaid principal balance related to 31 loans with five unrelated borrowers represented approximately 29% of total assets. At December 31, 2008 the unpaid principal balance related to 34 loans with five unrelated borrowers represented approximately 28% of total assets. As of June 30, 2009 and December 31, 2008, the Company had 129 and 136 loans and investments, respectively. As of June 30, 2009, 37.7%, 13.1%, and 10.6% of the outstanding balance of the Company's loans and

investments portfolio had underlying properties in New York, California, and Florida, respectively. As of December 31, 2008, 39.8%, 12.1%, and 9.8% of the outstanding balance of the Company's loans and investments portfolio had underlying properties in New York, California, and Florida, respectively.

Impaired Loans and Allowance for Loan Losses

The Company considers a loan impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. As a result of the Company's normal quarterly loan review at June 30, 2009, it was determined that 22 loans with an aggregate carrying value, before reserves, of \$605.7 million were impaired. The \$605.7 million of impaired loans included five loans which were modified during the second quarter 2009 with an aggregate carrying value of \$117.5 million, reserves of \$25.0 million and unfunded loan commitments of \$1.6 million as of June 30, 2009. At December 31, 2008, it was determined that ten loans with an aggregate carrying value, before reserves, of \$443.2 million were impaired.

The Company performed an evaluation of the loans and determined that the fair value of the underlying collateral securing the impaired loans was less than the net carrying value of the loans, resulting in the Company recording a \$23.0 million and \$90.5 million provision for loan losses for the three and six months ended June 30, 2009, respectively. Of the \$23.0 million of loan loss reserves recorded during the three months ended June 30, 2009, \$19.2 million was on loans that previously had reserves while \$3.8 million of reserves related to other loans in

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the Company's portfolio. Of the \$90.5 million of loan loss reserves recorded during the six months ended June 30, 2009, \$29.7 million was on loans that previously had reserves while \$60.8 million of reserves related to other loans in the Company's portfolio. The Company recorded a \$2.0 million and \$5.0 million provision for loan losses for the three and six months ended June 30, 2008, respectively.

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

	For the Six Months Ended June 30, 2009
Allowance at beginning of the period	\$ 130,500,000
Provision for loan losses	90,500,000
Charge-offs	
Allowance at end of the period	\$ 221,000,000

As of June 30, 2009, nine loans with a net carrying value of approximately \$188.4 million, net of related loan loss reserves of \$97.2 million, were classified as non-performing. Income is recognized on a cash basis only to the extent it is received. Full income recognition will resume when the loan becomes contractually current and performance has recommenced. As of December 31, 2008, four loans with a net carrying value of approximately \$113.0 million, net of related loan loss reserves of \$20.5 million, were classified as non-performing for which income recognition had been suspended.

During the quarter ended June 30, 2009, the Company sold a bridge loan with a carrying value of \$47.0 million, at a discount, for approximately \$23.2 million and recorded a loss on restructuring of \$23.8 million. In connection with this transaction, the Company used the proceeds to settle a \$37.0 million repurchase facility in which this asset was financed for a cash payment of approximately \$22.0 million, resulting in a gain on extinguishment of debt of approximately \$15.0 million. See Note 8 Debt Obligations for further information relating to this transaction.

During the quarter ended March 31, 2009, the Company received \$11.8 million in principal paydowns on two loans with a carrying value of \$22.9 million and recorded a loss on the restructuring of these loans of approximately \$9.0 million.

Note 4 Available-For-Sale Securities

The following is a summary of the Company's available-for-sale securities at June 30, 2009.

	Carrying Value	Other-Than- Temporary Impairment	Unrealized Loss	Estimated Fair Value
Common equity securities	\$ 529,104	\$ (382,131)	\$	\$ 146,973
Total available-for-sale securities	\$ 529,104	\$ (382,131)	\$	\$ 146,973

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The following is a summary of the Company's available-for-sale securities at December 31, 2008.

	Carrying	Other-Than-	Unrealized	Estimated
	Value	Impairment	Loss	Fair
				Value
Common equity securities	\$ 16,715,584	\$ (16,186,480)	\$	\$ 529,104
Total available-for-sale securities	\$ 16,715,584	\$ (16,186,480)	\$	\$ 529,104

During 2007, the Company purchased 2,939,465 shares of common stock of Realty Finance Corporation, formerly CBRE Realty Finance, Inc., a commercial real estate specialty finance company, for \$16.7 million, which had a fair value of \$0.1 million at June 30, 2009 and a fair value of \$0.5 million at December 31, 2008. In 2008, the Company concluded that these securities were other-than-temporarily impaired under GAAP and recorded \$16.2 million of impairment charges to the Consolidated Statements of Operations.

As of June 30, 2009, these securities have been in an unrealized loss position for more than twelve months. GAAP requires that these securities are evaluated periodically to determine whether a decline in their value is other-than-temporary, though it is not intended to indicate a permanent decline in value. Management closely monitors market conditions on which it bases such decisions. At June 30, 2009, the Company believed that based on market events and the unfavorable prospects for near term recovery of value, that there was a lack of evidence to support the conclusion that the fair value decline was temporary. Therefore, at June 30, 2009, the Company concluded that these securities were other-than-temporarily impaired under GAAP and recorded a \$0.4 million impairment charge to the Consolidated Statements of Operations.

These securities are carried at their estimated fair value with unrealized gains and losses reported in accumulated other comprehensive loss. At June 30, 2009 and December 31, 2008, all losses in fair value to date were recorded as other-than-temporary impairments, and therefore have been recognized in earnings.

Note 5 Securities Held-To-Maturity

The following is a summary of the Company's securities held-to-maturity at June 30, 2009.

	Face	Amortized	Other-Than-	Carrying	Unrealized	Unrealized	Estimated
	Value	Cost	Temporary	Value	Gain	Loss	Fair Value
			Impairment				(2)
			(1)				
Collateralized debt obligation bonds	\$ 81,322,431	\$ 59,466,017	\$ (1,387,500)	\$ 58,078,517	\$ 100,000	\$ (42,043,517)	\$ 16,135,000
Commercial mortgage-backed securities	\$ 15,000,000	\$ 10,805,569	\$	\$ 10,805,569	\$ 3,627,401	\$	\$ 14,432,970
Total securities held-to-maturity	\$ 96,322,431	\$ 70,271,586	\$ (1,387,500)	\$ 68,884,086	\$ 3,727,401	\$ (42,043,517)	\$ 30,567,970

(1) Cumulative total.

- (2) The aggregate estimated fair value of the five collateralized debt obligation bonds in an unrealized loss position at June 30, 2009 was \$16,035,000.

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The following is a summary of the Company's securities held-to-maturity at December 31, 2008.

	Face	Amortized	Other-Than- Temporary	Carrying	Unrealized	Unrealized	Estimated
	Value	Cost	Impairment	Value	Gain	Loss	Fair Value (1)
Collateralized debt obligation bonds	\$ 82,700,000	\$ 59,631,848	\$ (1,387,500)	\$ 58,244,348	\$ 175,000	\$ (39,684,348)	\$ 18,735,000
Total securities held-to-maturity	\$ 82,700,000	\$ 59,631,848	\$ (1,387,500)	\$ 58,244,348	\$ 175,000	\$ (39,684,348)	\$ 18,735,000

- (1) The aggregate estimated fair value of the five collateralized debt obligation bonds in an unrealized loss position at December 31, 2008 was \$18,560,000.

The following is a summary of the underlying credit rating of the Company's securities held-to-maturity at June 30, 2009 and December 31, 2008.

Rating (2)	#	At June 30, 2009		#	At December 31, 2008	
		Amortized	Percent of Total		Amortized	Percent of Total
		Cost			Cost	
AAA	5	\$ 51,264,373	73%	3	\$ 41,097,282	69%
AA+	1	7,781,503	11%	1	7,659,013	13%
AA-	1	9,838,210	14%	1	9,488,053	16%
BB+	1	1,387,500	2%	1	1,387,500	2%
	8	\$ 70,271,586	100%	6	\$ 59,631,848	100%

- (2) Based on the rating published by Standard & Poor's for each security.

During the second quarter of 2009, the Company purchased \$15.0 million of investment grade commercial mortgage-backed securities (CMBS) for \$10.7 million plus accrued interest, representing a \$4.3 million discount to their face value. This discount is accreted into interest income on an effective yield adjusted for actual prepayment activity over the average life of the related security as a yield adjustment. For the three months ended June 30, 2009, the Company accreted approximately \$0.1 million of this discount into interest income. These securities bear interest at a weighted average coupon rate of 5.79%, have a weighted average stated maturity of 30.2 years but have an estimated average remaining life of 5.2 years due to the maturities of the underlying assets.

During the second quarter of 2008, the Company purchased \$82.7 million of investment grade commercial real estate (CRE) collateralized debt obligation bonds for \$58.1 million, representing a \$24.6 million discount to their face value. This discount is accreted into interest income on an effective yield adjusted for actual prepayment activity over the average life of the related security as a yield adjustment. For the three and six months ended June 30, 2009, the Company accreted approximately \$0.6 million and \$1.2 million, respectively, of this discount into interest income, representing accretion on approximately \$21.0 million of the total discount. These securities bear interest at a weighted average spread of 40 basis points over LIBOR, have a weighted average stated maturity of 37.2 years but have an estimated average remaining life of 5.3 years due to the maturities of the underlying assets. During the three and six months ended June 30, 2009, the Company received repayments of principal of \$0.4 million and \$1.4 million, respectively on one of the Company's CDO bond securities held-to-maturity.

For the three and six months ended June 30, 2009, the average yield on the Company's held-to-maturity securities based on their face values was 4.93% and 4.66%, respectively, including the accretion of discount. For the three months ended June 30, 2008, the average yield on the Company's CDO bond securities held-to-maturity based on their face values was 7.52%, including the accretion of discount.

Securities held to maturity are carried at cost, net of unamortized premiums and discounts, which are recognized in interest income using an effective yield or interest method. GAAP accounting standards require that

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held to maturity securities are evaluated periodically to determine whether a decline in their value is other-than-temporary, though it is not intended to indicate a permanent decline in value. The Company's evaluation is based on its assessment of cash flows which is supplemented by third-party research reports, internal review of the underlying assets securing the investments, levels of subordination and the ratings of the securities and the underlying collateral. In addition, as of June 30, 2009, the Company does not intend to sell these investments, nor does the Company believe it is more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity. As of June 30, 2009, the Company's CDO bond investments were in an unrealized loss position for more than twelve months, as the Company's carrying value was in excess of their market value. However, based on its analysis as of June 30, 2009, the Company expects to fully recover the carrying value of these investments and has concluded that with exception of one \$1.4 million bond, these investments are not other-than-temporarily impaired. During the fourth quarter of 2008, the Company determined that one BB+ rated CDO bond, with an amortized cost of approximately \$1.4 million, was other-than-temporarily impaired, resulting in a \$1.4 million impairment charge to the Company's financial statements. In addition, the Company's CMBS investments were not in an unrealized loss position for more than twelve months and were not determined to be other-than-temporarily impaired. The Company's estimation of cash flows expected to be generated by the securities portfolio is based upon an internal review of the underlying mortgage loans securing the investments both on an absolute basis and compared to the Company's initial underwriting for each investment. The Company's efforts are supplemented by third party research reports, third party market assessments and dialogue with market participants. As of June 30, 2009 the Company does not intend to sell the securities, nor does the Company believe it is more likely than not that the Company will be required to sell the securities before recovery of the amortized cost bases, which may be at maturity. This combined with the Company's assessment of cash flows, is the basis for the conclusion that these investments are not impaired despite the differences between estimated fair value and book value. The Company attributes the difference between book value and estimated fair value to the current market dislocation and a general negative bias against structured financial products such as CMBS and CDOs.

In 2008, the Company entered into a repurchase agreement with a financial institution for the purpose of financing a portion of the Company's CDO bond securities. During the six months ended June 30, 2009, the Company paid down approximately \$1.3 million of this facility as a result of a decrease in values associated with a change in market interest rate spreads. At June 30, 2009 and December 31, 2008, current borrowings totaled approximately \$1.6 million and \$8.2 million, respectively.

Note 6 Investment in Equity Affiliates

The following is a summary of the Company's investment in equity affiliates at June 30, 2009 and December 31, 2008:

Equity Affiliates	Investment in Equity Affiliates		Outstanding
	at		Loan Balance
	June 30,	December	to Equity
	2009	31, 2008	Affiliates at
			June 30, 2009
930 Flushing & 80 Evergreen	\$ 491,975	\$ 491,975	\$ 24,515,849
450 West 33 rd Street	1,136,960	1,136,960	50,000,000
1107 Broadway	5,720,000	5,720,000	
Alpine Meadows		10,157,018	30,500,000

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St. John's Development	2,348,783	3,500,000	25,000,000
Lightstone Value Plus REIT L.P	55,988,411		
Issuers of Junior Subordinated Notes	578,615	8,305,000	
Total	\$ 66,264,744	\$ 29,310,953	\$ 130,015,849

The Company accounts for the 450 West 33rd Street and Lightstone Value Plus REIT L.P. investments under the cost method of accounting and the remaining investments under the equity method in accordance with Accounting Principles Board (APB) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock.

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Alpine Meadows

In July 2007, the Company invested \$13.2 million in exchange for a 39% profits interest with an 18% preferred return in the Alpine Meadows ski resort, which consists of approximately 2,163 total acres in northwestern Lake Tahoe, California. The Company's invested capital represents 65% of the total equity of the transaction and the Company will be allocated 65% of the losses. The Company also provided a \$30.5 million first mortgage loan that matures in August 2009 and bears interest at pricing over one month LIBOR. The outstanding balance on this loan was \$30.5 million at June 30, 2009. For the three and six months ended June 30, 2009, the Company recorded a loss of \$0.9 million and income of \$1.6 million, respectively from this equity investment. This amount reflects Arbor's portion of the joint venture's income, net of depreciation expense, and was recorded in income from equity affiliates and as an increase to the Company's investment in equity affiliates on the balance sheet. In the second quarter of 2009, the Company recorded an other-than-temporary impairment of \$11.7 million for the remaining amount of this investment in loss from equity affiliates in the Company's Consolidated Statements of Operations. APB 18 requires that these investments are evaluated periodically to determine whether a decline in their value is other-than-temporary, though it is not intended to indicate a permanent decline in value.

St. John's Development

In December 2006, the Company originated a \$25.0 million bridge loan with a maturity date in September 2007 with two, three month extensions that bore interest at a fixed rate of 12%. The loan is secured by 20.5 acres of usable land and 2.3 acres of submerged land located on the banks of the St. John's River in downtown Jacksonville, Florida and is currently zoned for the development of up to 60 dwellings per acre. In October 2007, the borrower sold the property to an investor group, in which the Company has a 50% non-controlling interest, for \$25.0 million, and assumed the \$25.0 million mortgage with a new maturity date of October 2009, and a change in the interest rate to LIBOR plus 6.48%. The Company also contributed \$0.5 million to cover other operational costs of acquiring and maintaining the property.

The managing member of the investor group is an experienced real estate developer who retains a 50% interest in the partnership and funded a \$2.9 million interest reserve for the first year. The Company was required to contribute \$2.9 million to fund the interest reserve for the second year and made an additional capital contribution of \$0.1 million during 2008. Interest received on the \$25.0 million loan will be recorded as a return of capital and reduction of the Company's equity investment. For the three and six months ended June 30, 2009, the Company recorded \$0.5 million and \$1.2 million, respectively of such interest, and as a result, has a \$2.3 million investment as of June 30, 2009. The Company retains a non-controlling 50% equity interest in the property and accounts for this investment under the equity method. No income from this equity interest has been recognized for the three and six months ended June 30, 2009 and 2008.

Lightstone Value Plus REIT L.P. / Prime Outlets

In December 2003, the Company invested approximately \$2.1 million in exchange for a 50% non-controlling interest in Prime Outlets Member, LLC (POM), which owns 15% of a real estate holding company that owns and operates a portfolio of factory outlet shopping centers. The Company accounts for this investment under the equity method. Additionally, the Company owned a 16.67% carried profits interest through a consolidated entity which had a 25% interest in POM with a third party member owning the remaining 8.33%.

In June 2008, the Company entered into an agreement (the agreement) to transfer its 16.67% interest in POM, at a value of approximately \$37.2 million, in exchange for preferred and common operating partnership units of Lightstone Value Plus REIT L.P.

In connection with the agreement, the Company borrowed from Lightstone Value Plus Real Estate Investment Trust, Inc. approximately \$33 million, which was initially secured by its 16.67% interest in POM, has an eight year term, and bears interest at a fixed rate of 4% with payment of the interest deferred until the closing of the transaction. In addition, the Company paid an incentive management fee to its manager of approximately \$7.3 million related to

this transaction during the third quarter of 2008. As a result, during the second quarter of 2008, the Company recorded approximately \$33.0 million of cash, \$49.5 million of debt related to the proceeds received from

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the loan secured by the consolidated entity's 25% interest in POM which was recorded in notes payable, a \$16.5 million receivable from the third party member share of the consolidated entity's 25% interest which was recorded in other assets and a deferred expense related to the incentive management fee of approximately \$7.3 million.

In the fourth quarter of 2008, the Company received a \$1.0 million distribution from POM related to its 24.17% equity and profits interest, the result of excess proceeds from the operations of the business. Of the distribution received by the Company, \$1.0 million was recorded as interest income, representing the distribution received from the 25% profits interest, \$0.3 million was recorded as net income attributable to noncontrolling interest relating to a third party member's 8.33% noncontrolling interest share of the profits interest and \$0.3 million was recorded as income netted in loss from equity affiliates, representing the portion received from the Company's 7.5% equity interest. In accordance with the agreement, \$0.7 million of the distribution relating to the 16.67% profits interest was used to pay down a portion of the \$33 million of debt and will reduce the value of the Company's interest when exchanged for preferred and common operating partnership units at closing, thereby reducing the Company's future gain.

In March 2009, the Company exchanged its 16.67% interest in Prime Outlets for approximately \$37.3 million of preferred and common operating partnership units in Lightstone Value Plus REIT L.P. and the \$33.4 million loan is now secured by Arbor's preferred and common operating partnership units. The Company accounts for this investment under the cost method. In June 2013, the preferred units may be redeemed by Lightstone Value Plus REIT L.P. for cash and the loan would become due upon such redemption. The preferred operating partnership units yield 4.63% and the loan bears interest at a rate of 4%. The Company retained its 7.5% equity interest in POM. During the quarter ended June 30, 2009, the Company recorded \$0.7 million of dividends from the preferred and common operating partnership units which were reflected in interest income in the Company's Consolidated Statement of Operations.

Through the consolidated entity that owned the 16.67%, the Company recorded in its first quarter 2009 financial statements an investment of approximately \$56.0 million for the preferred and common operating partnership units, gain on exchange of profits interest of approximately \$56.0 million, net income attributable to noncontrolling interest of approximately \$18.7 million related to the third party members portion of income recorded, noncontrolling interest due to the third party member of approximately \$2.1 million and a reduction of a \$16.5 million receivable from the third party member which was previously recorded in other assets. In accordance with APB 29, Accounting for Nonmonetary Transactions, as amended by FAS No. 153, Exchanges of Nonmonetary Assets an Amendment of APB Opinion No. 29, the gain of \$56.0 million reflects the fair value of the investment in preferred and operating partnership units received in exchange for the 16.67% profits interest. The Company's profits interest had no cost basis at the time of the exchange.

In addition, the Company prepaid approximately \$7.3 million in incentive management fees to its manager in 2008 related to this transaction. In accordance with the management agreement, installments of the annual incentive fee are subject to potential reconciliation at the end of the 2009 fiscal year.

Issuers of Junior Subordinated Notes

As of December 31, 2008, the Company invested \$8.3 million for 100% of the common shares of nine affiliate entities of the Company which were formed to facilitate the issuance of \$276.1 million of junior subordinated notes. These entities pay dividends on both the common shares and preferred securities on a quarterly basis at a variable rate based on three-month LIBOR.

In May 2009, the Company exchanged \$247.1 million of its outstanding trust preferred securities, consisting of \$239.7 million of junior subordinated notes issued to third party investors and \$7.4 million of common equity issued to the Company, which was recorded in investment in equity affiliates, in exchange for \$268.4 million of newly issued unsecured junior subordinated notes. As a result of this transaction, the Company retired its \$7.4 million of common equity and corresponding trust preferred securities reducing its investment in these entities to \$0.6 million as of

June 30, 2009. In addition, in March 2009, the Company purchased from its manager, ACM, approximately \$9.4 million of junior subordinated notes originally issued by a wholly-owned subsidiary of the

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Company's operating partnership for \$1.3 million. In connection with this transaction, during the second quarter of 2009, the Company retired approximately \$0.3 million of common equity related to these junior subordinated notes. See Note 8 Debt Obligations for further information relating to these transactions.

Note 7 Real Estate Owned, Net

The Company had a \$4.0 million bridge loan secured by a hotel located in St. Louis, Missouri that matured in 2009 and bore interest at a variable rate of LIBOR plus 5.00%. In April 2009, the Company foreclosed on the property secured by the loan. As a result, during the second quarter of 2009 the Company recorded this investment on its balance sheet as real estate owned, net at a fair value of \$2.9 million. For the three months ended June 30, 2009, the Company recorded property operating income of \$0.2 million and property operating expenses of \$0.3 million.

The Company had a \$5.0 million mezzanine loan secured by an office building located in Indianapolis, Indiana that was scheduled to mature in June 2012 and bore interest at a fixed rate of 10.72%. During the first quarter of 2008, the Company established a \$1.5 million provision for loan loss related to this property reducing the carrying value to \$3.5 million at March 31, 2008. In April 2008, the Company was the winning bidder at a UCC foreclosure sale of the entity which owns the equity interest in the property securing this loan and a \$41.4 million first mortgage on the property. As a result, during the second quarter of 2008, the Company recorded this investment on its balance sheet as real estate owned, net at fair value which included the Company's \$3.5 million carrying value of the loan and \$41.4 million first lien in mortgage notes payable. For the three and six months ended June 30, 2009, the Company recorded property operating income of \$1.4 million and \$2.9 million, property operating expenses of \$1.3 million and \$2.6 million and depreciation and amortization of \$0.3 million and \$0.6 million, respectively, to earnings. At June 30, 2009, this investment's balance sheet was comprised of land of \$6.2 million, building and leasehold improvements net of depreciation and allowances totaling \$39.1 million, cash of \$0.1 million, other assets of \$1.6 million, mortgage note payable of \$41.4 million, and other liabilities of \$1.5 million.

The Company had a \$9.9 million bridge loan secured by a motel located in Long Beach, California that matured in 2008 and bore interest at a variable rate of LIBOR plus 4.00%. During 2008, the Company established a \$2.5 million provision for loan loss related to this property reducing the carrying value to \$7.4 million as of June 30, 2009. In August 2009, the Company was the winning bidder at a UCC foreclosure sale of the property securing this loan which will be recorded as real estate owned, net in the Company's third quarter 2009 Consolidated Financial Statements.

Note 8 Debt Obligations

The Company utilizes repurchase agreements, term and revolving credit agreements, warehouse lines of credit, working capital lines, loan participations, collateralized debt obligations and junior subordinated notes to finance certain of its loans and investments. Borrowings underlying these arrangements are primarily secured by a significant amount of the Company's loans and investments.

Repurchase Agreements

The following table outlines borrowings under the Company's repurchase agreements as of June 30, 2009 and December 31, 2008:

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	June 30, 2009		December 31, 2008	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Repurchase agreement, financial institution, \$200 million committed line, terminated in June 2009, interest was variable based on one-month LIBOR, the weighted average note rate was 1.50%	\$	\$	\$ 36,961,289	\$ 49,547,947
Repurchase agreement, financial institution, \$2.8 million committed line at June 30, 2009, expiration June 2010, interest is variable based on one-month LIBOR; the weighted average note rate was 2.34% and 3.07%, respectively	2,810,000	4,123,938	15,554,000	19,240,188
Repurchase agreement, financial institution, an uncommitted line, expiration May 2010, interest is variable based on one and three-month LIBOR; the weighted average note rate was 1.78% and 2.48%, respectively	1,578,250	11,159,065	8,212,500	12,089,904
Total repurchase agreements	\$ 4,388,250	\$ 15,283,003	\$ 60,727,789	\$ 80,878,039

At June 30, 2009, the aggregate weighted average note rate for the Company's repurchase agreements was 2.14%. There were no interest rate swaps on these repurchase agreements at June 30, 2009.

The Company had a \$200.0 million repurchase agreement with a financial institution which had a term expiring in October 2009 and bore interest at pricing over LIBOR, varying on the type of asset financed. In June 2009, this facility, with approximately \$37.0 million outstanding, was satisfied at a discount for \$22.0 million resulting in a \$15.0 million gain on extinguishment of debt. In connection with this transaction, the Company sold a bridge loan financed in this facility with a carrying value of \$47.0 million, at a discount, for approximately \$23.2 million and recorded a loss on restructuring of \$23.8 million. The proceeds were used to satisfy the \$22.0 million cash payment.

The Company has a \$100.0 million repurchase agreement that bears interest at 250 basis points over LIBOR and had a maturity date of June 2009. In June 2009, the Company amended this facility extending the maturity to June 2010, with a one year extension option. In addition, the amendment includes the removal of all financial covenants and a reduction of the committed amount to \$2.8 million reflecting the one asset currently financed in this facility. During the six months ended June 30, 2009, the Company paid down approximately \$12.7 million of this facility. At June 30, 2009, the aggregate outstanding balance under this facility was \$2.8 million.

In April 2008, the Company entered into an uncommitted master repurchase agreement with a financial institution for the purpose of financing its CRE CDO bond securities. The facility has a term expiring in May 2010 and bears interest at pricing over LIBOR, varying on the type of asset financed. During 2009, the Company paid down approximately \$1.3 million of this debt, due to a decrease in values associated with a change in the market interest rate

spreads. At June 30, 2009, the aggregate outstanding balance in this facility was approximately \$1.6 million.

In certain circumstances, the Company has financed the purchase of investments from a counterparty through a repurchase agreement with that same counterparty. The Company currently records these investments in the same manner as other investments financed with repurchase agreements, with the investment recorded as an asset and the related borrowing under the repurchase agreement as a liability on the Company's consolidated balance sheet. Interest income earned on the investments and interest expense incurred on the repurchase obligations are reported separately on the consolidated statements of operations. These transactions may not qualify as a purchase by the Company under FSP FAS 140-3 which is effective for fiscal years beginning after November 15, 2008. The Company would be required to present the net investment on the balance sheet as a derivative with the corresponding change in fair value of the derivative being recorded in the statements of operations when certain criteria to treat these transactions not as part of the same arrangements (linked transactions) are not met. The value of the derivative would reflect not only changes in the value of the underlying investment, but also changes in the value of the underlying credit provided by the counterparty. However, FSP FAS 140-3 applies to prospective transactions occurring on or after the adoption date.

Junior Subordinated Notes

The following table outlines borrowings under the Company's junior subordinated notes as of June 30, 2009 and December 31, 2008:

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	June 30, 2009 Debt Carrying Value	December 31, 2008 Debt Carrying Value
Junior subordinated notes, maturity March 2034, unsecured, face amount of \$29.4 million and \$27.1 million, respectively, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50% and 5.25%, respectively	\$ 26,263,144	\$ 27,070,000
Junior subordinated notes, maturity March 2034, unsecured, face amount of \$28.0 million and \$25.8 million, respectively, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50% and 8.32%, respectively	25,025,187	25,780,000
Junior subordinated notes, maturity April 2035, unsecured, face amount of \$6.2 million and \$25.8 million, respectively, interest rate variable based on three-month LIBOR, the weighted average note rate was 3.85% and 7.42%, respectively	6,237,308	25,774,000
Junior subordinated notes, maturity March 2034, unsecured, face amount of \$28.0 million and \$25.8 million, respectively, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50% and 6.85%, respectively	25,025,187	25,774,000
Junior subordinated notes, maturity March 2034, unsecured, face amount of \$27.3 million and \$51.6 million, respectively, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50% and 6.85%, respectively	24,399,557	51,550,000
Junior subordinated notes, maturity March 2034, unsecured, face amount of \$28.0 million and \$51.6 million, respectively, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50% and 7.93%, respectively	25,025,187	51,550,000
Junior subordinated notes, maturity June 2036, unsecured, face amount of \$13.0 million and \$15.5 million, respectively, interest rate variable based on three-month LIBOR, the weighted average note rate was 3.16% and 7.86%, respectively	13,041,307	15,464,000
Junior subordinated notes, maturity April 2037, unsecured, face amount of \$15.7 million and \$14.4 million, respectively, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50% and 7.22%, respectively	14,012,613	14,433,000

Junior subordinated notes, maturity April 2037, unsecured, face amount of \$31.5 million and \$38.7 million, respectively, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50% and 7.22%, respectively	28,150,338	38,660,000
Junior subordinated notes, maturity March 2034, unsecured, face amount of \$28.0 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	25,025,187	
Junior subordinated notes, maturity March 2034, unsecured, face amount of \$28.7 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	25,650,817	
Junior subordinated notes, maturity April 2035, unsecured, face amount of \$21.2 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	18,966,463	
Junior subordinated notes, maturity June 2035, unsecured, face amount of \$2.6 million, interest rate fixed until 2012 then variable based on three-month LIBOR, the weighted average note rate was 0.50%	2,351,315	
Total junior subordinated notes	\$ 259,173,610	\$ 276,055,000

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At June 30, 2009, the aggregate weighted average pay rate for the Company's junior subordinated notes was 0.70%, however, based upon the accounting treatment for the restructure, the effective rate was 3.93%. There were no interest rate swaps on these junior subordinated notes at June 30, 2009.

In May 2009, the Company exchanged \$247.1 million of its outstanding trust preferred securities, consisting of \$239.7 million of junior subordinated notes issued to third party investors and \$7.4 million of common equity issued to the Company in exchange for \$268.4 million of newly issued unsecured junior subordinated notes, representing 112% of the original face amount. The new notes bear a fixed interest rate of 0.50% per annum until April 30, 2012 (the Modification Period), and then interest is to be paid at the rates set forth in the existing trust agreements until maturity, equal to three month LIBOR plus a weighted average spread of 2.90%. The Company paid transaction fees of approximately \$1.2 million to the issuers of the junior subordinated notes related to this restructuring which will be amortized on an effective yield over the life of the notes. Furthermore, the 12% increase to the face amount due upon maturity will be amortized into expense over the life of the notes.

In July 2009, the Company restructured its remaining \$18.7 million of trust preferred securities that were not exchanged from the May 2009 restructuring transaction previously disclosed. The Company amended the \$18.7 million of junior subordinated notes to \$20.9 million of unsecured junior subordinated notes, representing 112% of the original face amount. The amended notes bear a fixed interest rate of 0.50% per annum for a period of approximately three years, the modification period. Thereafter, interest is to be paid at the rates set forth in the existing trust agreements until maturity, equal to three month LIBOR plus a weighted average spread of 2.74%. The Company paid a transaction fee of approximately \$0.1 million to the issuers of the junior subordinated notes related to this restructuring.

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

The junior subordinated notes are unsecured, have a maturity of 25 to 28 years, pay interest quarterly at a fixed rate or floating rate of interest based on three-month LIBOR and, absent the occurrence of special events, are not redeemable during the first two years. In connection with the issuance of the original variable rate junior subordinated notes, the Company had entered into various interest rate swap agreements which were subsequently terminated upon the exchange discussed above, resulting in a loss on termination of swaps of \$8.7 million in the Company's second quarter 2009 Financial Statements. See Note 9 Derivative Financial Instruments for further information relating to these derivatives.

In March 2009, the Company purchased from its manager, ACM, approximately \$9.4 million of junior subordinated notes originally issued by a wholly-owned subsidiary of the Company's operating partnership for \$1.3 million. In 2009, ACM purchased these notes from third party investors for \$1.3 million. The Company recorded a net gain on extinguishment of debt of \$8.1 million and a reduction of outstanding debt totaling \$9.4 million from this transaction in the Company's first quarter 2009 Financial Statements. In connection with this transaction, during the second quarter of 2009, the Company retired approximately \$0.3 million of common equity related to these junior subordinated notes.

The carrying value under these facilities was \$259.2 million at June 30, 2009 and \$276.1 million at December 31, 2008. The current weighted average note rate was 0.70% at June 30, 2009 and 7.21% at December 31, 2008, however, based upon the accounting treatment for the restructure, the effective rate was 3.93% at June 30, 2009. The impact of these entities in accordance with FIN 46R Consolidation of Variable Interest Entities is discussed in Note 2.

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Notes Payable

The following table outlines borrowings under the Company's notes payable as of June 30, 2009 and December 31, 2008:

	June 30, 2009		December 31, 2008	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Term credit agreement, Wachovia Bank, National Association, \$473 million committed line, expiration November 2009, interest is variable based on one-month LIBOR; the weighted average note rate was 2.97% and 3.34%, respectively (1)	\$ 237,680,634	\$ 362,016,619	\$ 280,182,244	\$ 476,593,594
Revolving credit agreement, Wachovia Bank, National Association, \$100 million committed line, expiration November 2009, interest is variable based on one-month LIBOR; the weighted average note rate was 2.96% and 3.08%, respectively (1)	64,048,369	93,646,694	64,834,510	101,260,891
Term credit agreement, Wachovia Bank, National Association, \$69 million committed line, expiration November 2009, interest is variable based on one-month LIBOR; the weighted average note rate was 2.85% and 2.98%, respectively (1)	30,256,263	16,264,516	32,948,717	29,604,167
Bridge loan warehouse, financial institution, \$13.5 million committed line, expiration May 2010, interest rate variable based on LIBOR or Prime, the weighted average note rate was 3.86% and 5.15%, respectively	11,835,414	12,793,046	43,762,001	53,828,592
Working capital facility, Wachovia Bank, National Association; \$45 million committed line, expiration July 2009, interest is variable based on one-month LIBOR, the weighted average note rate was 5.38% and 5.51%, respectively (1)	41,907,965		41,907,965	

Note payable relating to investment in equity affiliates, \$50.2 million, expiration July 2016, interest is fixed, the weighted average note rate was 4.06%, respectively

50,157,708 55,988,411 48,500,000

Junior loan participations, maturity of July 2011, secured by the Company's interest in first mortgage loans with principal balances totaling \$5.0 million, participation interest based on a portion of the interest received from the loans which have fixed rates of 16.00%

5,000,000 5,000,000 5,000,000 5,000,000

Junior loan participation, maturity May 2010, secured by the Company's interest in a first mortgage loan with a principal balance of \$1.3 million, participation interest was based on a portion of the interest received from the loan which has a fixed rate of 9.57%

1,300,000 1,300,000 1,300,000 1,300,000

Total notes payable

\$ 442,186,353 \$ 547,009,286 \$ 518,435,437 \$ 667,587,244

(1) In July 2009, the Company amended and restructured its term credit agreements, revolving credit agreement and working capital facility with Wachovia Bank, National Association (Wachovia) as discussed below.

At June 30, 2009, the aggregate weighted average note rate for the Company's notes payable, including the cost of interest rate swaps on assets financed in these facilities, was 3.48%. Excluding the effect of swaps, the weighted average note rate at June 30, 2009 was 3.14%.

The Company had two credit agreements with Wachovia at June 30, 2009. The first credit agreement consisted of a \$473.0 million term loan and a \$100.0 million revolving commitment. The facility had a commitment period of two years with a one year auto extension feature, subject to certain criteria, to November 2010, bore

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interest at pricing over LIBOR, and eliminated the mark to market risk as it relates to interest rate spreads that existed under the terms of the previous repurchase agreements. The advance rates for this term facility were similar to the advance rates that existed under the previous repurchase agreements. The \$473.0 million term loan component had repayment provisions which included reducing the outstanding balance to \$300.0 million by December 31, 2008. The outstanding balance under the term component of this facility was \$237.7 million at June 30, 2009. In July 2009, the Company restructured this credit agreement as discussed below. The \$100.0 million revolving commitment was used to finance new investments and could have been increased with lender approval to \$200.0 million when the term loan was paid down to \$400.0 million. The term loan was paid down to \$400.0 million on February 15, 2008. The outstanding balance under the revolving component of this facility was \$64.0 million at June 30, 2009. In July 2009, the Company restructured this revolving commitment as discussed below.

The second credit agreement was a \$69.0 million term loan which had a commitment period of two years with a one year extension option to November 2010 and bore interest at pricing over LIBOR. This agreement included \$10.0 million of annual repayment provisions in quarterly installments. The advance rate on this term facility was higher than the advance rate for the collateral that was in the repurchase agreement and the facility eliminated the mark to market risk as it relates to interest rate spreads that existed under the terms of the previous repurchase agreement. The Company had also pledged its 7.5% equity interest in POM as part of this agreement. In the second and third year of this term facility, the Company was required to paydown this facility by an additional amount equal to distributions in excess of \$10.0 million per year received by the Company from its investment in POM, if any. See Note 6 Investment in Equity Affiliates for further details. The outstanding balance under the term component of this facility was \$30.3 million at June 30, 2009. In July 2009, the Company restructured this term loan as discussed below.

The Company had a \$70.0 million bridge loan warehouse agreement which had a maturity date of October 2009. In May 2009, the Company amended this facility, extending the maturity to May 2010, with a one year extension option, and reducing the committed amount to \$13.5 million. This agreement bears a rate of interest, payable monthly, based on LIBOR plus 3.75%. Pricing is available at Prime or over 1, 2, 3 or 6-month LIBOR, at our option. At June 30, 2009, the aggregate outstanding balance under this facility was \$11.8 million. In July 2009, this facility was paid off.

The Company had a \$45.0 million working capital facility with Wachovia with a maturity of June 2009. In June 2009, the maturity was amended to July 2009. The facility required quarterly paydowns of \$3.0 million and interest rate pricing over LIBOR of 500 basis points. At June 30, 2009, the aggregate outstanding balance under this facility was \$41.9 million. In July 2009, the Company restructured this working capital facility as discussed below.

During the second quarter of 2008, the Company recorded a \$49.5 million note payable related to the POM exchange of profits interest transaction. The note was initially secured by the Company's interest in POM, matures in July 2016 and bore interest at a fixed rate of 4% with payment deferred until the closing of the transaction. Upon the closing of the POM transaction in March 2009, the note balance was increased to \$50.2 million, bears interest at a fixed rate of 4% and is secured by the Company's investment in common and preferred operating partnership units in Lightstone Value Plus REIT, L.P. See Note 6 Investment in Equity Affiliates for further details. At June 30, 2009, the outstanding balance of this note was \$50.2 million.

The Company had three junior loan participations with a total outstanding balance at June 30, 2009 of \$6.3 million. These participation borrowings have a maturity date equal to the corresponding mortgage loan and are secured by the participant's interest in the mortgage loan. Interest expense is based on a portion of the interest received from the loans.

In July 2009, the Company amended and restructured its term credit agreements, revolving credit agreement and working capital facility with Wachovia Bank, National Association as follows:

The term revolving credit agreement, with an outstanding balance of \$64.0 million at June 30, 2009 was combined into the term debt facility with an outstanding balance of \$237.7 million at June 30, 2009, along with

a portion of the term debt facility with an outstanding balance of \$30.3 million at June 30, 2009, and

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\$15.0 million of this term debt facility was combined into the working capital line with an outstanding balance of \$41.9 at June 30, 2009. This debt restructuring resulted in the consolidation of these four facilities into one term debt facility with an outstanding balance of \$317.0 million, which contains a revolving component with \$35.0 million of availability, and one working capital facility with an outstanding balance of \$56.9 million at July 2009.

The maturity dates of the facilities were extended for three years, with a working capital facility maturity of June 8, 2012 and a term debt facility maturity of July 23, 2012.

The term debt facility requires a \$48.0 million reduction over the three year term, with approximately \$8.0 million in reductions due every six months beginning in December 2009.

Margin call provisions relating to collateral value of the underlying assets have been eliminated, as long as the term loan reductions are met, with the exception of limited margin call capability related to foreclosed or real estate-owned assets.

The working capital facility requires quarterly amortization of up to \$3.0 million per quarter, \$1.0 million per CDO, only if both (a) the CDO is cash flowing to the Company and (b) the Company has a minimum quarterly liquidity level of \$27.5 million.

Interest rate of LIBOR plus 350 basis points for the term loan facility, compared to LIBOR plus approximately 200 basis points previously and LIBOR plus 800 basis points for the working capital facility, compared to LIBOR plus 500 basis points previously. The Company has also agreed to pay a commitment fee of 1.00% payable over 3 years.

The Company issued Wachovia 1.0 million warrants at an average strike price of \$4.00. 500,000 warrants are exercisable immediately at a price of \$3.50, 250,000 warrants are exercisable after July 23, 2010 at a price of \$4.00 and 250,000 warrants are exercisable after July 23, 2011 at a price of \$5.00. All warrants expire on July 23, 2015.

Annual dividends are limited to 100% of taxable income to common shareholders and are required to be paid in the form of the Company's stock to the maximum extent permissible (currently 90%), with the balance payable in cash. The Company will be permitted to pay 100% of taxable income in cash if the term loan facility balance is reduced to \$210.0 million, the working capital facility is reduced to \$30.0 million and the Company maintains \$35.0 million of minimum liquidity.

The Company's CEO and Chairman, Ivan Kaufman, is required to remain an officer or director of the Company for the term of the facilities.

In addition, the financial covenants have been reduced to the following:

Minimum quarterly liquidity of \$7.5 million in cash and cash equivalents.

Minimum quarterly GAAP net worth of \$150.0 million.

Ratio of total liabilities to tangible net worth shall not exceed 4.5 to 1 quarterly.

The Company is currently evaluating the effect of this transaction on its Consolidated Financial Statements.

Mortgage Note Payable

During the second quarter of 2008, the Company recorded a \$41.4 million first lien mortgage related to the foreclosure of an entity in which the Company had a \$5.0 million mezzanine loan. The mortgage bears interest at a fixed rate, has a maturity date of June 2012 and was recorded in mortgage note payable. The outstanding balance of this mortgage was \$41.4 million at June 30, 2009.

Note Payable Related Party

During the fourth quarter of 2008, the Company borrowed \$4.2 million from the Company's manager, ACM. At December 31, 2008, the Company had outstanding borrowings due to ACM totaling \$4.2 million, which was recorded in notes payable related party. In January 2009, the loan was repaid in full.

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Collateralized Debt Obligations

The following table outlines borrowings under the Company's collateralized debt obligations as of June 30, 2009 and December 31, 2008:

	June 30, 2009 Debt Carrying Value	December 31, 2008 Debt Carrying Value
CDO I Issued four investment grade tranches January 19, 2005. Reinvestment period through April 2009. Interest is variable based on three-month LIBOR; the weighted average note rate was 3.91% and 2.41%, respectively	\$ 261,807,428	\$ 275,319,000
CDO II Issued nine investment grade tranches January 11, 2006. Reinvestment period through April 2011. Interest is variable based on three-month LIBOR; the weighted average note rate was 3.21% and 3.03%, respectively	331,642,888	343,270,000
CDO III Issued 10 investment grade tranches December 14, 2006. Reinvestment period through January 2012. Interest is variable based on three-month LIBOR; the weighted average note rate was 1.73% and 1.65%, respectively	520,150,000	533,700,000
Total CDOs	\$ 1,113,600,316	\$ 1,152,289,000

At June 30, 2009, the aggregate weighted average note rate for the Company's collateralized debt obligations, including the cost of interest rate swaps on assets financed in these facilities, was 2.68%. Excluding the effect of swaps, the weighted average note rate at June 30, 2009 was 1.15%.

As of April 15, 2009, CDO I has reached the end of its replenishment date and will no longer make the \$2.0 million amortization payments to investors. Investor capital will be repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed will be recorded as a reduction of the CDO liability. Amortization proceeds from CDO II are distributed quarterly with approximately \$1.1 million being paid to investors as a reduction of the CDO liability.

CDO III has a \$100.0 million revolving note class that provides a revolving note facility. The outstanding note balance for CDO III was \$520.2 million at June 30, 2009 which included \$86.7 million outstanding under the revolving note facility. The outstanding note balance for CDO III was \$533.7 million at December 31, 2008 which included \$86.2 million outstanding under the revolving note facility.

The Company intends to own these portfolios of real estate-related assets until their maturities and accounts for these transactions on its balance sheet as financing facilities. For accounting purposes, CDOs are consolidated in the Company's financial statements. The investment grade tranches are treated as secured financings, and are non-recourse to the Company.

During the quarter ended June 30, 2009, the Company purchased, at a discount, approximately \$4.2 million of investment grade rated notes originally issued by the Company's CDO II issuing entity for a price of \$2.0 million and

\$7.0 million of investment grade rated notes originally issued by the Company's CDO III issuing entity for a price of \$2.7 million. These notes were purchased from the Company's manager, ACM. In 2008, ACM purchased the notes from third party investors for \$5.0 million. The Company recorded a net gain on extinguishment of debt of \$6.5 million from these transactions in its Consolidated Statements of Operations.

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During the quarter ended March 31, 2009, the Company purchased, at a discount, approximately \$11.5 million of investment grade rated notes originally issued by the Company's CDO I issuing entity for a price of \$2.1 million, \$5.1 million of investment grade rated notes originally issued by the Company's CDO II issuing entity for a price of \$1.2 million and \$7.1 million of investment grade rated notes originally issued by the Company's CDO III issuing entity for a price of \$2.3 million. Approximately \$8.8 million of the investment grade rated CDO notes were purchased from the Company's manager, ACM for a price of \$3.2 million. In 2008, ACM purchased these notes from third party investors for \$3.2 million. The Company recorded a net gain on extinguishment of debt of \$18.2 million from this transaction in its Consolidated Statements of Operations.

Debt Covenants

Each of the credit facilities contains various financial covenants and restrictions, including minimum net worth, minimum liquidity, debt-to-equity ratios and fixed and senior fixed charge coverage ratios. The Company was in compliance with all financial covenants and restrictions for the periods presented with the exception of a minimum tangible net worth requirement with Wachovia at June 30, 2009. The Company's tangible net worth was \$307.2 million at June 30, 2009 and the Company was required to maintain a minimum tangible net worth of \$350.0 million with this financial institution. The Company has obtained a waiver of this covenant for June 30, 2009 from this financial institution and the covenant was subsequently amended in conjunction with the debt restructuring with this financial institution as previously disclosed.

The Company's CDO bonds contain interest coverage and asset over collateralization covenants that must be met as of the waterfall distribution date in order for the Company to receive such payments. If the Company fails these covenants in any of its CDOs, all cash flows from the applicable CDO would be diverted to repay principal and interest on the outstanding CDO bonds and the Company would not receive any residual payments until that CDO regained compliance with such tests. The Company was in compliance with all such covenants as of June 30, 2009. In the event of a breach of the CDO covenants that could not be cured in the near-term, the Company would be required to fund its non-CDO expenses, including management fees and employee costs, distributions required to maintain REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CDO not in breach of a CDO covenant test, (iii) income from real property and unencumbered loan assets, (iv) sale of assets, (v) or accessing the equity or debt capital markets, if available. The Company has the right to cure covenant breaches which would resume normal residual payments to the Company by purchasing non-performing loans out of the CDOs.

Note 9 Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with SFAS No. 133 which requires an entity to recognize all derivatives as either assets or liabilities in the consolidated balance sheets and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either accumulated other comprehensive loss in Arbor Realty Trust, Inc. Stockholders' Equity until the hedged item is recognized earnings or in net (loss) income attributable to Arbor Realty Trust, Inc., depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

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

loans; and (ii) the difference between the CDO investor return being based on the three-month LIBOR index while the supporting assets of the CDO are based on the one-month LIBOR index.

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Derivative financial instruments must be effective in reducing the Company's interest rate risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income for each period until the derivative instrument matures or is settled. Any derivative instrument used for risk management that does not meet the hedging criteria is marked-to-market with the changes in value included in net income. The Company does not use derivatives for trading or speculative purposes.

The following is a summary of the derivative financial instruments held by the Company as of June 30, 2009 and December 31, 2008: (Dollars in Thousands)

Designation\	Derivative	Count	Notional Value		Expiration	Date	Fair Value	
			June 30,	December			Balance	December
Cash Flow	Basis		2009	31,			Sheet	31,
	Swaps			2008			Location	2008
Non-Qualifying	Swaps	10	\$ 1,208,144	\$ 1,303,631	2009	2015	Other Assets	\$ 3,843 \$ 7,193
Qualifying	Swaps	2	\$ 53,518	\$	2012	2016	Other Assets	\$ 873 \$
Qualifying	Swaps	32	\$ 668,786	\$ 926,428	2010	2017	Other Liabilities	\$ (51,429) \$ (98,162)

The fair value of Non-Qualifying Hedges was \$3.8 million and \$7.2 million as of June 30, 2009 and December 31, 2008, respectively, and is recorded in other assets in the Consolidated Balance Sheet. These basis swaps are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of SFAS No. 133. The Company is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in benchmark interest rates and uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. These interest rate swaps designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. In June 2009, \$95.5 million of these basis swaps matured and the notional values were settled. For the six months ended June 30, 2009 and 2008, the change in fair value of the Non-Qualifying Swaps was \$(3.3) million and \$0.7 million, respectively and is recorded in interest expense on the Consolidated Statements of Operations.

The fair value of Qualifying Cash Flow Hedges as of June 30, 2009 and December 31, 2008 was \$(50.6) million and \$(98.2) million, respectively, and was recorded in other assets in the amount of \$0.9 million and other liabilities in the amount of \$(51.4) million at June 30, 2009 and other liabilities at December 31, 2008 and the change in accumulated other comprehensive loss in the Consolidated Balance Sheet. These interest rate swaps are used to hedge the variable cash flows associated with existing variable-rate debt, and amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the

Company's variable-rate debt. During the six months ended June 30, 2009, the Company entered into one new interest rate swap that qualifies as a cash flow hedge with a notional value of approximately \$45.1 million and paid \$1.7 million, which will be amortized into interest expense over the life of the swap. During the six months ended June 30, 2009, the Company terminated seven interest rate swaps related to the Company's restructured trust preferred securities, with a combined notional value of \$185.0 million, an interest rate swap with a notional value of approximately \$33.1 million and a \$33.5 million portion of an interest rate swap with a total notional value of approximately \$67.0 million. As of June 30, 2009, the Company expects to reclassify approximately \$(27.7) million of other comprehensive loss from Qualifying Cash Flow Hedges to interest expense over the next twelve months assuming interest rates on that date are held constant.

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Gains and losses on terminated swaps are being recognized in earnings over the original life of the hedging instruments as the hedged item was designated as current and future outstanding LIBOR based debt, which has an indeterminate life, and the hedged transaction is still more likely than not to occur. The Company deferred through accumulated other comprehensive loss approximately \$3.3 million of such loss on the termination of an interest rate swap agreement in the second quarter of 2009 and \$5.0 million of such loss on the termination of an interest rate swap agreement in the first quarter of 2009. As of June 30, 2009, the Company has a net loss of \$6.7 million in accumulated other comprehensive loss. As of December 31, 2008, the Company had a net gain of \$1.6 million in accumulated other comprehensive loss. The Company recorded \$0.3 million as additional interest expense related to the amortization of the loss for the six months ended June 30, 2009 and \$0.2 million as a reduction to interest expense related to the accretion of the net gains for both the six months ended June 30, 2009 and 2008. The Company expects to record approximately \$1.4 million of net deferred loss to interest expense over the next twelve months. The Company also recorded a loss of \$8.7 million on the termination of the interest rate swaps related to the restructured trust preferred securities directly to loss on terminated swaps in the second quarter of 2009 as interest rate swaps were determined to no longer be effective or necessary due to the modified interest payment structure of the newly issued unsecured junior subordinated notes.

The following table presents the effect of the Company's derivative financial instruments on the Statements of Operations as of June 30, 2009 and December 31, 2008: (Dollars in Thousands)

Designation Cash Flow	Derivative	Amount of Gain or (Loss)		Amount of Gain or (Loss)		Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Loss into Loss on Terminated Swaps (Ineffective Portion)		Amount of Gain or (Loss) Recognized in Interest Expense (Ineffective Portion)	
		Recognized in Other Comprehensive Loss (Effective Portion) For the Six Months Ended	Reclassified from Accumulated Other Comprehensive Loss into Interest Expense (Effective Portion) For the Six Months Ended	Recognized in Other Comprehensive Loss into Loss on Terminated Swaps (Ineffective Portion) For the Six Months Ended	Reclassified from Accumulated Other Comprehensive Loss into Interest Expense (Effective Portion) For the Six Months Ended	Recognized in Other Comprehensive Loss into Loss on Terminated Swaps (Ineffective Portion) For the Six Months Ended	Reclassified from Accumulated Other Comprehensive Loss into Loss on Terminated Swaps (Ineffective Portion) For the Six Months Ended	Recognized in Other Comprehensive Loss into Loss on Terminated Swaps (Ineffective Portion) For the Six Months Ended	Reclassified from Accumulated Other Comprehensive Loss into Interest Expense (Effective Portion) For the Six Months Ended
		June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Non-Qualifying	Basis Swaps	\$	\$	\$	\$	\$	\$	\$ 3,078	\$ 2,993
Qualifying	Interest Rate Swaps	\$ 39,396	\$ 3,583	\$ (14,043)	\$ (5,749)	\$ (8,730)	\$	\$	\$

The cumulative amount of other comprehensive loss related to net unrealized losses on derivatives designated as Cash Flow Hedges as of June 30, 2009 and December 31, 2008 of \$(57.2) million and \$(96.6) million, respectively, is a combination of the fair value of qualifying cash flow hedges of \$(50.6) million and \$(98.2) million, respectively, deferred losses on terminated interest swaps of \$(8.0) million as of June 30, 2009, and deferred net gains on termination of interest swaps of \$1.4 million and \$1.6 million as of June 30, 2009 and December 31, 2008, respectively.

The Company has agreements with certain of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. The Company also has an agreement with one of its derivative counterparties that contains a provision where if Arbor Realty Trust, Inc. stockholders' equity declines by more than 50%, then the Company could be declared in default on its derivative obligation. As of June 30, 2009, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$(19.1) million. As of June 30, 2009, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of \$19.2 million. If the Company had breached any of these provisions as of June 30, 2009, it could have been required to settle its obligations under the agreements at their termination value of \$(19.1) million, which is \$0.1 million less than the posted collateral.

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Note 10 Fair Value

Fair Value of Financial Instruments

SFAS No. 107 requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1 (FSP FAS 107-1 and APB 28-1), Interim Disclosures about Fair Value of Financial Instruments. FSP FAS 107-1 and APB 28-1 requires the Company to disclose in the notes of its interim financial statements as well as its annual financial statements, the fair value of all financial instruments as required by SFAS 107, Disclosures about Fair Value of Financial Instruments. FSP FAS 107-1 and APB 28-1 applies to all financial instruments within the scope of SFAS 107.

The following table summarizes the carrying values and the estimated fair values of financial instruments as of June 30, 2009 and December 31, 2008. Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions.

	June 30, 2009		December 31, 2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Loans and investments, net	\$ 1,925,689,370	\$ 1,618,129,241	\$ 2,181,683,619	\$ 1,886,787,988
Available-for-sale securities	146,973	146,973	529,104	529,104
Securities held-to-maturity	68,884,086	30,567,970	58,244,348	18,735,000
Derivative financial instruments	4,716,333	4,716,333	7,192,967	7,192,967
Financial liabilities:				
Repurchase agreements	\$ 4,388,250	\$ 4,224,706	\$ 60,727,789	\$ 58,390,888
Collateralized debt obligations	1,113,600,316	307,720,100	1,152,289,000	324,796,811
Junior subordinated notes	259,173,610	68,684,452	276,055,000	66,061,690
Notes payable	442,186,353	430,459,211	518,435,437	499,254,876
Note payable related party			4,200,000	4,177,373
Mortgage note payable	41,440,000	40,393,093	41,440,000	40,893,904
Derivative financial instruments	51,428,653	51,428,653	98,161,523	98,161,523

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

Loans and investments, net: Fair values of loans and investments are estimated using discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates that

would be offered for loans with similar characteristics and credit quality.

Available-for-sale securities: Fair values are approximated based on current observed prices received from markets that trade such securities.

Securities held-to-maturity: Fair values are approximated on current market quotes received from financial sources that trade such securities and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions.

Derivative financial instruments: Fair values are approximated on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions. These items are included in other assets and other liabilities on the consolidated balance sheet.

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In accordance with SFAS 157, the Company incorporates credit valuation adjustments in the fair values of its derivative financial instruments to reflect counterparty nonperformance risk.

Repurchase agreements, notes payable and mortgage note payable: Fair values are estimated using discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates for financings with similar characteristics and credit quality. Due to their reasonably short-term nature, the differences between fair values and carrying values were relatively small.

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

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

Fair Value Measurement

SFAS No. 157, Fair Value Measurements for financial assets and liabilities defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements.

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

Assets and liabilities disclosed at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by SFAS 157 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

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

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

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

guarantees and certain derivatives.

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

The Company measures certain financial assets and financial liabilities at fair value on a recurring basis, including available-for-sale securities and derivative financial instruments. The fair value of these financial assets and liabilities was determined using the following inputs as of June 30, 2009.

	Carrying	Fair	Fair Value Measurements Using Fair Value Hierarchy		
	Value	Value	Level 1	Level 2	Level 3
Financial assets:					
Available-for-sale securities (1)	\$ 146,973	\$ 146,973	\$146,973	\$	\$
Derivative financial instruments	4,716,333	4,716,333		4,716,333	
Financial liabilities:					
Derivative financial instruments	51,428,653	51,428,653		51,428,653	

- (1) During the year ended December 31, 2008, the Company's available-for-sale securities were written to their fair value of \$0.5 million, resulting in the recognition of a \$16.2 million impairment that was considered other-than-temporary and included in operations for the period. An additional impairment charge of \$0.4 million was recorded to the Consolidated Statements of Operations during the quarter ended June 30, 2009 to reflect the investment at its market value as

of June 30, 2009.

Available-for-sale securities: Fair values are approximated on current market quotes received from financial sources that trade such securities.

Derivative financial instruments: Fair values are approximated on current market data received from financial sources that trade such instruments and are based on prevailing market data and derived from third party proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions. These items are included in other assets and other liabilities on the consolidated balance sheet. In accordance with SFAS 157, the Company incorporates credit valuation adjustments in the fair values of its derivative financial instruments to reflect counterparty nonperformance risk.

The Company measures certain financial assets and financial liabilities at fair value on a nonrecurring basis, such as loans and securities held-to-maturity. The fair value of these financial assets and liabilities was determined using the following inputs as of June 30, 2009.

	Carrying Value	Fair Value	Fair Value Measurements Using Fair Value Hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Impaired loans, net (1)	\$384,667,048	\$362,362,488	\$	\$	\$362,362,488
Securities-held-to maturity (2)		100,000			100,000

(1) The Company had an allowance for loan losses of \$221.0 million relating to 22 loans with an aggregate carrying value, before reserves, of approximately \$605.7 million at June 30, 2009.

(2) During the year ended December 31, 2008, one of the Company's held-to-maturity securities was written down resulting in the recognition of a \$1.4 million impairment that was considered other-than-temporary and included in earnings for the period.

Loan impairment assessments: Fair values of loans are estimated using discounted cash flow methodology, using discount rates, which, in the opinion of management, best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality. Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and net of the allowance for loan losses when such loan or investment is deemed to be impaired. The Company considers a loan impaired when, based upon current information and events, it is probable

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that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. The Company performs evaluations of its loans to determine if the value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, which may result in an allowance and corresponding charge to the provision for loan losses.

Securities held-to-maturity: Fair values are approximated on current market quotes received from financial sources that trade such securities.

Note 11 Commitments and Contingencies

Contractual Commitments

As of June 30, 2009, the Company had the following material contractual obligations (payments in thousands):

Payments Due by Period (1)

Contractual Obligations	2009	2010	2011	2012	2013	Thereafter	Total
Notes payable (2)	\$ 22,756	\$ 29,135	\$ 21,000	\$ 319,137	\$	\$ 50,158	\$ 442,186
Collateralized debt obligations (3)	80,796	47,766	196,425	788,613			1,113,600
Repurchase agreements		4,388					4,388
Trust preferred Securities (4)						259,174	259,174
Mortgage note payable				41,440			41,440
Outstanding unfunded commitments (5)	22,735	31,622	12,599	1,201	401	723	69,281
Totals	\$ 126,287	\$ 112,911	\$ 230,024	\$ 1,150,391	\$ 401	\$ 310,055	\$ 1,930,069

(1) Represents amounts due based on contractual maturities.

(2) In July 2009, the Company amended and restructured its term credit agreements, revolving credit agreement and working capital facility with

Wachovia described in Note 8 Debt Obligations, extending the maturity dates for three years, which is reflected in this table.

- (3) Comprised of \$261.8 million of CDO I debt, \$331.6 million of CDO II debt and \$520.2 million of CDO III debt with a weighted average remaining maturity of 1.65, 2.62 and 3.04 years, respectively, as of June 30, 2009. In the first and second quarter of 2009, the Company repurchased, at a discount, approximately \$34.9 million of investment grade notes originally issued by the Company's CDO I, CDO II and CDO III issuers and recorded a reduction of the outstanding debt balance of \$34.9 million.

- (4) In the first quarter of 2009, the Company

repurchased, at a discount, approximately \$9.4 million of investment grade rated junior subordinated notes originally issued by the Company's issuing entity and recorded a reduction of the outstanding debt balance of \$9.4 million.

- (5) In accordance with certain loans and investments, the Company has outstanding unfunded commitments of \$69.3 million as of June 30, 2009, that the Company is obligated to fund as the borrowers meet certain requirements. Specific requirements include, but are not limited to, property renovations, building construction, and building conversions based on criteria met by the borrower in accordance with the loan agreements. In

relation to the
\$69.3 million
outstanding
balance at
June 30, 2009,
the Company's
restricted cash
balance
contained
approximately
\$31.3 million of
cash held to
fund the portion
of the unfunded
commitments
for loans
financed by the
Company's CDO
vehicles.

Litigation

The Company currently is neither subject to any material litigation nor, to management's knowledge, is any material litigation currently threatened against the company.

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Note 12 Equity

Common Stock

The Company's charter provides for the issuance of up to 500 million shares of common stock, par value \$0.01 per share, and 100 million shares of preferred stock, par value \$0.01 per share. The Company was incorporated in June 2003 and was initially capitalized through the sale of 67 shares of common stock for \$1,005.

In 2007, the Company filed a shelf registration statement on Form S-3 with the SEC under the 1933 Act with respect to an aggregate of \$500.0 million of debt securities, common stock, preferred stock, depositary shares and warrants that may be sold by the Company from time to time pursuant to Rule 415 of the 1933 Act. On April 19, 2007, the Commission declared this shelf registration statement effective. At June 30, 2009, the Company had \$425.3 million available under this shelf registration.

In June 2008, the Company issued 3,776,069 common shares upon the exchange of OP units by ACM on a one-for-one basis. As a result, the special voting preferred shares paired with each OP unit, pursuant to a pairing agreement, were simultaneously redeemed and cancelled by the Company. In connection with this transaction, the Company's Board of Directors approved a resolution of the Company's charter allowing ACM and Ivan Kaufman to own more than the 7% ownership limitation of the Company's outstanding common stock.

In August 2008, the Company entered into an equity placement program sales agreement with a securities agent whereby the Company may issue and sell up to 3 million shares of its common stock through the agent who agrees to use its commercially reasonable efforts to sell such shares during the term of the agreement and under the terms set forth therein. To date, the Company has not utilized this equity placement program.

The Company had 25,387,410 and 25,142,410 shares of common stock outstanding at June 30, 2009 and December 31, 2008, respectively.

Deferred Compensation

On April 21, 2009, the Company issued an aggregate of 245,000 shares of restricted common stock under the 2003 Stock Incentive Plan, as amended in 2005 (the Plan), of which 155,000 shares were awarded to certain employees of the Company and ACM and 90,000 shares were issued to members of the board of directors. As a means of emphasizing retention at a critical time for the Company and due to their relatively low value, the 245,000 common shares underlying the restricted stock awards granted were fully vested as of the date of grant. In addition, on April 8, 2009, the Company accelerated the vesting of all unvested shares underlying restricted stock awards totaling 243,091 shares previously granted to certain employees of the Company and ACM and non-management members of the board. As a result of these transactions, the Company recorded approximately \$2.1 million of expense in the Company's Consolidated Statements of Operations during the second quarter of 2009 of which, \$1.7 million was recorded in employee compensation and benefits and \$0.4 million was recorded in selling and administrative.

Noncontrolling Interest

At December 31, 2007, noncontrolling interest in the Company's operating partnership was \$72.9 million reflecting ACM's 15.5% limited partnership interest in ARLP, the Company's operating partnership. In June 2008, ACM exercised its right to redeem its 3,776,069 operating partnership units (OP units) in the Company's operating partnership for shares of the Company's common stock on a one-for-one basis. As a result, ACM's operating partnership ownership interest in the Company and the balance of noncontrolling interest in the operating partnership were reduced to zero as of June 30, 2008. In accordance with EITF 95-7, Implementation Issues Related to the Treatment of Minority Interests in Certain Real Estate Investment Trusts, the redemption of the noncontrolling interest in operating partnership in exchange for the Company's common stock was recorded at book value and recorded directly to equity in additional paid-in capital. In addition, the special voting preferred shares paired with each OP unit, pursuant to a pairing agreement, were redeemed simultaneously and cancelled by the Company. In connection with this transaction, the Company's Board of Directors approved a resolution of the

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Company's charter allowing ACM and Ivan Kaufman to own more than the 7% ownership limitation, up to 21.9% of the Company's outstanding common stock.

In December 2007, the FASB issued SFAS 160, effective for years beginning after December 15, 2008. SFAS 160 clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for and reporting of transactions between the Company and holders of such noncontrolling interests. Under SFAS 160, noncontrolling interests are considered equity and should be reported as an element of consolidated equity. Also under SFAS 160, net income encompasses the total income of all consolidated subsidiaries and requires separate disclosure on the face of the statements of operations of income attributable to the controlling and noncontrolling interests. When a subsidiary is deconsolidated, any retained, noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary must be measured at fair value. The presentation and disclosure requirements have been applied retrospectively for all periods presented.

Noncontrolling interest in a consolidated entity on the Company's consolidated balance sheet as of June 30, 2009 was \$1.9 million, representing a third party's interest in the equity of a consolidated subsidiary that owns an investment and carries a note payable related to the POM transaction discussed in Note 6 — Investment in Equity Affiliates. As a result of the POM transaction in March 2009, the Company recorded \$18.5 million of net income attributable to the noncontrolling interest holder and a distribution to the noncontrolling interest of \$16.6 million during the quarter ended March 2009. For the three and six months ended June 30, 2008, \$2.1 million and \$4.5 million, respectively, of net income attributable to the noncontrolling interest on the Company's consolidated statements of operations represented income allocated to ACM's noncontrolling interest in the operating partnership.

Note 13 Earnings Per Share

Earnings per share (EPS) is computed in accordance with SFAS No. 128, Earnings Per Share. Basic earnings per share is calculated by dividing net income attributable to Arbor Realty Trust, Inc. by the weighted average number of shares of common stock outstanding during each period inclusive of unvested restricted stock which participate fully in dividends. Diluted EPS is calculated by dividing income adjusted for noncontrolling interest in the operating partnership 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 the potential settlement of incentive management fees in common stock and ARLP's operating partnership units, prior to the redemption for common stock in June 2008.

The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per share computations for the three months ended June 30, 2009 and 2008.

	For the Three Months Ended June 30, 2009		For the Three Months Ended June 30, 2008	
	Basic	Diluted	Basic	Diluted
Net (loss) income attributable to Arbor Realty Trust, Inc.	\$ (48,556,995)	\$ (48,556,995)	\$ 11,728,006	\$ 11,728,006
Add: net income attributable to noncontrolling interest in operating partnership				2,117,464
(Loss) earnings allocable to common stock	\$ (48,556,995)	\$ (48,556,995)	\$ 11,728,006	\$ 13,845,470

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Weighted average number of common shares outstanding	25,333,564	25,333,564	20,906,383	20,906,383
Weighted average number of operating partnership units				3,734,574
Dilutive effect of incentive management fee shares				80,703
Total weighted average common shares outstanding	25,333,564	25,333,564	20,906,383	24,721,660
(Loss) earnings per common share	\$ (1.92)	\$ (1.92)	\$ 0.56	\$ 0.56

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The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per share computations for the six months ended June 30, 2009 and 2008.

	For the Six Months Ended June 30, 2009		For the Six Months Ended June 30, 2008	
	Basic	Diluted	Basic	Diluted
Net (loss) income attributable to Arbor Realty Trust, Inc.	\$ (52,810,733)	\$ (52,810,733)	\$ 24,432,797	\$ 24,432,797
Add: net income attributable to noncontrolling interest in operating partnership				4,450,754
(Loss) earnings allocable to common stock	\$ (52,810,733)	\$ (52,810,733)	\$ 24,432,797	\$ 28,883,551
Weighted average number of common shares outstanding	25,238,515	25,238,515	20,739,081	20,739,081
Weighted average number of operating partnership units				3,755,321
Dilutive effect of incentive management fee shares				68,118
Total weighted average common shares outstanding	25,238,515	25,238,515	20,739,081	24,562,520
(Loss) earnings per common share	\$ (2.09)	\$ (2.09)	\$ 1.18	\$ 1.18

Note 14 Related Party Transactions

At June 30, 2009, due to related party was \$4.7 million and consisted primarily of \$5.8 million of base management fees that were due to ACM and remitted by the Company in the subsequent quarter. The balance also included \$1.1 million of escrows due from ACM related to a second quarter 2009 foreclosed real estate asset. At December 31, 2008, due to related party was \$1.0 million and consisted of \$0.8 million of base management fees and \$0.2 million of unearned fees due to ACM that were remitted by the Company in February 2009.

At December 31, 2008, due from related party was \$2.9 million as a result of an overpayment of incentive management compensation based on the results of the twelve months ended December 31, 2008. During the quarter ended June 30, 2009, ACM repaid the \$2.9 million overpayment in full. See Note 16 Management Agreement for further details.

During the first quarter of 2009, the Company purchased from ACM, approximately \$8.8 million of investment grade rated bonds originally issued by two of the Company's three CDO issuing entities and approximately

\$9.4 million of junior subordinated notes originally issued by a wholly-owned subsidiary of the Company's operating partnership for a net gain on early extinguishment of debt of \$13.8 million. At March 31, 2009, ACM owned \$11.3 million of CDO notes originally issued by the Company's CDOs that were purchased for \$5.0 million from third party investors in 2008. During the second quarter of 2009, the Company purchased from ACM the remaining \$11.2 million of CDO bonds, at a discount and net of a principal payment, and recorded a gain on early extinguishment of debt of \$6.5 million. See Note 8 Debt Obligations for further details.

At December 31, 2008, the Company had outstanding borrowings from ACM totaling \$4.2 million. In January 2009, the loan was repaid in full. See Note 8 Debt Obligations for further details.

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The Company is dependent upon its manager (ACM), with whom it has a conflict of interest, to provide services to the Company that are vital to its operations. The Company's chairman, chief executive officer and president, Mr. Ivan Kaufman, is also the chief executive officer and president of ACM, and, the Company's chief financial officer, Mr. Paul Elenio, is the chief financial officer of ACM. In addition, Mr. Kaufman and the Kaufman entities together beneficially own approximately 92% of the outstanding membership interests of ACM and certain of the Company's employees and directors, also hold an ownership interest in ACM. Furthermore, one of the Company's directors also serves as the trustee of one of the Kaufman entities that holds a majority of the outstanding membership interests in ACM and co-trustee of another Kaufman entity that owns an equity interest in ACM. ACM currently holds approximately 5.4 million common shares, representing 21.2% of the voting power of the Company's outstanding stock as of June 30, 2009.

Note 15 Distributions

The Board of Directors has announced that the Company has elected not to pay a common stock dividend for the quarter ended June 30, 2009. The Company decided, based on the continued difficult economic environment, to retain capital for working capital purposes.

In January 2009, the Board of Directors elected not to pay a common stock distribution with respect to the quarter ended December 31, 2008. The Company believes the dividends paid in 2008 fully satisfy its 2008 REIT distribution requirements.

Note 16 Management Agreement

The Company, ARLP and Arbor Realty SR, Inc. have entered into a management agreement with ACM, which provides that for performing services under the management agreement, the Company will pay ACM an incentive compensation fee and base management fee.

For performing services under the management agreement, the Company paid ACM an annual base management fee payable monthly in cash as a percentage of ARLP's equity and equal to 0.75% per annum of the equity up to \$400 million, 0.625% per annum of the equity from \$400 million to \$800 million and 0.50% per annum of the equity in excess of \$800 million. For purposes of calculating the base management fee, equity equaled the month end value computed in accordance with GAAP of (1) total partners' equity in ARLP, plus or minus (2) any unrealized gains, losses or other items that do not affect realized net income. With respect to all loans and investments originated during the term of the management agreement, the Company had also agreed with ACM that the Company pay ACM an amount equal to 100% of the origination fees paid by the borrower up to 1% of the loan's principal amount.

The Company also paid ACM incentive compensation on a quarterly basis, calculated as (1) 25% of the amount by which (a) ARLP's funds from operations per unit of partnership interest in ARLP, adjusted for certain gains and losses, exceeds (b) the product of (x) 9.5% per annum or the Ten Year U.S. Treasury Rate plus 3.5%, whichever is greater, and (y) the weighted average of book value of the net assets contributed by ACM to ARLP per ARLP partnership unit, the offering price per share of the Company's common equity in the private offering on July 1, 2003 and subsequent offerings and the issue price per ARLP partnership unit for subsequent contributions to ARLP, multiplied by (2) the weighted average of ARLP's outstanding partnership units.

On August 6, 2009, the Company amended its management agreement with ACM. The amendment was negotiated by a special committee of the Company's Board of Directors, consisting solely of independent directors and approved unanimously by all of the independent directors. JMP Securities LLC served as financial advisor to the special committee and Skadden, Arps, Slate, Meagher & Flom LLP served as its special counsel. The significant components of the amendment were as follows:

The existing base management fee structure, which was calculated as a percentage of the Company's equity, will be replaced with an arrangement whereby the Company will reimburse ACM for its actual costs incurred in managing the Company's business based on the parties' agreement in advance on an

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annual budget with subsequent quarterly true-ups to actual costs. This change will be adopted retroactively to January 1, 2009 and the Company estimates the 2009 base management fee will be in the range of \$8.0 million to \$9.0 million. Concurrent with this change, all future origination fees on investments will be retained by the Company as opposed to the manager earning up to the first one percent of all originations fees in the existing agreement. In addition, the Company will make a \$3.0 million payment to the manager in consideration of expenses incurred by the manager in 2008 in managing the Company's business and certain other services. These changes were accounted for prospectively as a change in accounting estimate and a recognized subsequent event.

The percentage hurdle for the incentive fee will be applied on a per share basis to the greater of \$10.00 and the average gross proceeds per share, whereas the existing management agreement provides for such percentage hurdle to be applied only to the average gross proceeds per share. In addition, only 60% of any loan loss and other reserve recoveries will be eligible to be included in the incentive fee calculation, which will be spread over a three year period, whereas the existing management agreement does not limit the inclusion of such recoveries in the incentive fee calculation.

The amended management agreement will allow the Company to consider, from time to time, the payment of additional incentive fees to the manager for accomplishing certain specified corporate objectives.

The amended management agreement will modify and simplify the provisions related to the termination of the agreement and any related fees payable in such instances, including for internalization, with a termination fee of \$10.0 million, rather than a multiple of base and incentive fees as currently exists.

The amended management agreement will remain in effect until December 31, 2010, and will be renewed automatically for successive one-year terms thereafter.

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

	For the Three Months		For the Six Months Ended	
	Ended June 30,		June 30,	
Management Fees:	2009	2008	2009	2008
Base	\$ 6,277,623	\$ 900,924	\$ 7,000,000	\$ 1,799,928
Incentive		1,252,914		2,933,344
Total expensed	\$ 6,277,623	\$ 2,153,838	\$ 7,000,000	\$ 4,733,272
Incentive compensation deferred		7,292,448		7,292,448
Total management fee	\$ 6,277,623	\$ 9,446,286	\$ 7,000,000	\$ 12,025,720

For the three months ended June 30, 2009 and 2008, the Company recorded \$6.3 million and \$0.9 million, respectively, of base management fees due to ACM of which \$5.8 million and \$0.3 million, respectively, were included in due to related party. For the three and six months ended June 30, 2009, as a result of the amended management agreement the Company recorded an additional \$5.6 million of base management fees, or \$0.22 per basic and diluted common share. For the six months ended June 30, 2009 and 2008, the Company recorded \$7.0 million and \$1.8 million, respectively, of base management fees.

For the three and six months ended June 30, 2009, ACM did not earn an incentive compensation installment. For the three and six months ended June 30, 2008, ACM earned incentive compensation installments totaling \$8.5 million and \$10.2 million, respectively. The \$10.2 million included a \$7.3 million deferred management fee recorded in the second quarter of 2008 related to the incentive compensation fee recognized from the monetization of the POM transaction in June 2008, which subsequently closed in the second quarter of 2009. In 2008, the \$7.3 million deferred incentive compensation fee was paid in 355,903 shares of common stock and \$4.1 million paid in

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cash, and was reclassified to prepaid management fees. In accordance with the management agreement, installments of the annual incentive compensation are subject to quarterly recalculation and potential reconciliation at the end of the 2009 fiscal year and any overpayments are required to be repaid in accordance with the amended management agreement.

In addition, during the six months ended June 30, 2008, ACM received incentive compensation installments totaling \$2.9 million, of which \$1.4 million was paid in 116,680 shares of common stock and \$1.5 million paid in cash. For the year ended December 31, 2008, ACM did not earn an incentive compensation fee and an overpayment of the incentive fee was recorded and included in due from related party in the amount of \$2.9 million. In June, 2009, ACM repaid the \$2.9 million in accordance with the amended management agreement described above. Additionally, in 2007, ACM received an incentive compensation installment totaling \$19.0 million which was recorded as prepaid management fees related to the incentive compensation management fee on \$77.1 million of deferred revenue recognized on the transfer of control of the 450 West 33rd Street property, of one of the Company's equity affiliates.

Note 17 Due to Borrowers

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

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

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

Overview

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

Our operating performance is primarily driven by the following factors:

Net interest income earned on our investments Net interest income represents the amount by which the interest income earned on our assets exceeds the interest expense incurred on our borrowings. If the yield earned on our assets decreases or the cost of borrowings increases, this will have a negative impact on earnings. However, if the yield earned on our assets increases or the cost of borrowings decreases, this will have a positive impact on earnings. Net interest income is also directly impacted by the size 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 and liquidity.

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

We are organized and conduct our operations to qualify as a real estate investment trust (REIT) for federal income tax purposes. A REIT is generally not subject to federal income tax on its REIT-taxable income that it distributes to its stockholders, provided that it distributes at least 90% of its REIT-taxable income and meets certain other requirements. Certain of our assets that produce non-qualifying income are owned by our taxable REIT subsidiaries, the income of which are subject to federal and state income taxes. We did not record a provision for income taxes related to the assets that are held in taxable REIT subsidiaries during the six months ended June 30, 2009 and 2008.

Sources of Operating Revenues

We derive our operating revenues primarily through interest received from making real estate-related bridge, mezzanine and junior participation loans and preferred equity investments. For the three and six months ended June 30, 2009, interest income earned on these loans and investments represented approximately 90% and 91% of our total revenues, respectively. For the three and six months ended June 30, 2008, interest income earned on these loans and investments represented approximately 98% and 99% of our total revenues, respectively.

Interest income may also be derived from profits of equity participation interests. No such interest income had been recognized for the three and six months ended June 30, 2009. For the six months ended June 30, 2008, interest earned on these equity participation interests represented approximately 1% of our total revenues. No such interest income had been recognized for the three months ended June 30, 2008.

We derived interest income from our investments in commercial real estate (CRE) collateralized debt obligation bond securities and commercial mortgage-backed securities (CMBS). For the three and six months ended June 30, 2009, interest on these investments represented approximately 3% of our total revenues, respectively. For the six months ended June 30, 2008, interest on these investments represented approximately 1% of our total revenues. No such income was recognized for the three months ended March 31, 2008.

Property operating income is derived from our real estate owned. For the three and six months ended June 30, 2009, property operating income represented approximately 5% of our total revenues, respectively. No such income was recognized for the three and six months ended June 30, 2008.

Additionally, we derive operating revenues from other income that represents loan structuring and defeasance fees, and miscellaneous asset management fees associated with our loans and investments portfolio. For the three and six months ended June 30, 2009, revenue from other income represented approximately 2% and 1% of our total revenues, respectively. For the three and six months ended June 30, 2008, revenue from other income represented less than 1% of our total revenues.

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

We derive income or losses from equity affiliates relating to joint ventures that were formed with equity partners to acquire, develop and/or sell real estate assets. These joint ventures are not majority owned or controlled by us, and are not consolidated in our financial statements. These investments are recorded under either the equity or cost method of accounting as appropriate. We record our share of net income and losses from the underlying properties and any other-than-temporary impairment of these investments on a single line item in the consolidated statements of operations as income or loss from equity affiliates. For the three months ended June 30, 2009, loss from equity affiliates was approximately \$(12.7) million and for the six months ended June 30, 2009, loss from equity affiliates totaled approximately \$(10.2) million. For the three and six months ended June 30, 2008, loss from equity affiliates totaled approximately \$(0.6) million.

We also 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. No such income has been recorded to date.

Critical Accounting Policies

Please refer to the section of our Annual Report on Form 10-K for the year ended December 31, 2008 entitled Management's Discussion and Analysis of Financial Condition and Results of Operations Significant Accounting Estimates and Critical Accounting Policies for a discussion of our critical accounting policies. During the six months ended June 30, 2009, there were no material changes to these policies, except for the updates discussed below.

Revenue Recognition

Interest Income. Interest income is recognized on the accrual basis as it is earned from loans, investments and securities. In many instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, and deferred interest upon maturity. In some cases, interest income may also include the amortization or accretion of premiums and discounts arising from the purchase or origination of the loan or security. This additional income, net of any direct loan origination costs incurred, is deferred and accreted into interest income on an effective yield or interest method adjusted for actual prepayment activity over the life of the related loan or security as a yield adjustment. Income recognition is suspended for loans when, in the opinion of management, a full recovery of 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 above the current pay rate is recognized only upon actual receipt. Additionally, interest income is recorded when earned from equity participation interests, referred to as equity kickers. These equity kickers have the potential to generate additional revenues to us as a result of excess cash flows being distributed and/or as appreciated properties are sold or refinanced. We did not record interest income on such investments for the three and six months ended June 30, 2009 as compared to \$0.3 million for the six months ended June 30, 2008. No such income had been recognized for the three months ended June 30, 2008.

Property operating income. Property operating income represents operating income associated with the operations of two commercial real estate properties presented as real estate owned, net. For the three and six months ended June 30, 2009, we recorded approximately \$1.6 million and \$3.1 million of property operating income relating to real estate owned. There was no property operating income for the three and six months ended June 30, 2008.

Derivatives and Hedging Activities

In accordance with SFAS No. 133, the carrying values of interest rate swaps and the underlying hedged liabilities are reflected at their fair value. As of December 31, 2007 we retained the services of Chatham Financial Corporation, a Statement on Auditing Standards No. 70 (SAS 70), Service Organizations compliant, third party financial services company to determine these fair values. Changes in the fair value of these derivatives are either offset against the change in the fair value of the hedged liability through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. Derivatives that do not qualify for cash flow hedge accounting treatment are adjusted to fair value through earnings.

SFAS 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133, amends and expands the disclosure requirements of SFAS 133 with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by SFAS 133, we record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether a company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risk, even though hedge accounting does not apply or we elect not to apply hedge accounting under SFAS 133.

During the six months ended June 30, 2009 we entered into one new interest rate swap that qualifies as a cash flow hedge with a notional value of approximately \$45.1 million and paid \$1.7 million, which will be amortized into interest expense over the life of the swap. During the six months ended June 30, 2008, we entered into six additional interest rate swaps, that qualify as cash flow hedges, having a total combined notional value of approximately \$121.6 million. No such swaps had been entered into for the three months ended June 30, 2008. During the six months ended June 30, 2009, we terminated seven interest rate swaps related to our restructured trust preferred securities, with a combined notional value of \$185.0 million, for a loss of \$8.7 million recorded to loss on termination of swaps. Refer to the section titled Liquidity and Capital Resources Junior Subordinated Notes below. During the six months ended June 30, 2009, we also terminated an interest rate swap

with a notional value of approximately \$33.1 million and a \$33.5 million portion of an interest rate swap with a total notional value of approximately \$67.0 million. Additionally, during the six months ended June 30, 2009, two basis swaps had partially amortizing maturities totaling approximately \$95.5 million. Losses on termination will be amortized to interest expense over the original life of the hedging instruments. The fair value of our qualifying hedge portfolio has increased by approximately \$47.6 million from December 31, 2008 as a result of the terminated swaps, combined with a change in the projected LIBOR rates and credit spreads of both parties.

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

Recently Issued Accounting Pronouncements

For a discussion of the impact of new accounting pronouncements on our financial condition or results of operations, see Note 2 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof.

Changes in Financial Condition

Our loan and investment portfolio balance, including our held-to-maturity securities, at June 30, 2009 was \$2.0 billion, with a weighted average current interest pay rate of 5.17% as compared to \$2.2 billion, with a weighted average current interest pay rate of 6.13% at December 31, 2008. At June 30, 2009, advances on financing facilities totaled \$1.8 billion, with a weighted average funding cost of 3.45% as compared to \$2.0 billion, with a weighted average funding cost of 3.51% at December 31, 2008.

During the quarter ended June 30, 2009, two loans paid off on properties with an outstanding balance of \$84.0 million, five loans partially repaid totaling \$33.3 million and 12 loans were refinanced and or modified during the quarter totaling \$374.8 million. These totals included a \$23.8 million loss on the restructuring of a loan during the quarter. In addition, four loans totaling approximately \$181.8 million were extended during the quarter in accordance with the extension options of the corresponding loan agreements.

Cash and cash equivalents increased \$28.7 million, to \$29.5 million at June 30, 2009 compared to \$0.8 million at December 31, 2008. All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The increase was primarily due to payoffs and paydowns of our loan investments as well as cash received from an increase in the value of our interest rate swaps for which we had previously posted as collateral against these swaps.

Restricted cash decreased \$26.6 million, or 29% to \$66.6 million at June 30, 2009 compared to \$93.2 million at December 31, 2008. The majority of restricted cash is kept on deposit with the trustees for our collateralized debt obligations (CDOs), and primarily represents proceeds from loan repayments which will be used to purchase replacement loans as collateral for the CDOs. The decrease was primarily due to the redeployment of funds during the six months ended June 2009 from proceeds received from the full satisfaction of loans held in the CDO and the transfer of loans from other financing facilities to the CDOs. This was partially offset by a \$2.5 million cash reserve due to one our borrowers classified as restricted cash during the quarter ended June 30, 2009.

Securities held-to-maturity increased \$10.6 million, to \$68.9 million at June 30, 2009 compared to \$58.2 million at December 31, 2008 as a result of purchasing \$15.0 million of investment grade CMBS for \$10.7 million during the second quarter of 2009. The \$4.3 million discount received on the purchases of these securities will be accreted into interest income on an effective yield adjusted for actual prepayment activity over the estimated life remaining of the securities as a yield adjustment. See Note 5 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for a further description of these transactions.

Investment in equity affiliates increased \$37.0 million to \$66.3 million at June 30, 2009 compared to \$29.3 million at December 31, 2008. In June 2008, we entered into an agreement to transfer our 16.67% interest in POM, in exchange for preferred and common operating partnership units of Lightstone Value Plus REIT L.P. Upon closing this transaction in March 2009, we recorded an investment of approximately \$56.0 million for the preferred and common operating partnership units. This was partially offset by a \$11.7 million other-than-temporary

impairment on an equity investment in an unconsolidated joint venture, a seasonal ski resort operation, for the remaining amount of the investment recorded in loss from equity affiliates in our Consolidated Statements of Operations in the second quarter of 2009. In addition, in May 2009, we exchanged \$247.4 million of our outstanding trust preferred securities, consisting of \$239.7 million of junior subordinated notes issued to third party investors and \$7.7 million of common equity issued to us, including \$0.3 million already purchased, which was previously recorded as an investment in equity affiliates, in exchange for \$268.4 million of newly issued unsecured junior subordinated notes. As a result of this transaction, we retired our \$7.7 million of common equity and corresponding trust preferred securities reducing our investment in these entities to \$0.6 million at June 30, 2009. See Note 6 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for further details.

Real estate owned, net increased \$1.8 million to \$48.3 million at June 30, 2009 compared to \$46.5 million at December 31, 2008. In the second quarter of 2009, we foreclosed on a property secured by our \$4.0 million bridge loan and as a result, we recorded \$2.9 million on our balance sheet as real estate owned, net at a fair value. See Note 7 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for further details.

Due from related party was fully settled at June 30, 2009, compared to \$2.9 million at December 31, 2008, due to a payment by ACM, our manager, of \$2.9 million in June 2009 for prior year overpaid incentive management fees. Refer to Management Agreement below for further details.

Other assets decreased \$68.6 million, or 49% to \$71.1 million at June 30, 2009 compared to \$139.7 million at December 31, 2008. The decrease was primarily due to a \$27.3 million decrease in collateral posted for a portion of our interest rate swaps whose value had increased and which includes \$17.6 million in funded cash collateral from the termination of seven swaps related to our restructured trust preferred securities which was restructured and two other terminated interest rate swaps. The decrease was also due to a reduction of a \$16.5 million third party member receivable in March 2009 in connection with the closing of the POM transaction, a \$15.9 million decrease in interest receivable as a result of non-performing loans, lower rates on refinanced and modified loans, lower LIBOR rates, and the effect of a decrease in LIBOR rates on a portion of our interest rate swaps, a \$4.8 million reduction of margin calls related to other financing in 2008 and a \$3.3 million decrease in the fair value of non-qualifying CDO basis swaps. See Item 3 Quantitative and Qualitative Disclosures About Market Risk for further information relating to our derivatives.

Other liabilities decreased \$52.4 million, or 39%, to \$82.2 million at June 30, 2009 compared to \$134.6 million at December 31, 2008. The decrease was primarily due to a \$44.3 million decrease in accrued interest payable primarily due to the increase in value of our interest rate swaps, as well as the termination of interest rate swaps, a reduction in LIBOR rates, the timing of reset dates and a decline in the outstanding balance of our financing facilities.

During the second quarter of 2009, we settled a \$37.0 million repurchase financing facility for a cash payment of approximately \$22.0 million, resulting in a gain on extinguishment of debt of approximately \$15.0 million. In connection with this transaction, we sold a loan financed in this facility with a carrying value of \$47.0 million, at a discount, for approximately \$23.2 million and recorded a loss on restructuring of \$23.8 million. The proceeds were used to satisfy the \$22.0 million cash payment.

On April 21, 2009, we issued an aggregate of 245,000 shares of restricted common stock under the 2003 Stock Incentive Plan, as amended in 2005 (the Plan), of which 155,000 shares were awarded to certain of our and ACM employees and 90,000 shares were issued to members of the board of directors. As a means of emphasizing retention at a critical time for Arbor and due to their relatively low value, the 245,000 common shares underlying the restricted stock awards granted were fully vested as of the date of grant. In addition, on April 8, 2009, we accelerated the vesting of all unvested shares underlying restricted stock awards totaling 243,091 shares previously granted to certain of our and ACM employees and non-management members of the board. As a result of these transactions, we recorded approximately \$2.1 million of expense in our Consolidated Statements of Operations during the second quarter of 2009 of which, \$1.7 million was recorded in employee compensation and benefits and \$0.4 million was recorded in selling and administrative.

In March 2009, we exchanged our 16.67% interest in Prime Outlets Member, LLC (POM) for preferred and common operating partnership units of Lightstone Value Plus REIT L.P. at a value of approximately \$37.3 million. As a result, during the first quarter of 2009, we recorded a gain on exchange of profits interest of

approximately \$56.0 million and income attributable to noncontrolling interest of approximately \$18.7 million related to the third party member's portion of income recorded. See Note 6 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for further details.

In March 2009, we purchased from our manager, ACM, approximately \$9.4 million of junior subordinated notes originally issued by a wholly-owned subsidiary of our operating partnership for \$1.3 million. In 2009, ACM purchased these notes from third party investors for \$1.3 million. We recorded a net gain on extinguishment of debt of \$8.1 million and a reduction of outstanding debt totaling \$9.4 million from this transaction. In addition, during the three months ended March 31, 2009, we purchased approximately \$23.7 million of investment grade rated notes originally issued by our CDO issuing entities for a price of \$5.6 million. Of the \$23.7 million purchased, \$8.8 million of the CDO notes were purchased from ACM for a price of \$3.2 million. In 2008, ACM purchased these notes from third party investors for \$3.2 million. During the three months ended June 30, 2009, we purchased the remaining CDO notes from ACM for a price of \$4.7 million. In 2008, ACM purchased these notes from third party investors for \$5.0 million. We recorded a net gain on extinguishment of debt of \$18.2 million and a reduction of outstanding debt totaling \$23.7 million from these transactions in our first quarter 2009 financial statements and a gain on extinguishment of debt of \$6.5 million and a reduction of outstanding debt totaling \$11.2 million in our second quarter 2009 financial statements.

Comparison of Results of Operations for the Three Months Ended June 30, 2009 and 2008

The following table sets forth our results of operations for the three months ended June 30, 2009 and 2008:

	Three Months Ended June 30, 2009 2008 (Unaudited)		Increase/(Decrease) Amount Percent	
Revenue:				
Interest income	\$ 31,687,984	\$ 51,869,164	\$ (20,181,180)	(39)%
Property operating income	1,587,692		1,587,692	nm
Other income	782,410	28,629	753,781	nm
Total revenue	34,058,086	51,897,793	(17,839,707)	(34)%
Expenses:				
Interest expense	21,091,121	27,857,322	(6,766,201)	(24)%
Employee compensation and benefits	3,509,911	2,686,002	823,909	31%
Selling and administrative	2,681,579	2,793,161	(111,582)	(4)%
Property operating expenses	1,612,965		1,612,965	nm
Depreciation and amortization	283,022		283,022	nm
Other-than-temporary impairment	382,130		382,130	nm
Provision for loan losses	23,000,000	2,000,000	21,000,000	nm
Loss on restructured loans	23,790,835		23,790,835	nm
Management fee related party	6,277,623	2,153,838	4,123,785	191%
Total expenses	82,629,186	37,490,323	45,138,863	120%
(Loss) income before gain on exchange of profits interest, gain on extinguishment of debt, loss on termination of swaps and loss from equity affiliates	(48,571,100)	14,407,470	(62,978,570)	nm

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Gain on exchange of profits interest				nm
Gain on extinguishment of debt	21,464,957		21,464,957	nm
Loss on termination of swaps	(8,729,408)		(8,729,408)	nm
Loss from equity affiliates	(12,664,152)	(562,000)	(12,102,152)	nm
Net (loss) income	(48,499,703)	13,845,470	(62,345,173)	nm
Net income attributable to noncontrolling interest	57,292	2,117,464	(2,060,172)	(97)%
Net (loss) income attributable to Arbor Realty Trust, Inc.	\$ (48,556,995)	\$ 11,728,006	\$ (60,285,001)	nm

nm not meaningful

Revenue

Interest income decreased \$20.2 million, or 39%, to \$31.7 million for the three months ended June 30, 2009 from \$51.9 million for the three months ended June 30, 2008. This decrease was primarily due to a 32% decrease in the average yield on assets from 7.91% for the three months ended June 30, 2008 to 5.41% for the three months ended June 30, 2009. This decrease in yield was the result of a decrease in average LIBOR over the same period, along with the suspension of interest on our non-performing loans, lower rates on refinanced and modified loans and a decrease in loans and investments due to payoffs and paydowns. In addition, interest income from cash equivalents decreased \$1.1 million to \$0.1 million for the three months ended June 30, 2009 compared to \$1.2 million for the three months ended June 30, 2008 as a result of decreased average cash balances, as well as decreases in interest rates from 2008 to 2009.

Property operating income of \$1.6 million for the three months ended June 30, 2009 represents operating income associated with the operations of two commercial real estate properties recorded as real estate owned, net. There was no property operating income for the three months ended June 30, 2008.

Other income increased \$0.8 million for the three months ended June 30, 2009 from \$28,629 for the three months ended June 30, 2008. This is primarily due the sale of the securities used as collateral in association with the defeasance of one of our loans in the second quarter of 2009, which had a value in excess of the principal of the loan outstanding.

Expenses

Interest expense decreased \$6.8 million, or 24%, to \$21.1 million for the three months ended June 30, 2009 from \$27.9 million for the three months ended June 30, 2008. This decrease was primarily due to a 12% decrease in the average cost of these borrowings from 5.06% for the three months ended June 30, 2008 to 4.45% for the three months ended June 30, 2009 due to a reduction in average LIBOR on the portion of our debt that was floating over the same period. In addition, there was a 14% decrease in the average balance of our debt facilities from \$2.2 billion for the three months ended June 30, 2008 to \$1.9 billion for the three months ended June 30, 2009. This decrease in average balance was related to decreased leverage on our portfolio due to the repayment of certain debt resulting from loan payoffs and paydowns, along with the transfer of assets into our CDO vehicles.

Employee compensation and benefits expense increased \$0.8 million, or 31%, to \$3.5 million for the three months ended March 31, 2009 from \$2.7 million for the three months ended June 30, 2008. This increase was primarily due to grants of restricted stock awards to employees and the acceleration of all previously unvested restricted stock in the second quarter of 2009. These expenses represent salaries, benefits, stock-based compensation related to employees, and incentive compensation for those employed by us during these periods.

Selling and administrative expense decreased \$0.1 million, or 4%, to \$2.7 million for the three months ended June 30, 2009 from \$2.8 million for the three months ended June 30, 2008. These costs include, but are not limited to, professional and consulting fees, marketing costs, insurance expense, director's fees, licensing fees, travel and placement fees, and stock-based compensation relating to the cost of restricted stock granted to our directors and certain employees of our manager. This decrease was primarily due to expenses related to the POM transaction in the second quarter of 2008 netted by an increase in general corporate legal expenses associated with the exchange of our junior subordinated notes as well as debt restructuring in the first and second quarters of 2009, as well as grants of restricted stock awards to directors and certain employees of our manager, ACM, and the acceleration of all previously unvested restricted stock in the second quarter of 2009.

Property operating expenses of \$1.6 million for the three months ended June 30, 2009 represents all expenses related to the operations of two commercial real estate properties recorded as real estate owned, net. There were no property operating expenses for the three months ended June 30, 2008.

Depreciation and amortization expense of \$0.3 million for the three months ended June 30, 2009 represents depreciation on property, leasehold improvements, and equipment associated with the consolidation of an office building as real estate owned, net. There were no depreciation and amortization expenses for the three months ended June 30, 2008.

Other-than-temporary impairment charges of \$0.4 million for the three months ended June 30, 2009 represents the recognition of an additional impairment to the fair market value of our available-for-sale securities at June 30, 2009, that was considered other-than-temporary. GAAP accounting standards require that investments are evaluated periodically to determine whether a decline in their value is other-than-temporary, though it is not intended to indicate a permanent decline in value. There were no other-than-temporary impairment charges for the three months ended June 30, 2008. See Note 6 and Note 4 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for further details.

Provision for loan losses totaled \$23.0 million for the three months ended June 30, 2009, and \$2.0 million for the three months ended June 30, 2008. The provision recorded for the three months ended June 30, 2009 was based on our normal quarterly loan review at June 30, 2009, where it was determined that 22 loans with a aggregate carrying value of \$605.7 million, before reserves, were impaired. We performed an evaluation of the loans and determined that the fair value of the underlying collateral securing the impaired loans was less than the net carrying value of the loans, resulting in us recording an additional \$23.0 million provision for loan losses. The provision recorded for the three months ended June 30, 2008 was based on one loan with a carrying value of \$9.9 million, before reserves, that was determined to be impaired.

Loss on restructured loans of \$23.8 million for the three months ended June 30, 2009 represents the settlement of a bridge loan with a carrying value of \$47.0 million at a discount, for \$23.2 million. There were no losses on restructured loans for the three months ended June 30, 2008.

Management fees increased \$4.1 million to \$6.3 million for the three months ended June 30, 2009 from \$2.2 million for the three months ended June 30, 2008. These amounts represent compensation in the form of base management fees and estimated incentive management fees as provided for in the management agreement with our manager. The incentive management fee expense for the three months ended June 30, 2008 was \$1.3 million. No incentive management fee was earned for the three months ended June 30, 2009 as a result of a cumulative loss for the trailing 12-month period. The base management fee expense was \$6.3 million for the three months ended June 30, 2009 as compared to \$0.9 million for the three months ended June 30, 2008 due to the newly amended management agreement with ACM, our manager, in July 2009 which was retroactive. Refer to Management Agreement below for further details.

Gain on extinguishment of debt totaled \$21.5 million for the three months ended June 30, 2009. During the second quarter of 2009, we settled a \$37.0 million repurchase facility with a financial institution for a cash payment of approximately \$22.0 million, resulting in a gain on extinguishment of debt of approximately \$15.0 million. In connection with this transaction, we sold a bridge loan financed in this facility at a discount, and recorded a loss on restructured loans of \$23.8 million. Also during the second quarter of 2009, we purchased, at a discount, approximately \$11.2 million of investment grade rated bonds originally issued by two of our three CDO issuing entities and recorded a net gain on early extinguishment of debt of \$6.5 million related to these transactions.

Loss on termination of swaps of \$8.7 million for the three months ended June 30, 2009 resulted from the exchange of our outstanding trust preferred securities for newly issued unsecured junior subordinated notes in May 2009. Refer to Junior Subordinated Notes below for further details. In connection with the original issuance of the trust preferred securities, we had entered into various interest rate swap agreements. Due to the modified interest payment structure of the newly issued unsecured junior subordinated notes, the swaps were determined to no longer be effective or necessary and were subsequently terminated, resulting in a loss of \$8.7 million.

Loss from equity affiliates of \$12.7 million for the three months ended June 30, 2009 included an \$11.7 million impairment charge on an investment in an equity affiliate that was considered other-than-temporary. GAAP accounting standards require that investments are evaluated periodically to determine whether a decline in their value is other-than-temporary, though it is not intended to indicate a permanent decline in value. There were no other-than-temporary impairment charges for the three months ended June 30, 2008. Loss from equity affiliates also included \$0.9 million and \$0.6 million of loss recorded during the three months ended June 30, 2009 and June 30, 2008, respectively, which reflect a portion of the joint venture's losses from our Alpine Meadows equity investment. See Note 6 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for further details.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest totaled \$0.1 million for the three months ended June 30, 2009 representing the portion of income allocated to a third party's interest in a consolidated subsidiary, which holds a note payable that is accruing interest expense.

Net income attributable to noncontrolling interest in our operating partnership totaled \$2.1 million for the three months ended June 30, 2008 representing the portion of our income allocated to our manager. There was no net income attributable to noncontrolling interest in our operating partnership for the three months ended June 30, 2009. Our manager had a weighted average limited partnership interest of 15.2% during the three months ended June 30, 2008. In June 2008, our manager exercised its right to redeem its 3,776,069 operating partnership units in our operating partnership for shares of our common stock on a one-for-one basis. As a result, our manager's operating partnership ownership interest percentage was reduced to zero.

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51 (SFAS 160), effective for years beginning after December 15, 2008. SFAS 160 clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for and reporting of transactions between us and holders of such noncontrolling interests. Under SFAS 160, noncontrolling interests are considered equity and should be reported as an element of consolidated equity. Also under SFAS 160, net income encompasses the total income of all consolidated subsidiaries and requires separate disclosure on the face of the statements of operations of income attributable to the controlling and noncontrolling interests. When a subsidiary is deconsolidated, any retained, noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary must be measured at fair value. The presentation and disclosure requirements have been applied retrospectively for all periods presented.

Provision for Income Taxes

We are organized and conduct our operations to qualify as a REIT for federal income tax purposes. As a REIT, we are generally not subject to federal income tax on our REIT-taxable income that we distribute to our stockholders, provided that we distribute at least 90% of our REIT-taxable income and meet certain other requirements. As of June 30, 2009 and 2008, we were in compliance with all REIT requirements and, therefore, have not provided for income tax expense on our REIT-taxable income for the three months ended June 30, 2009 and 2008.

Certain of our assets that produce non-qualifying income are owned by our taxable REIT subsidiaries, the income of which is subject to federal and state income taxes. During the three months ended June 30, 2009 and 2008, we did not record any provision on income from these taxable REIT subsidiaries.

Comparison of Results of Operations for the Six Months Ended June 30, 2009 and 2008

The following table sets forth our results of operations for the six months ended June 30, 2009 and 2008:

	Six Months Ended June 30, 2009 2008 (Unaudited)		Increase/(Decrease) Amount Percent	
Revenue:				
Interest income	\$ 62,188,007	\$ 107,285,494	\$ (45,097,487)	(42)%
Property operating income	3,058,488		3,058,488	nm
Other income	798,660	49,322	749,338	nm
 Total revenue	 66,045,155	 107,334,816	 (41,289,661)	 (38)%
Expenses:				
Interest expense	40,241,937	59,161,421	(18,919,484)	(32)%
Employee compensation and benefits	5,901,895	4,663,345	1,238,550	27%
Selling and administrative	4,763,921	4,331,227	432,694	10%
Property operating expenses	2,944,110		2,944,110	nm
Depreciation and amortization	566,044		566,044	nm
Other-than-temporary impairment	382,130		382,130	nm
Provision for loan losses	90,500,000	5,000,000	85,500,000	nm
Loss on restructured loans	32,827,749		32,827,749	nm
Management fee related party	7,000,000	4,733,272	2,266,728	48%
 Total expenses	 185,127,786	 77,889,265	 107,238,521	 138%
 (Loss) income before gain on exchange of profits interest, gain on extinguishment of debt, loss on termination of swaps and loss from equity affiliates	 (119,082,631)	 29,445,551	 (148,528,182)	 nm
Gain on exchange of profits interest	55,988,411		55,988,411	nm
Gain on extinguishment of debt	47,731,990		47,731,990	nm
Loss on termination of swaps	(8,729,408)		(8,729,408)	nm
Loss from equity affiliates	(10,157,018)	(562,000)	(9,595,018)	nm
 Net (loss) income	 (34,248,656)	 28,883,551	 (63,132,207)	 nm
Net income attributable to noncontrolling interest	18,562,077	4,450,754	14,111,323	nm
 Net (loss) income attributable to Arbor Realty Trust, Inc.	 \$ (52,810,733)	 \$ 24,432,797	 \$ (77,243,530)	 nm

nm not meaningful

Revenue

Interest income decreased \$45.1 million, or 42%, to \$62.2 million for the six months ended June 30, 2009 from \$107.3 million for the six months ended June 30, 2008. This decrease was primarily due to a 35% decrease in the average yield on assets from 8.13% for the six months ended June 30, 2008 to 5.26% for the six months ended June 30, 2009. This decrease in yield was the result of a decrease in average LIBOR over the same period, along with the suspension of interest on our non-performing loans, lower rates on refinanced and modified loans and a decrease in loans and investments due to payoffs and paydowns. In addition, interest income from cash equivalents decreased \$2.6 million to \$0.4 million for the six months ended June 30, 2009 compared to \$3.0 million for the six

months ended June 30, 2008 as a result of decreased average cash balances, as well as decreases in interest rates from 2008 to 2009. Interest income for the six months ended June 30, 2008 also included the recognition of \$0.3 million from a 25.0% carried profits interest in a \$0.3 million preferred equity investment.

Property operating income of \$3.1 million for the six months ended June 30, 2009 represents operating income associated with the operations of two commercial real estate properties recorded as real estate owned, net. There was no property operating income for the six months ended June 30, 2008.

Other income increased \$0.8 million for the six months ended June 30, 2009 from \$49,322 for the six months ended June 30, 2008. This is primarily due to the sale of the securities used as collateral in association with the defeasance of one of our loans in the second quarter of 2009, which had a value in excess of the principal of the loan outstanding.

Expenses

Interest expense decreased \$18.9 million, or 32%, to \$40.2 million for the six months ended June 30, 2009 from \$59.2 million for the six months ended June 30, 2008. This decrease was primarily due to a 22% decrease in the average cost of these borrowings from 5.35% for the six months ended June 30, 2008 to 4.19% for the six months ended June 30, 2009 due to a reduction in average LIBOR on the portion of our debt that was floating over the same period. In addition, there was a 14% decrease in the average balance of our debt facilities from \$2.2 billion for the six months ended June 30, 2008 to \$1.9 billion for the six months ended June 30, 2009 as a result of decreased leverage on our portfolio due to the paying down of certain outstanding indebtedness by repayment of loans, the transfer of assets to our CDO vehicles which carry a lower cost of funds and from available capital.

Employee compensation and benefits expense increased \$1.2 million, or 27%, to \$5.9 million for the six months ended June 30, 2009 from \$4.7 million for the six months ended June 30, 2008. This increase was primarily due to grants of restricted stock awards to employees and the acceleration of all previously unvested restricted stock in the second quarter of 2009. These expenses represent salaries, benefits, stock-based compensation related to employees, and incentive compensation for those employed by us during these periods.

Selling and administrative expense increased \$0.4 million, or 10%, to \$4.8 million for the six months ended June 30, 2009 from \$4.3 million for the six months ended June 30, 2008. These costs include, but are not limited to, professional and consulting fees, marketing costs, insurance expense, director's fees, licensing fees, travel and placement fees, and stock-based compensation relating to the cost of restricted stock granted to our directors and certain employees of our manager. This increase was primarily due to an increase in general corporate legal expenses associated with the exchange of our junior subordinated notes as well as debt restructuring in the first and second quarters of 2009, as well as grants of restricted stock awards to directors and certain employees of our manager, ACM, and the acceleration of all previously unvested restricted stock in the second quarter of 2009.

Property operating expenses of \$2.9 million for the six months ended June 30, 2009 represents all expenses related to the operations of two commercial real estate properties recorded as real estate owned, net. There were no property operating expenses for the six months ended June 30, 2008.

Depreciation and amortization expense of \$0.6 million for the six months ended June 30, 2009 represents depreciation on property, leasehold improvements, and equipment associated with the consolidation of an office building as real estate owned, net. There were no depreciation and amortization expenses for the six months ended June 30, 2008.

Other-than-temporary impairment charges of \$0.4 million for the six months ended June 30, 2009 represents the recognition of an additional impairment to the fair market value of our available-for-sale securities at June 30, 2009, that was considered other-than-temporary. GAAP accounting standards require that investments are evaluated periodically to determine whether a decline in their value is other-than-temporary, though it is not intended to indicate a permanent decline in value. There were no other-than-temporary impairment charges for the three months ended June 30, 2008. See Note 6 and Note 4 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for further details.

Provision for loan losses totaled \$90.5 million for the six months ended June 30, 2009, and \$5.0 million for the six months ended June 30, 2008. The provision recorded for the six months ended June 30, 2009 was based on our normal quarterly loan review at June 30, 2009, where it was determined that 22 loans with a aggregate carrying value of \$605.7 million, before reserves, were impaired. We performed an evaluation of the loans and determined that the fair value of the underlying collateral securing the impaired loans was less than the net carrying value of the loans, resulting in us recording an additional \$90.5 million provision for loan losses. The provision recorded for the six months ended June 30, 2008 was based on four loans with an aggregate carrying value of \$80.3 million, before reserves, that were determined to be impaired.

Loss on restructured loans of \$32.8 million for the six months ended June 30, 2009 represents \$9.0 million in losses incurred as a result of restructuring certain of our loans primarily due to the unfavorable changes in market conditions in the first quarter of 2009 and the settlement of a bridge loan with a carrying value of \$47.0 million at a discount, for \$23.2 million in the second quarter of 2009. There were no losses on restructured loans for the six months ended June 30, 2008.

Management fees increased \$2.3 million to \$7.0 million for the six months ended June 30, 2009 from \$4.7 million for the six months ended June 30, 2008. These amounts represent compensation in the form of base management fees and estimated incentive management fees as provided for in the management agreement with our manager. The incentive management fee expense for the six months ended June 30, 2008 was \$2.9 million. No incentive management fee was earned for the six months ended June 30, 2009 as a result of a cumulative loss for the trailing 12-month period. The base management fee expense was \$7.0 million for the six months ended June 30, 2009 as compared to \$1.8 million for the six months ended June 30, 2008 due to the newly amended management agreement with ACM, our manager, in July 2009 which was retroactive. Refer to Management Agreement below for further details.

Gain on exchange of profits interest of \$56.0 million was due to the recognition of income attributable to the POM exchange of profits interest transaction recognized in the six months ended June 30, 2009. See Note 6 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for further details on the POM transaction recorded in the quarter ended March 2009.

Gain on extinguishment of debt totaled \$47.7 million for the six months ended June 30, 2009. During the first quarter of 2009, we purchased, at a discount, approximately \$23.7 million of investment grade rated bonds originally issued by our three CDO issuing entities. In addition, we purchased, at a discount, approximately \$9.4 million of junior subordinated notes originally issued by a wholly-owned subsidiary of our operating partnership. We recorded a net gain on early extinguishment of debt of \$26.3 million related to these transactions. During the second quarter of 2009, we purchased, at a discount, approximately \$11.2 million of investment grade rated bonds originally issued by two of our three CDO issuing entities and recorded a net gain on early extinguishment of debt of \$6.5 million related to these transactions. Also, during the second quarter of 2009, we settled a bridge loan secured by a condominium project in New York City, as well as our debt for the loan resulting in a gain on early extinguishment of the debt of \$15.0 million.

Loss on termination of swaps of \$8.7 million for the six months ended June 30, 2009 resulted from the exchange of our outstanding trust preferred securities for newly issued unsecured junior subordinated notes in the second quarter of 2009. Refer to Junior Subordinated Notes below. In connection with the original issuance of the trust preferred securities, we had entered into various interest rate swap agreements. Due to the modified interest payment structure of the newly issued unsecured junior subordinated notes, the swaps were determined to no longer be effective or necessary and were subsequently terminated, resulting in a loss of \$8.7 million.

Loss from equity affiliates of \$10.2 million for the six months ended June 30, 2009 included a \$11.7 million impairment charge on an investment in an equity affiliate that was considered other-than-temporary. GAAP accounting standards require that investments are evaluated periodically to determine whether a decline in their value is other-than-temporary, though it is not intended to indicate a permanent decline in value. There were no other-than-temporary impairment charges for the six months ended June 30, 2008. Loss from equity affiliates also included \$1.6 million of income and \$0.6 million of loss recorded during the six months ended June 30, 2009 and June 30 2008, respectively, which reflect a portion of the joint venture's losses from our Alpine Meadows equity

investment. See Note 6 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for further details.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest totaled \$18.6 million for the six months ended June 30, 2009 representing the portion of income allocated to the third party's interest in a consolidated subsidiary, primarily the result of the \$56.0 million gain recorded from the exchange of our profits interest in POM during the first quarter of 2009. This is related to the POM transaction discussed in Note 6 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof.

Net income attributable to noncontrolling interest in our operating partnership totaled \$4.5 million for the six months ended June 30, 2008 representing the portion of our income allocated to our manager. There was no net income attributable to noncontrolling interest in our operating partnership for the six months ended June 30, 2009. Our manager had a weighted average limited partnership interest of 15.3% for the six months ended June 30, 2008. In June 2008, our manager, exercised its right to redeem its 3,776,069 operating partnership units in our operating partnership for shares of our common stock on a one-for-one basis. As a result, our manager's operating partnership ownership interest percentage was reduced to zero.

Provision for Income Taxes

We are organized and conduct our operations to qualify as a REIT for federal income tax purposes. As a REIT, we are generally not subject to federal income tax on our REIT-taxable income that we distribute to our stockholders, provided that we distribute at least 90% of our REIT-taxable income and meet certain other requirements. As of June 30, 2009 and 2008, we were in compliance with all REIT requirements and, therefore, have not provided for income tax expense on our REIT-taxable income for the six months ended June 30, 2009 and 2008.

Certain of our assets that produce non-qualifying income are owned by our taxable REIT subsidiaries, the income of which is subject to federal and state income taxes. During the six months ended June 30, 2009 and 2008, we did not record any provision on income from these taxable REIT subsidiaries.

Liquidity and Capital Resources

Sources of Liquidity

Liquidity is a measurement of the ability to meet potential cash requirements. Our short-term and long-term liquidity needs include ongoing commitments to repay borrowings, fund future loans and investments, fund additional cash collateral from potential declines in the value of a portion of our interest rate swaps, fund operating costs and distributions to our stockholders as well as other general business needs. Our primary sources of funds for liquidity consist of proceeds from equity offerings, debt facilities and cash flows from operations. Our equity sources consist of funds raised from our private equity offering in July 2003, net proceeds from our initial public offering of our common stock in April 2004, net proceeds from our public offering of our common stock in June 2007 and depending on market conditions, proceeds from capital market transactions including the future issuance of common, convertible and/or preferred equity securities. Our debt facilities include the issuance of floating rate notes resulting from our CDOs, the issuance of junior subordinated notes and borrowings under credit agreements. Net cash provided by operating activities include interest income from our loan and investment portfolio reduced by interest expense on our debt facilities, cash from equity participation interests, repayments of outstanding loans and investments and funds from junior loan participation arrangements.

We believe our existing sources of funds will be adequate for purposes of meeting our short-term and long-term liquidity needs. 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.

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

To maintain our status as a REIT under the Internal Revenue Code, we must distribute annually at least 90% of our REIT-taxable income. These distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations. However, we believe that our capital resources and access to financing will provide us with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements. In December 2008, the IRS issued Revenue Procedure 2008-68 that allows listed REITs to offer shareholders elective stock dividends, which are paid in a combination of cash and common stock with at least 10% of the total distribution paid in cash, to satisfy the dividend requirement through 2009.

Equity Offerings

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

In March 2007, we filed a shelf registration statement on Form S-3 with the SEC under the 1933 Act with respect to an aggregate of \$500.0 million of debt securities, common stock, preferred stock, depositary shares and warrants, that may be sold by us from time to time pursuant to Rule 415 of the 1933 Act. On April 19, 2007, the Commission declared this shelf registration statement effective.

In June 2007, we sold 2,700,000 shares of our common stock registered on the shelf registration statement in a public offering at a price of \$27.65 per share, for net proceeds of approximately \$73.6 million after deducting the underwriting discount and the other estimated offering expenses. We used the proceeds to pay down debt and finance our loan and investment portfolio. The underwriters did not exercise their over allotment option for additional shares.

In August 2008, we entered into an equity placement program sales agreement with a securities agent whereby we may issue and sell up to three million shares of our common stock through the agent who agrees to use its commercially reasonable efforts to sell such shares during the term of the agreement and under the terms set forth therein. To date, we have not utilized this equity placement program.

At June 30, 2009, we had \$425.3 million available under the shelf registration described above and 25,387,410 shares outstanding.

Debt Facilities

We also currently maintain liquidity through a term credit agreement, two master repurchase agreements, one working capital facility, one note payable, three junior loan participations and one bridge loan warehousing credit agreement with six different financial institutions or companies. In addition, we have issued three collateralized debt obligations or CDOs and 13 separate junior subordinated notes. London inter-bank offered rate, or LIBOR, refers to one-month LIBOR unless specifically stated. As of June 30, 2009, these facilities had aggregate borrowings of approximately \$1.8 billion.

The following is a summary of our debt facilities as of June 30, 2009:

Debt Facilities	Commitment	At June 30, 2009		Maturity Dates
		Debt Carrying Value	Available	
Repurchase agreements. Interest is variable based on pricing over LIBOR	\$ 4,388,250	\$ 4,388,250	\$	2010
Collateralized debt obligations. Interest is variable based on pricing over three-month LIBOR	1,126,900,316	1,113,600,316	13,300,000	2011 - 2013
Junior subordinated notes. Interest is variable based on pricing over three-month LIBOR	259,173,610	259,173,610		2034 - 2037
Notes payable. Interest is variable based on pricing over Prime or LIBOR (1)	479,809,934	442,186,353	37,623,581	2009 - 2016
	\$ 1,870,272,110	\$ 1,819,348,529	\$ 50,923,581	

(1) In July 2009, we amended and restructured our term credit agreements, revolving credit agreement and working capital facility with Wachovia Bank, National Association as discussed below.

These debt facilities are discussed in further detail in Note 8 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof.

Repurchase Agreements

Repurchase obligation financings provide us with a revolving component to our debt structure. Repurchase agreements provide stand alone financing for certain assets and interim, or warehouse financing, for assets that we plan to contribute to our CDOs. At June 30, 2009, the aggregate outstanding balance under these facilities was \$4.4 million.

We had a \$200.0 million repurchase agreement with a financial institution which had a term expiring in October 2009 and had interest at pricing over LIBOR, varying on the type of asset financed. In June 2009, this facility, with approximately \$37.0 million outstanding, was satisfied at a discount for \$22.0 million resulting in a \$15.0 million gain on extinguishment of debt. In connection with this transaction, we sold a bridge loan financed in this facility with a carrying value of \$47.0 million, at a discount, for approximately \$23.2 million and recorded a loss on restructuring of \$23.8 million. The proceeds were used to satisfy the \$22.0 million cash payment.

We have a \$100 million repurchase agreement with a second financial institution that bears interest at 250 basis points over LIBOR and had a term expiring in June 2009. In June 2009, we amended this facility extending the maturity to June 2010, with a one year extension option. In addition, the amendment includes the removal of all

financial covenants and a reduction of the committed amount to \$2.8 million reflecting the one asset currently financed in this facility. During the six months ended June 30, 2009, we paid down approximately \$12.7 million of this facility. At June 30, 2009, the outstanding balance under this facility was \$2.8 million with a current weighted average note rate of 2.34%.

We have an uncommitted master repurchase agreement with a third financial institution, effective April 2008, entered into for the purpose of financing a portion of our CRE CDO bond securities. The agreement has a term expiring in May 2010 and bears interest at pricing over LIBOR, varying on the type of asset financed. During the first and second quarters of 2009, we paid down approximately \$1.3 million of this facility, due to a decrease in values associated with a change in market interest rate spreads. At June 30, 2009, the outstanding balance under this facility was \$1.6 million with a current weighted average note rate of 1.78%.

CDOs

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

The Issuers issued tranches of investment grade floating-rate notes of approximately \$305.0 million, \$356.0 million and \$447.5 million for CDO I, CDO II and CDO III, respectively. CDO III also has a \$100.0 million revolving note which was not drawn upon at the time of issuance. The revolving note facility has a commitment fee of 0.22% per annum on the undrawn portion of the facility. The tranches were issued with floating rate coupons based on three-month LIBOR plus pricing of 0.44% - 0.77%. Proceeds from the sale of the investment grade tranches issued in CDO I, CDO II and CDO III of \$267.0 million, \$301.0 million and \$317.1 million, respectively, were used to repay higher costing outstanding debt under our repurchase agreements and notes payable. The CDOs may be replenished with substitute collateral for loans that are repaid during the first four years for CDO I and the first five years for CDO II and CDO III, subject to certain customary provisions. Thereafter, the outstanding debt balance will be reduced as loans are repaid. Proceeds from the repayment of assets which serve as collateral for the CDOs must be retained in its structure as restricted cash until such collateral can be replaced and therefore not available to fund current cash needs. If such cash is not used to replenish collateral, it could have a negative impact on our anticipated returns. Proceeds from CDO II are distributed quarterly with approximately \$1.1 million being paid to investors as a reduction of the CDO liability. As of April 15, 2009, CDO I reached the end of its replenishment date and will no longer make quarterly amortization payments to investors. Investor capital will be repaid quarterly from proceeds received from loan repayments held as collateral in accordance with the terms of the CDO. Proceeds distributed will be recorded as a reduction of the CDO liability. For accounting purposes, CDOs are consolidated in our financial statements.

During the quarter ended June 30, 2009, we purchased, at a discount, approximately \$11.2 million of investment grade rated notes originally issued by our CDO issuing entities for a price of \$4.7 million. We recorded a net gain on extinguishment of debt of \$6.5 million and a reduction of outstanding debt totaling \$11.2 million from these transactions in our second quarter 2009 financial statements.

During the quarter ended March 31, 2009, we purchased, at a discount, approximately \$23.7 million of investment grade rated notes originally issued by our CDO issuing entities for a price of \$5.6 million. We recorded a net gain on extinguishment of debt of \$18.2 million and a reduction of outstanding debt totaling \$23.7 million from these transactions in our first quarter 2009 financial statements.

At June 30, 2009, the outstanding note balance under CDO I, CDO II and CDO III was \$261.8 million, \$331.6 million and \$520.2 million, respectively.

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

Our CDO bonds contain interest coverage and asset over collateralization covenants that must be met as of the waterfall distribution date in order for us to receive such payments. If we fail these covenants in any of our CDOs, all cash flows from the applicable CDO would be diverted to repay principal and interest on the outstanding CDO bonds and we would not receive any residual payments until that CDO regained compliance with such tests. We were in compliance with all such covenants with the exception of the over collateralization test of CDO I as of

March 31, 2009. In April 2009, this covenant was cured prior to the waterfall distribution date and, as a result, we are currently in compliance with all CDO covenants. In the event of a breach of the CDO covenants that could not be cured in the near-term, we would be required to fund our non-CDO expenses, including management fees and employee costs, distributions required to maintain REIT status, debt costs, and other expenses with (i) cash on hand, (ii) income from any CDO not in breach of a covenant test, (iii) income from real property and unencumbered loan assets, (iv) sale of assets, (v) or accessing the equity or debt capital markets, if available. We have the right to cure covenant breaches which would resume normal residual payments to us by purchasing non-performing loans out of the CDOs. However, we may not have sufficient liquidity available to do so at such time.

Junior Subordinated Notes

In May 2009, we exchanged \$247.1 million of our outstanding trust preferred securities, consisting of \$239.7 million of junior subordinated notes issued to third party investors and \$7.4 million of common equity issued to us in exchange for \$268.4 million of newly issued unsecured junior subordinated notes, representing 112% of the original face amount. The new notes bear a fixed interest rate of 0.50% per annum until April 30, 2012 (the

Modification Period), and then interest is to be paid at the rates set forth in the existing trust agreements until maturity, equal to a weighted average three month LIBOR plus 2.90%. We paid a transaction fee of approximately \$1.2 million to the issuers of the junior subordinated notes related to this restructuring.

In July 2009, we restructured the remaining \$18.7 million of trust preferred securities that were not exchanged from the May 2009 restructuring transaction previously disclosed. We amended the \$18.7 million of junior subordinated notes to \$20.9 million of unsecured junior subordinated notes, representing 112% of the original face amount. The amended notes bear a fixed interest rate of 0.50% per annum for a period of approximately three years, the modification period. Thereafter, interest is to be paid at the rates set forth in the existing trust agreements until maturity, equal to a weighted average three month LIBOR plus 2.74%. We paid a transaction fee of approximately \$0.1 million to the issuers of the junior subordinated notes related to this restructuring.

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

The junior subordinated notes are unsecured, have a maturity of 25 to 28 years, pay interest quarterly at a fixed rate or floating rate of interest based on three-month LIBOR and, absent the occurrence of special events, are not redeemable during the first two years. In connection with the issuance of the original variable rate junior subordinated notes, we had entered into various interest rate swap agreements which were subsequently terminated upon the exchange discussed above. See Item 3 Quantitative and Qualitative Disclosures About Market Risk for further information relating to our derivatives.

In March 2009, we purchased, at a discount, approximately \$9.4 million of investment grade rated junior subordinated notes originally issued by a wholly-owned subsidiary of our operating partnership for \$1.3 million. We recorded a net gain on extinguishment of debt of \$8.1 million and a reduction of outstanding debt totaling \$9.4 million from this transaction in our first quarter 2009 financial statements. In connection with this transaction, during the second quarter of 2009, we retired approximately \$0.3 million of common equity related to these junior subordinated notes.

At June 30, 2009, the aggregate carrying value under these facilities was \$259.2 million with a current weighted average pay rate of 0.70%, however, based upon the accounting treatment for the restructure, the effective rate was 3.93% at June 30, 2009.

Notes Payable

At June 30, 2009, notes payable consisted of two term credit agreements, a revolving credit line, a working capital facility, a bridge loan warehousing credit agreement, a note payable and three junior loan participations, and the aggregate outstanding balance under these facilities was \$442.2 million.

In November 2007, we had entered into two credit agreements with Wachovia which replaced two previously existing repurchase agreements with Wachovia and an affiliate of Wachovia. The first credit agreement consisted of a \$473.0 million term loan and a \$100.0 million revolving commitment which has a commitment period of two years with a one year auto extension feature, subject to certain criteria, to November 2010. The second credit agreement was a \$69.0 million term loan which has a commitment period of two years with a one year extension period to November 2010. These two credit agreements each had interest at pricing over LIBOR, and eliminated the mark to market risk as it relates to interest rate spreads that existed under the terms of the previous repurchase agreements.

The \$473.0 million term loan had repayment provisions which required a reduction of the outstanding balance to \$300.0 million by December 31, 2008. At December 31, 2008, the outstanding balance under this facility was \$280.2 million. At June 30, 2009, the outstanding balance under this facility was \$237.7 million with a weighted average note rate of 2.97%. In July 2009, we restructured this credit agreement as discussed below. The \$100.0 million revolving commitment was used to finance new investments and could have been increased with lender approval to \$200.0 million when the term loan was paid down to \$400.0 million in February 2008. At June 30, 2009, the outstanding balance under this revolving facility was \$64.0 million with a weighted average note rate of 2.96%. In July 2009, we restructured this revolving commitment as discussed below.

The \$69.0 million term loan included \$10.0 million of annual repayment provisions in quarterly installments. We had also pledged our 24% equity interest in POM as part of the agreement. In the second and third year of this term facility, we were required to paydown this facility by an additional amount equal to distributions in excess of \$10.0 million per year received by us from our investment in POM, if any. In connection with the POM transaction in July 2008, we agreed to pay down approximately \$11.6 million of this facility from proceeds received from this transaction. In addition, 16.7% of our 24.2% equity interest in POM was released as collateral in conjunction with this paydown. At June 30, 2009, the outstanding balance under this facility was \$30.3 million with a current weighted average note rate of 2.85%. In July 2009, we restructured this term loan as discussed below.

We had a \$70.0 million bridge loan warehousing credit agreement with a financial institution, with a maturity date of October 2009, to provide financing for bridge loans. In May 2009, we amended this facility, extending the maturity to May 2010 with a one year extension option and reducing the committed amount to \$13.5 million. This agreement bears a rate of interest, payable monthly, based on one month LIBOR plus 3.75%. Pricing is available at Prime or over 1, 2, 3 or 6-month LIBOR, at our option. At June 30, 2009, the outstanding balance under this facility was \$11.8 million with a current weighted average note rate of 3.86%. Subsequently, in July 2009, the facility was repaid in full.

We had a \$45.0 million working capital facility with Wachovia that had a term expiring in June 2009. In June 2009, the maturity was amended to July 2009. The facility required quarterly paydowns of \$3.0 million and an interest rate of 500 bps over LIBOR. At June 30, 2009, the aggregate outstanding balance under this facility was \$41.9 million with a current weighted average note rate of 5.38%. In July 2009, we restructured this working capital facility as discussed below.

We have a \$50.2 million note payable related to the POM transaction. During the second quarter of 2008, we recorded a \$49.5 million note payable related to the POM exchange of profits interest transaction. The note was initially secured by our interest in POM, matures in July 2016 and bore interest at a fixed rate of 4% with payment deferred until the closing of the transaction. Upon the closing of the POM transaction in March 2009, the note balance was increased to \$50.2 million, bears interest at a fixed rate of 4% and is secured by our investment in common and preferred operating partnership units in Lightstone Value Plus REIT, L.P.

We have three junior loan participations with a total outstanding balance at June 30, 2009 of \$6.3 million. These participation borrowings have a maturity date equal to the corresponding mortgage loan and are secured by the participant's interest in the mortgage loans. Interest expense is based on a portion of the interest received from the loans.

In July 2009, we amended and restructured our term credit agreements, revolving credit agreement and working capital facility with Wachovia Bank, National Association as follows:

The term revolving credit agreement with an outstanding balance of \$64.0 million at June 30, 2009 was combined into the term debt facility with an outstanding balance of \$237.7 million at June 30, 2009, along with a portion of the term debt facility with an outstanding balance of \$30.3 million at June 30, 2009, and \$15.0 million of this term debt facility was combined into the working capital line with an outstanding balance of \$41.9 at June 30, 2009. This debt restructuring resulted in the consolidation of these four facilities into one term debt facility with an outstanding balance of \$317.0 million, which contains a revolving component with \$35.0 million of availability, and one working capital facility with an outstanding balance of \$56.9 million at July 2009.

The maturity dates of the facilities were extended for three years, with a working capital facility maturity of June 8, 2012 and a term debt facility maturity of July 23, 2012.

The term loan facility requires a \$48.0 million reduction over the three year term, with approximately \$8.0 million in reductions due every six months beginning in December 2009.

Margin call provisions relating to collateral value of the underlying assets have been eliminated, as long as the term loan reductions are met, with the exception of limited margin call capability related to foreclosed or real estate-owned assets.

The working capital facility requires quarterly amortization of up to \$3.0 million per quarter, \$1.0 million per CDO, only if both (a) the CDO is cash flowing to us and (b) we have a minimum quarterly liquidity level of \$27.5 million.

Interest rate of LIBOR plus 350 basis points for the term loan facility, compared to LIBOR plus approximately 200 basis points previously and LIBOR plus 800 basis points for the working capital facility, compared to LIBOR plus 500 basis points previously. We have also agreed to pay a commitment fee of 1.00% payable over 3 years.

We issued Wachovia 1.0 million warrants at an average strike price of \$4.00. 500,000 warrants are exercisable immediately at a price of \$3.50, 250,000 warrants are exercisable after July 23, 2010 at a price of \$4.00 and 250,000 warrants are exercisable after July 23, 2011 at a price of \$5.00. All warrants expire on July 23, 2015.

Annual dividends are limited to 100% of taxable income to common shareholders and are required to be paid in the form of our stock to the maximum extent permissible (currently 90%), with the balance payable in cash. We will be permitted to pay 100% of taxable income in cash if the term loan facility balance is reduced to \$210.0 million, the working capital facility is reduced to \$30.0 million and we maintain \$35.0 million of minimum liquidity.

Our CEO and Chairman, Ivan Kaufman, is required to remain an officer or director of the Company for the term of the facilities.

In addition, the financial covenants have been reduced to the following:

Minimum quarterly liquidity of \$7.5 million in cash and cash equivalents.

Minimum quarterly GAAP net worth of \$150.0 million.

Ratio of total liabilities to tangible net worth shall not exceed 4.5 to 1 quarterly.

We are currently evaluating the effect of this transaction on our Consolidated Financial Statements.

Mortgage Note Payable

During the second quarter of 2008, we recorded a \$41.4 million first lien mortgage related to the foreclosure of an entity in which we had a \$5.0 million mezzanine loan. The mortgage bears interest at a fixed rate, has a maturity date of June 2012 and the outstanding balance of this mortgage was \$41.4 million at June 30, 2009.

Note Payable Related Party

During the fourth quarter of 2008, we borrowed \$4.2 million from our manager, ACM. At December 31, 2008, we had outstanding borrowings due to ACM totaling \$4.2 million, which was recorded in notes payable related party. In January 2009, the loan was repaid in full.

The working capital facility, bridge loan warehousing credit agreement, term and revolving credit agreements, and the master repurchase agreements require that we pay interest monthly, based on pricing over LIBOR. The amount of our pricing over these rates varies depending upon the structure of the loan or investment financed pursuant to the specific agreement.

The working capital facility, term and revolving credit agreements, bridge loan warehousing credit agreement, and the 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.

Cash Flow From Operations

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

Restrictive Covenants

Each of the credit facilities contains various financial covenants and restrictions, including minimum net worth and debt-to-equity ratios. In addition to the financial terms and capacities described above, our credit facilities generally contain covenants that prohibit us from effecting a change in control, disposing of or encumbering assets being financed and restrict us from making any material amendment to our underwriting guidelines without approval of the lender. If we violate these covenants in any of our credit facilities, we could be required to pledge more collateral, or repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. If we are unable to retire our borrowings in such a situation, (i) we may need to prematurely sell the assets securing such debt, (ii) the lenders could accelerate the debt and foreclose on the assets that are pledged as collateral to such lenders, (iii) such lenders could force us into bankruptcy, (iv) such lenders could force us to take other actions to protect the value of their collateral and (v) our other debt financings could become immediately due and payable. Any such event would have a material adverse effect on our liquidity, the value of our common stock, our ability to make distributions to our stockholders and our ability to continue as a going concern. Violations of these covenants may also result in our being unable to borrow unused amounts under our credit facilities, even if repayment of some or all borrowings is not required. Additionally, to the extent that we were to realize additional losses relating to our loans and investments, it would put additional pressure on our ability to continue to meet these covenants.

We were in compliance with all financial covenants and restrictions for the periods presented with the exception of a minimum tangible net worth requirement with one financial institution at June 30, 2009. Our tangible net worth was \$307.2 million at June 30, 2009 and we were required to maintain a minimum net worth of \$350.0 million for this financial institution. We have obtained a waiver of this covenant for June 30, 2009 from this financial institution and the covenant was subsequently amended in conjunction with the debt restructuring with this financial institution as previously disclosed.

Contractual Commitments

As of June 30, 2009, we had the following material contractual obligations (payments in thousands):

Contractual Obligations	Payments Due by Period (1)						Total
	2009	2010	2011	2012	2013	Thereafter	
Notes payable (2)	\$ 22,756	\$ 29,135	\$ 21,000	\$ 319,137	\$	\$ 50,158	\$ 442,186
Collateralized debt obligations (3)	80,796	47,766	196,425	788,613			1,113,600
Repurchase agreements		4,388					4,388
Trust preferred Securities (4)						259,174	259,174
Mortgage note payable				41,440			41,440
Outstanding unfunded commitments (5)	22,735	31,622	12,599	1,201	401	723	69,281
Totals	\$ 126,287	\$ 112,911	\$ 230,024	\$ 1,150,391	\$ 401	\$ 310,055	\$ 1,930,069

- (1) Represents amounts due based on contractual maturities.
- (2) In July 2009, we amended and restructured our term credit agreements, revolving credit agreement and working capital facility with Wachovia Bank, National Association described above in *Debt Facilities*, extending the maturity dates for three years, which is reflected in this table.
- (3) Comprised of \$261.8 million of CDO I debt, \$331.6 million of CDO II debt and

\$520.2 million of CDO III debt with a weighted average remaining maturity of 1.65, 2.62 and 3.04 years, respectively, as of June 30, 2009. In the first and second quarters of 2009, we repurchased, at a discount, approximately \$34.9 million of investment grade notes originally issued by our CDO I, CDO II and CDO III issuers and recorded a reduction of the outstanding debt balance of \$34.9 million.

(4) In the first quarter of 2009, we repurchased, at a discount, approximately \$9.4 million of investment grade rated junior subordinated notes originally issued by our issuing entity and recorded a reduction of the outstanding debt balance of \$9.4 million.

(5) In accordance with certain

loans and investments, we have outstanding unfunded commitments of \$69.3 million as of June 30, 2009, that we are obligated to fund as the borrowers meet certain requirements. Specific requirements include, but are not limited to, property renovations, building construction, and building conversions based on criteria met by the borrower in accordance with the loan agreements. In relation to the \$69.3 million outstanding balance at June 30, 2009, our restricted cash balance contained approximately \$31.3 million of cash held to fund the portion of the unfunded commitments for loans financed by our CDO vehicles.

Management Agreement

Base Management Fees. In exchange for the services that ACM provides us pursuant to the management agreement, we historically paid our manager a monthly base management fee in an amount equal to:

(1)

0.75% per annum of the first \$400 million of our operating partnership's equity (equal to the month-end value computed in accordance with GAAP of total partners' equity in our operating partnership, plus or minus any unrealized gains, losses or other items that do not affect realized net income),

(2) 0.625% per annum of our operating partnership's equity between \$400 million and \$800 million, and

(3) 0.50% per annum of our operating partnership's equity in excess of \$800 million.

The base management fee was not calculated based on the manager's performance or the types of assets it selects for investment on our behalf, but it was affected by the performance of these assets because it is based on the value of our operating partnership's equity.

Incentive Compensation. Pursuant to the management agreement, our manager is also entitled to receive incentive compensation in an amount equal to:

(1) 25% of the amount by which:

- (a) our operating partnership's funds from operations per operating partnership unit, adjusted for certain gains and losses, exceeds
- (b) the product of (x) the greater of 9.5% per annum or the Ten Year U.S. Treasury Rate plus 3.5%, and (y) the weighted average of (i) \$15.00, (ii) the offering price per share of our common stock (including any shares of common stock issued upon exercise of warrants or options) in any subsequent offerings (adjusted for any prior capital dividends or distributions), and (iii) the issue price per operating partnership unit for subsequent contributions to our operating partnership, multiplied by

(2) the weighted average of our operating partnership's outstanding operating partnership units.

Origination Fees. Our manager was entitled to 100% of the origination fees paid by borrowers under each of our bridge loan and mezzanine loans that do not exceed 1% of the loan's principal amount. We retain 100% of the origination fee that exceeds 1% of the loan's principal amount.

Term and Termination. The management agreement had an initial term of two years and was renewable automatically for an additional one year period every year thereafter, unless terminated with six months' prior written notice. If we terminated or elected not to renew the management agreement in order to manage our portfolio internally, we were required to pay a termination fee equal to the base management fee and incentive compensation for the 12-month period preceding the termination. If, without cause, we terminated or elected not to renew the management agreement for any other reason, including a change of control of us, we were required to pay a termination fee equal to two times the base management fee and incentive compensation paid for the 12-month period preceding the termination.

On August 6, 2009, we amended our management agreement with ACM. The amendment was negotiated by a special committee of our Board of Directors, consisting solely of independent directors and approved unanimously by all of the independent directors. JMP Securities LLC served as financial advisor to the special committee and Skadden, Arps, Slate, Meagher & Flom LLP served as its special counsel. The agreement includes the following new terms:

The existing base management fee structure, which is calculated as a percentage of our equity, will be replaced with an arrangement whereby we will reimburse the manager for its actual costs incurred in managing our business based on the parties' agreement in advance on an annual budget with subsequent quarterly true-ups to actual costs. This change was adopted retroactively to January 1, 2009 and we estimate the 2009 base management fee will be in the range of \$8.0 million to \$9.0 million. Concurrent with this change, all future origination fees on investments will be retained by us as opposed to the manager earning up to the first one percent of all originations fees previously. In addition, we will make a \$3.0 million payment to the manager in consideration of expenses incurred by the manager in 2008 in managing our business and certain other services. These changes were accounted for prospectively as a change in accounting estimate and a recognized subsequent event.

The percentage hurdle for the incentive fee will be applied on a per share basis to the greater of \$10.00 and the average gross proceeds per share, whereas the existing management agreement provides for such percentage hurdle to be applied only to the average gross proceeds per share. In addition, only 60% of any loan loss and other reserve recoveries will be eligible to be included in the incentive fee calculation, which will be spread over a three year period, whereas the existing management agreement does not limit the inclusion of such recoveries in the incentive fee calculation.

The amended management agreement allows us to consider, from time to time, the payment of additional incentive fees to the manager for accomplishing certain specified corporate objectives.

The amended management agreement modifies and simplifies the provisions related to the termination of the agreement and any related fees payable in such instances, including for internalization, with a termination fee of \$10.0 million, rather than a multiple of base and incentive fees as previously existed.

The amended management agreement will remain in effect until December 31, 2010, and will be renewed automatically for successive one-year terms thereafter.

We incurred \$6.3 million and \$7.0 million of base management fees for services rendered in the three and six months ended June 30, 2009, respectively. We incurred \$0.9 million and \$1.8 million of base management fees for services rendered in the three and six months ended June 30, 2008, respectively.

For the three and six months ended June 30, 2009, ACM did not earn an incentive compensation installment. For the three and six months ended June 30, 2008, ACM received incentive compensation installments of \$8.5 million and \$10.2 million, respectively. The \$10.2 million included a \$7.3 million deferred management fee recorded in the second quarter of 2008 related to the incentive compensation fee recognized from the monetization of the POM transaction in June 2008, which subsequently closed in the second quarter of 2009. In 2008, the \$7.3 million deferred incentive compensation fee was paid in 355,903 shares of common stock and \$4.1 million paid in cash, and was reclassified to prepaid management fees. In accordance with the amended management agreement, installments of the annual incentive compensation are subject to quarterly recalculation and potential reconciliation at the end of the 2009 fiscal year and any overpayments are required to be repaid in accordance with the management agreement. See Note 6 of the Notes to the Consolidated Financial Statements set forth in Item 1 hereof for further details.

In addition, during the six months ended June 30, 2008, ACM received incentive compensation installments totaling \$2.9 million, of which \$1.4 million was paid in 116,680 shares of common stock and \$1.5 million paid in cash. For the year ended December 31, 2008, ACM did not earn an incentive compensation fee and an overpayment of the incentive fee was recorded and included in due from related party in the amount of \$2.9 million. In June, 2009, ACM repaid the \$2.9 million in accordance with the amended management agreement described above. Additionally, in 2007, ACM received an incentive compensation installment totaling \$19.0 million which was recorded as prepaid management fees related to the incentive compensation management fee on \$77.1 million of deferred revenue recognized on the transfer of control of the 450 West 33rd Street property, of one of our equity affiliates.

We pay the annual incentive compensation in four installments, each within 60 days of the end of each fiscal quarter. The calculation of each installment is based on results for the 12 months ending on the last day of the fiscal quarter for which the installment is payable. These installments of the annual incentive compensation are subject to recalculation and potential reconciliation at the end of such fiscal year, and any overpayments are required to be repaid in accordance with the amended management agreement. Subject to the ownership limitations in our charter, at least 25% of this incentive compensation is payable to our manager in shares of our common stock having a value equal to the average closing price per share for the last 20 days of the fiscal quarter for which the incentive compensation is being paid.

The incentive compensation is accrued as it is earned. In accordance with Issue 4(b) of EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, the expense incurred for incentive compensation paid in common stock is determined using the valuation method described above and the quoted market price of our common stock on the last day of each quarter. At December 31 of each year, we remeasure the incentive compensation paid to our manager in the form of common stock in accordance with Issue 4(a) of EITF 96-18 which discusses how to measure at the measurement date when certain terms are not known prior to the measurement date. Accordingly, the expense recorded for such common stock is adjusted to reflect the fair value of the common stock on the measurement date when the final calculation of the annual incentive compensation is determined. In the event that the annual incentive compensation calculated as of the measurement date is less than the four quarterly installments of the annual incentive compensation paid in advance, our manager will refund the amount of such overpayment in cash and we would record a negative incentive compensation expense in the quarter when such overpayment is determined.

Related Party Transactions

Due to related party was \$4.7 million at June 30, 2009 and consisted primarily of \$5.8 million of base management fees. The balance also included \$1.1 million of escrows due from ACM related to a second quarter 2009 foreclosed real estate asset. At December 31, 2008, due to related party was \$1.0 million and consisted of \$0.8 million of base management fees and \$0.2 million of unearned fees.

At June 30, 2009, due from related party was reduced to zero due to the repayment by ACM of a \$2.9 million overpayment of incentive management compensation from 2008. At December 31, 2008, due from related party was \$2.9 million as a result of this overpayment of incentive management compensation based on the results of the twelve months ended December 31, 2008. Refer to the section *Management Agreement* above for further details.

During the first quarter of 2009, we purchased from ACM, approximately \$8.8 million of investment grade rated bonds originally issued by two of our three CDO issuing entities and approximately \$9.4 million of junior subordinated notes originally issued by a wholly-owned subsidiary of our operating partnership for a net gain on early extinguishment of debt of \$13.8 million. At March 31, 2009, ACM owned \$11.3 million of CDO notes originally issued by our CDOs that were purchased for \$5.0 million from third party investors in 2008. During the second quarter of 2009, we purchased from ACM the remaining \$11.2 million of CDO bonds, at a discount and net of a principal payment, and recorded a gain on early extinguishment of debt of \$6.5 million.

During the fourth quarter of 2008, we borrowed \$4.2 million from our manager, ACM. At December 31, 2008, we had outstanding borrowings due to ACM totaling \$4.2 million, which was recorded in notes payable related party. In January 2009, the loan was repaid in full.

We are dependent upon our manager (ACM), with whom we have a conflict of interest, to provide services to us that are vital to our operations. Our chairman, chief executive officer and president, Mr. Ivan Kaufman, is also the chief executive officer and president of our manager, and, our chief financial officer, Mr. Paul Elenio, is the chief financial officer of our manager. In addition, Mr. Kaufman and the Kaufman entities together beneficially own approximately 92% of the outstanding membership interests of ACM, and certain of our employees and directors also hold an ownership interest in ACM. Furthermore, one of our directors also serves as the trustee of one of the Kaufman entities that holds a majority of the outstanding membership interests in ACM and co-trustee of another Kaufman entity that owns an equity interest in our manager. ACM currently holds approximately 5.4 million common shares, representing 21.2% of the voting power of its outstanding stock as of June 30, 2009.

Funds from Operations

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

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

FFO for the three and six months ended June 30, 2009 and 2008 are as follows:

(Unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net (loss) income attributable to Arbor Realty Trust Inc., GAAP basis	\$ (48,556,995)	\$ 11,728,006	\$ (52,810,733)	\$ 24,432,797
Add:				
Noncontrolling interest in operating partnership		2,117,464		4,450,754
Depreciation real estate owned	283,022	170,913	566,044	170,913
Depreciation investment in equity affiliates	214,599	750,532	419,923	750,532
Funds from operations (FFO)	\$ (48,059,374)	\$ 14,766,915	\$ (51,824,766)	\$ 29,804,996
Diluted FFO per common share	\$ (1.90)	\$ 0.60	\$ (2.05)	\$ 1.21
Diluted weighted average shares outstanding	25,333,564	24,721,660	25,238,515	24,562,520

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Market Conditions

We are subject to market changes in the debt and secondary mortgage markets. These markets are currently experiencing disruptions, which could have a short-term adverse impact on our earnings and financial condition.

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

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

Real Estate Risk

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

Interest Rate Risk

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

Our operating results will depend in large part on differences between the income from our loans and our borrowing costs. Most of our loans and borrowings are variable-rate instruments, based on LIBOR. The objective of this strategy is to minimize the impact of interest rate changes on our net interest income. In addition, we have various fixed rate loans in our portfolio, which are financed with variable rate LIBOR borrowings. We have entered into various interest swaps (as discussed below) to hedge our exposure to interest rate risk on our variable rate LIBOR borrowings as it relates to our fixed rate loans. 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 our loans, securities held-to-maturity and liabilities as of June 30, 2009, and assuming the balances of these loans, securities and liabilities remain unchanged for the subsequent twelve months, a 0.25% increase in LIBOR would decrease our annual net income and cash flows by approximately \$0.3 million. This is primarily due to various interest rate floors that are in effect at a rate that is above a 0.25% increase in LIBOR which would limit the effect of a 0.25% increase, and increased expense on variable rate debt, partially offset by our interest rate swaps that effectively convert a portion of the variable rate LIBOR based debt, as it relates to certain fixed rate assets, to a fixed basis that is not subject to a 0.25% increase. Based on the loans, securities held-to-maturity and liabilities as of June 30, 2009, and assuming the balances of these loans, securities and liabilities remain unchanged for the subsequent twelve months, a 0.25% decrease in LIBOR would increase our annual net income and cash flows by approximately \$0.5 million. This is primarily due to various interest rate floors which limit the effect of a decrease on interest income and decreased expense on variable rate debt, partially offset by our interest rate swaps that effectively converted a portion of the variable rate LIBOR based debt, as it relates to certain fixed rate assets, to a fixed basis that is not subject to a 0.25% decrease.

Based on the loans, securities held-to-maturity and liabilities as of December 31, 2008, and assuming the balances of these loans, securities and liabilities remain unchanged for the subsequent twelve months, a 0.5% increase in LIBOR would decrease our annual net income and cash flows by approximately \$2.6 million. This is primarily due to various interest rate floors that are in effect at a rate that is above a 0.5% increase in LIBOR which would limit the effect of a 0.5% increase, and increased expense on variable rate debt, partially offset by our interest rate swaps that effectively convert a portion of the variable rate LIBOR based debt, as it relates to certain fixed rate assets, to a fixed basis that is not subject to a 0.5% increase. Based on the loans, securities held-to-maturity and liabilities as of December 31, 2008, and assuming the balances of these loans, securities and liabilities remain unchanged for the subsequent twelve months, a 0.5% decrease in LIBOR would increase our annual net income and cash flows by approximately \$1.8 million. This is primarily due to various interest rate floors which limit the effect of a decrease on interest income and decreased expense on variable rate debt, partially offset by our interest rate swaps that effectively converted a portion of the variable rate LIBOR based debt, as it relates to certain fixed rate assets, to a fixed basis that is not subject to a decrease.

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

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

We had ten of these interest rate swap agreements outstanding that had combined notional values of \$1.2 billion and \$1.3 billion at June 30, 2009 and December 31, 2008, respectively. The market value of these interest rate swaps is dependent upon existing market interest rates and swap spreads, which change over time. If there were a 25 basis point and 50 basis point increase in forward interest rates as of June 30, 2009 and December 31, 2008, respectively, the value of these interest rate swaps would have decreased by approximately \$0.1 million for both periods. If there were a 25 basis point and 50 basis point decrease in forward interest rates as of June 30, 2009 and December 31, 2008, respectively, the value of these interest rate swaps would have increased by approximately \$0.1 million for both periods.

We also have interest rate swap agreements outstanding to hedge current and outstanding LIBOR based debt relating to certain fixed rate loans within our portfolio. We had 34 of these interest rate swap agreements outstanding that had a combined notional value of \$722.3 million as of June 30, 2009 compared to 33 interest rate swap agreements outstanding with combined notional values of \$689.9 million as of December 31, 2008. The fair market value of these interest rate swaps is dependent upon existing market interest rates and swap spreads, which change over time. If there had been a 25 basis point and 50 basis point increase in forward interest rates as of June 30, 2009

and December 31, 2008, respectively, the fair market value of these interest rate swaps would have increased by approximately \$6.9 million and \$15.7 million, respectively. If there were a 25 basis point and 50 basis

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point decrease in forward interest rates as of June 30, 2009 and December 31, 2008, respectively, the fair market value of these interest rate swaps would have decreased by approximately \$7.0 million and \$16.2 million, respectively.

We have, in the past, entered into various interest rate swap agreements in connection with the issuance of variable rate junior subordinated notes. These swaps had total notional values of \$236.5 million as of December 31, 2008. We no longer utilize interest rate swaps for the newly issued junior subordinated notes exchanged for the aforementioned junior subordinated notes due to the modified interest payment structure. If there had been a 50 basis point increase in forward interest rates as of December 31, 2008, the fair market value of these interest rate swaps would have increased by approximately \$3.3 million. If there were a 50 basis point decrease in forward interest rates as of December 31, 2008, the fair market value of these interest rate swaps would have decreased by approximately \$3.4 million.

Certain of our interest rate swaps, which are designed to hedge interest rate risk associated with a portion of our loans and investments, could require the funding of additional cash collateral for changes in the market value of these swaps. Due to the prolonged volatility in the financial markets that began in 2007, the value of these interest rate swaps have declined substantially. As a result, at June 30, 2009 and December 31, 2008, we funded approximately \$19.2 million and \$46.5 million, respectively, in cash related to these swaps. If we continue to experience significant changes in the outlook of interest rates, these contracts could continue to decline in value, which would require additional cash to be funded. However, at maturity the value of these contracts return to par and all cash will be recovered. If we do not have available cash to meet these requirements, this could result in the early termination of these interest rate swaps, leaving us exposed to interest rate risk associated with these loans and investments, which could adversely impact our financial condition.

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

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

Item 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION**Item 1. LEGAL PROCEEDINGS**

None.

Item 1A. RISK FACTORS

There have been no material changes to the risk factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

The annual meeting of stockholders of the Company was held on June 18, 2009, for the purpose of considering and acting upon the following:

(1) **Election of Directors.** Three Class III directors were elected and the votes cast for or against/withheld were as follows:

Nominees	Aggregate Votes	
	For	Withheld
Walter K. Horn	21,832,968	1,450,733
William Helmreich	21,490,908	1,792,793
Karen K. Edwards	21,854,373	1,429,328

The continuing directors of the Company are John J. Bishar, Jr., Archie R. Dykes, Joseph Martello, Kyle A. Permut, Ivan Kaufman, C. Michael Kojanian and Melvin F. Lazar.

(2) **Approval of Amendment and Restatement of 2003 Omnibus Stock Incentive Plan.** Amendment and restatement was approved. The votes cast for, against and abstentions were as follows:

Proposal	For	Aggregate Votes Against	Abstained
Approval of amendment and restatement of the Company's 2003 Omnibus Stock Incentive Plan, as amended and restated	10,673,481	2,504,159	138,566

(3) **Ratification of Auditors.** Ernst & Young LLP was ratified as the Company's independent registered public accounting firm for fiscal year 2009. The votes cast for, against and abstentions were as follows:

Proposal	For	Aggregate Votes Against	Abstained
Ratification of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal year 2009	22,641,548	478,840	163,313

Item 5. OTHER INFORMATION

On August 6, 2009, the Company, ALRP and Arbor Realty SR, Inc. entered into an amended and restated management agreement with ACM, as manager, which amends and replaces the existing management agreement with ACM.

Pursuant to the amended management agreement, the Company will no longer pay ACM a base management fee, which was calculated as a percentage of the Company's equity, but instead the Company will reimburse ACM for its actual costs incurred in managing the Company's business based on the parties' agreement in advance on an annual budget with subsequent quarterly true-ups to actual costs. This change will be adopted retroactively to January 1, 2009 and the Company estimates the 2009 base management fee will be in the range of \$8.0 million to \$9.0 million. Concurrent with this change, all future origination fees on investments will be retained by the Company as opposed to the manager earning up to the first one percent of all originations fees in the existing agreement. In addition, the Company will make a \$3.0 million payment to the manager in consideration of expenses incurred by the manager in 2008 in managing the Company's business and certain other services.

Pursuant to the amended management agreement, the Company will continue to pay ACM an incentive compensation fee, but the percentage hurdle for the incentive fee will be applied on a per share basis to the greater of \$10.00 and the average gross proceeds per share, whereas the existing management agreement provided for such percentage hurdle to be applied only to the average gross proceeds per share. In addition, only 60% of any loan loss and other reserve recoveries will be eligible to be included in the incentive fee calculation, which will be spread over a three year period, whereas the existing management agreement did not limit the inclusion of such recoveries in the incentive fee calculation. The amended management agreement will allow the Company to consider, from time to time, the payment of additional incentive fees to the manager for accomplishing certain specified corporate objectives.

The amended management agreement modifies and simplifies the provisions related to the termination of the agreement and any related fees payable in such instances, including for internalization, with a termination fee of \$10.0 million, rather than a multiple of base and incentive fees as previously existed.

The amended management agreement will remain in effect until December 31, 2010, and will be renewed automatically for successive one-year terms thereafter.

Item 6. EXHIBITS

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

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

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

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

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

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

Exhibit Number

Description

- | | |
|------|--|
| 3.1 | Articles of Incorporation of Arbor Realty Trust, Inc. * |
| 3.2 | Articles of Amendment to Articles of Incorporation of Arbor Realty Trust, Inc. 5 |
| 3.3 | Articles Supplementary of Arbor Realty Trust, Inc. * |
| 3.4 | Amended and Restated Bylaws of Arbor Realty Trust, Inc. 55 |
| 4.1 | Form of Certificate for Common Stock. * |
| 10.1 | Second and Restated Management Agreement, dated August 6, 2009, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership and Arbor Realty SR, Inc. |
| 10.2 | Services Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC and Arbor Realty Limited Partnership. * |
| 10.3 | Non-Competition Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Realty Limited Partnership and Ivan Kaufman. * |
| 10.4 | Second Amended and Restated Agreement of Limited Partnership of Arbor Realty Limited Partnership, dated January 18, 2005, by and among Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership, Arbor Realty LPOP, Inc. and Arbor Realty GPOP, Inc. |
| 10.5 | Registration Rights Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor Commercial Mortgage, LLC. * |
| 10.6 | Pairing Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership, Arbor Realty LPOP, Inc. and Arbor Realty GPOP, Inc. * |

- 10.7 2003 Omnibus Stock Incentive Plan, (as amended and restated on June 18, 2009).
- 10.8 Form of Restricted Stock Agreement. *
- 10.9 Benefits Participation Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor Management, LLC. *
- 10.10 Form of Indemnification Agreement. *
- 10.11 Structured Facility Warehousing Credit and Security Agreement, dated July 1, 2003, between Arbor Realty Limited Partnership and Residential Funding Corporation. *
- 10.12 Amended and Restated Loan Purchase and Repurchase Agreement, dated July 12, 2004, by and among Arbor Realty Funding LLC, as seller, Wachovia Bank, National Association, as purchaser, and Arbor Realty Trust, Inc., as guarantor. **

Exhibit Number	Description
10.13	Master Repurchase Agreement, dated as of November 18, 2002, by and between Nomura Credit and Capital, Inc. and Arbor Commercial Mortgage, LLC. *
10.14	Revolving Credit Facility Agreement, dated as of December 7, 2004, by and between Arbor Realty Trust, Inc., Arbor Realty Limited Partnership and Watershed Administrative LLC and the lenders named therein.
10.15	Indenture, dated January 19, 2005, by and between Arbor Realty Mortgage Securities Series 2004-1, Ltd., Arbor Realty Mortgage Securities Series 2004-1 LLC, Arbor Realty SR, Inc. and LaSalle Bank National Association.
10.16	Indenture, dated January 11, 2006, by and between Arbor Realty Mortgage Securities Series 2005-1, Ltd., Arbor Realty Mortgage Securities Series 2005-1 LLC, Arbor Realty SR, Inc. and LaSalle Bank National Association.
10.17	Master Repurchase Agreement, dated as of October 26, 2006, by and between Column Financial, Inc. and Arbor Realty SR, Inc. and Arbor TRS Holding Company Inc., as sellers, Arbor Realty Trust, Inc., Arbor Realty Limited Partnership, as guarantors, and Arbor Realty Mezzanine LLC.
10.18	Note Purchase Agreement, dated January 19, 2005, by and between Arbor Realty Mortgage Securities Series 2004-1, Ltd., Arbor Realty Mortgage Securities Series 2004-1 LLC and Wachovia Capital Markets, LLC.
10.19	Note Purchase Agreement, dated January 11, 2006, by and between Arbor Realty Mortgage Securities Series 2005-1, Ltd., Arbor Realty Mortgage Securities Series 2005-1 LLC and Wachovia Capital Markets, LLC.
10.20	Indenture, dated December 14, 2006, by and between Arbor Realty Mortgage Securities Series 2006-1, Ltd., Arbor Realty Mortgage Securities Series 2006-1 LLC, Arbor Realty SR, Inc. and Wells Fargo Bank, National Association. w
10.21	Note Purchase and Placement Agreement, dated December 14, 2006, by and between Arbor Realty Mortgage Securities Series 2006-1, Ltd., Arbor Realty Mortgage Securities Series 2006-1 LLC and Wachovia Capital Markets, LLC and Credit Suisse Securities (USA) LLC. w
10.22	Note Purchase Agreement, dated December 14, 2006, by and between Arbor Realty Mortgage Securities Series 2006-1, Ltd., Arbor Realty Mortgage Securities Series 2006-1 LLC and Wells Fargo Bank, National Association. w
10.23	Master Repurchase Agreement, dated as of March 30, 2007, by and between Variable Funding Capital Company LLC, as purchaser, Wachovia Bank, National Association, as swingline purchaser, Wachovia Capital Markets, LLC, as deal agent, Arbor Realty Funding LLC, Arbor Realty Limited Partnership and ARSR Tahoe, LLC, as sellers, Arbor Realty Trust, Inc., Arbor Realty Limited Partnership and Arbor Realty SR, Inc., as guarantors. ww
10.24	Credit Agreement, dated November 6, 2007, by and between Arbor Realty Funding, LLC, ARSR Tahoe, LLC, Arbor Realty Limited Partnership, and ART 450 LLC, as Borrowers, Arbor Realty Trust, Inc., Arbor

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Realty Limited Partnership, and Arbor Realty SR, Inc., as Guarantors, and Wachovia Bank, National Association, as Administrative Agent. www

- 10.25 Equity Placement Program Sales Agreement, dated August 15, 2008, between Arbor Realty Trust, Inc. and JMP Securities LLC. vv
- 10.26 Junior Subordinated Indenture, dated May 6, 2009, between Arbor Realty SR, Inc. and The Bank of New York Mellon Trust Company, National Association, as Trustee relating to \$29,400,000 aggregate principal amount of Junior Subordinated Notes due 2034. vvv
- 10.27 Junior Subordinated Indenture, dated May 6, 2009, between Arbor Realty SR, Inc. and The Bank of New York Mellon Trust Company, National Association, as Trustee relating to \$168,000,000 aggregate principal amount of Junior Subordinated Notes due 2034. vvv

Exhibit Number	Description
10.28	Junior Subordinated Indenture, dated May 6, 2009, among Arbor Realty SR, Inc. Arbor Realty Trust, Inc., as Guarantor, and Wilmington Trust Company, as Trustee, relating to \$21,224,000 aggregate principal amount of Junior Subordinated Notes due 2035. vvv
10.29	Junior Subordinated Indenture, dated May 6, 2009, among Arbor Realty SR, Inc. Arbor Realty Trust, Inc., as Guarantor, and Wilmington Trust Company, as Trustee, relating to \$2,632,000 aggregate principal amount of Junior Subordinated Notes due 2036. vvv
10.30	Junior Subordinated Indenture, dated May 6, 2009, among Arbor Realty SR, Inc. Arbor Realty Trust, Inc., as Guarantor, and Wilmington Trust Company, as Trustee, relating to \$47,180,000 aggregate principal amount of Junior Subordinated Notes due 2037. vvv
10.31	Exchange Agreement, dated May 6, 2009, among Arbor Realty Trust, Inc., Arbor Realty SR, Inc., Kodiak CDO II, Ltd., Attentus CDO I, Ltd. and Attentus CDO III, Ltd. vvv
10.32	Exchange Agreement, dated May 6, 2009, among Arbor Realty SR, Inc., Arbor Realty Trust, Inc., Taberna Preferred Funding I, Ltd., Taberna Preferred Funding II, Ltd., Taberna Preferred Funding III, Ltd., Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VII, Ltd. and Taberna Preferred Funding VIII, Ltd. vvv
10.33	First Amended and Restated Credit Agreement, dated as of July 23, 2009, among Arbor Realty Funding, LLC, a Delaware limited liability company, as a Borrower, ARSR Tahoe, LLC, a Delaware limited liability company, as a Borrower, Arbor ESH II LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Limited Partnership, a Delaware limited partnership, as a Borrower and a Guarantor, ART 450 LLC, a Delaware limited liability company, as a Borrower, Arbor Realty Trust, Inc., a Maryland corporation, as a Guarantor, Arbor Realty SR, Inc., a Maryland corporation, as a Borrower and a Guarantor, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder.
10.34	First Amended and Restated Revolving Loan Agreement, dated as of July 23, 2009, among Arbor Realty Trust, Inc., a Maryland corporation, Arbor Realty GOP, Inc., a Delaware corporation, Arbor Realty LPOP, Inc., a Delaware corporation, Arbor Realty Limited Partnership, a Delaware limited partnership, Arbor Realty SR, Inc., a Maryland corporation, Arbor Realty Collateral Management, LLC, as Borrowers, the several Lenders from time to time a party thereto, and Wachovia Bank, National Association, a national banking association, as administrative agent for the Lenders thereunder and initial lender.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit Index

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

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

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

- ** Incorporated by reference to the Registrant's Quarterly Report of Form 10-Q for the quarter ended September 30, 2004.

Incorporated by reference to the Registrant's Annual Report of Form 10-K for the year ended December 31, 2004.

Incorporated by reference to the Registrant's Annual Report of Form 10-K for the year ended December 31, 2005.

Incorporated by reference to the Registrant's Quarterly Report of Form 10-Q for the quarter ended June 30, 2005.

Incorporated by reference to the Registrant's Quarterly Report of Form 10-Q for the quarter ended September 30, 2006.

w Incorporated by reference to the Registrant's Annual Report of Form 10-K for the year ended December 31, 2006.

ww Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

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

v Incorporated by reference to the Registrant's Quarterly Report of Form 10-Q for the quarter ended June 30, 2008.

vv Incorporated by reference to Exhibit 1.1 of the Registrant's Current Report on Form 8-K (No. 001-32136) which was filed with the Securities and Exchange Commission on August 15, 2008.

vvv Incorporated by reference to the Registrant's Quarterly Report of Form 10-Q for the quarter ended

March 31, 2009.

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

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

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

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

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

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

SIGNATURES

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

ARBOR REALTY TRUST, INC.
(Registrant)

By: /s/ Ivan Kaufman

Name: Ivan Kaufman
Title: Chief Executive Officer

By: /s/ Paul Elenio

Name: Paul Elenio
Title: Chief Financial Officer

Date: August 7, 2009