

ARBOR REALTY TRUST INC

Form 10-K

February 28, 2007

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

Form 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006**
- 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) 832-8002
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, par value \$0.01 per share	The New York Stock Exchange

Indicate by check mark if the registrant is a well-known, seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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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 proceeding 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)
Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant as of June 30, 2006 (computed based on the closing price on such date as reported on the NYSE) was \$392.9 million. As of February 16, 2007, the registrant had 17,230,375 shares of common stock outstanding (excluding 279,400 shares held in the treasury).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the registrant's 2007 Annual Meeting of Stockholders (the "2007 Proxy Statement"), to be filed within 120 days after the end of the registrant's fiscal year ended December 31, 2006, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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FORWARD LOOKING STATEMENTS

The information contained in this annual report on Form 10-K 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 from time to time in our SEC reports. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management's views as of the date of this report. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement. For a discussion of our critical accounting policies, see Management's Discussion and Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries Significant Accounting Estimates and Critical Accounting Policies under Item 7 of this report.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

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PART I

ITEM 1. BUSINESS

Overview

We are a specialized real estate finance company which invests in a diversified portfolio of structured finance assets in the multi-family and commercial real estate markets. We invest primarily in real estate-related bridge and mezzanine loans, including junior participating interests in first mortgages, 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 also invest in mortgage-related securities. Our principal business objective is to maximize the difference between the yield on our investments and the cost of financing these investments to generate cash available for distribution, facilitate capital appreciation and maximize total return to our stockholders.

We are organized to qualify as a real estate investment trust (REIT) for federal income tax purposes. We commenced operations in July 2003 and conduct substantially all of our operations and investing activities through our operating partnership, Arbor Realty Limited Partnership, and its wholly-owned subsidiaries. We serve as the general partner of our operating partnership, and own an approximately 82% partnership interest in our operating partnership as of December 31, 2006.

We are externally managed and advised by Arbor Commercial Mortgage, LLC (ACM), a national commercial real estate finance company which specializes in debt and equity financing for multi-family and commercial real estate, pursuant to the terms of a management agreement described below. We believe ACM 's experience and reputation positions it to originate attractive investment opportunities for us. Our management agreement with ACM was developed to capitalize on synergies with ACM 's origination infrastructure, existing business relationships and management expertise.

We believe the financing of multi-family and commercial real estate offers significant growth opportunities that demand customized financing solutions. ACM has granted us a right of first refusal to pursue all domestic structured finance investment opportunities identified by ACM. ACM continues to originate and service multi-family and commercial mortgage loans under Fannie Mae, Federal Housing Administration and conduit commercial lending programs. We believe that the customer relationships established from these lines of business may generate additional real estate investment opportunities for our business.

Our Corporate History

On July 1, 2003, ACM contributed a portfolio of structured finance investments to our operating partnership. Concurrently with this contribution, we and our operating partnership entered into a management agreement with ACM pursuant to which ACM manages our investments for a base management fee and incentive compensation, and the nine person asset management group of ACM became our employees.

In exchange for ACM 's contribution of structured finance investments, our operating partnership issued approximately 3.1 million units of limited partnership interest, or operating partnership units, and approximately 0.6 million warrants to purchase additional operating partnership units at an initial exercise price of \$15.00 per operating partnership unit to ACM. Concurrently, we, our operating partnership and ACM entered into a pairing agreement. Pursuant to the pairing agreement, each operating partnership unit issued to ACM and issuable to ACM upon exercise of its warrants for additional operating partnership units in connection with the contribution of initial assets was paired with one

share of the Company's special voting preferred stock. In October 2004, ACM exercised these warrants and currently holds approximately 3.8 million operating partnership units, constituting an approximately 18% limited partnership interest in our operating partnership. ACM may redeem each of these operating partnership units for cash or, at our election, one share of our common stock. We granted ACM certain demand and other registration rights with respect to the shares of common stock that may be issued upon redemption of these operating partnership units. Each of these operating partnership units is also paired with one share of our special voting preferred stock entitling ACM to one vote on all matters submitted to a vote of our stockholders. ACM currently holds approximately 18% of the voting power of our outstanding stock. If ACM redeems these operating partnership units, an equivalent number of shares of our special voting preferred stock will be redeemed and cancelled.

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Concurrently with ACM's contribution of investments to our operating partnership, we sold approximately 1.6 million of our units, each consisting of five shares of our common stock and one warrant to purchase an additional share of common stock at an initial exercise price of \$15.00 per share, for \$75.00 per unit in a private placement and agreed to register the shares of common stock underlying these units and warrants for resale under the Securities Act of 1933. In July 2004, we registered approximately 9.6 million shares of common stock underlying these units and warrants. As of December 31, 2005, approximately 1.6 million warrants were exercised, of which 0.5 million were exercised cashless, for a total of 1.3 million common shares issued pursuant to their exercise.

In April 2004, we closed our initial public offering in which we issued and sold 6.3 million shares of common stock and a selling stockholder sold 22,500 shares of common stock, each at \$20.00 per share. Concurrently with the initial public offering, we sold 0.5 million shares of common stock at the initial public offering price directly to an entity wholly-owned by one of our directors. The underwriters of our initial public offering exercised their overallotment option and, in May 2004, we issued and sold an additional 0.5 million shares of our common stock pursuant to such exercise.

Since January 2005, we completed three non-recourse collateralized debt obligation (CDO) transactions, whereby \$1.44 billion of real estate related and other assets were contributed to three newly-formed consolidated subsidiaries, which issued \$1.21 billion of investment grade-rated floating-rate notes in three separate private placements. These proceeds were used to repay outstanding debt and resulted in a decreased cost of funds relating to the CDO assets.

Our Investment Strategy

Our principal business objectives are to invest in bridge and mezzanine loans, including junior participating interests in first mortgages, preferred and direct equity and other real estate related assets in the multifamily and commercial real estate markets and actively manage our investment portfolio in order to generate cash available for distribution, facilitate capital appreciation and maximize total return to our stockholders. We believe we can achieve these objectives through the following business and growth strategies:

Provide Customized Financing. We provide financing customized to the needs of our borrowers. We target borrowers who have demonstrated a history of enhancing the value of the properties they operate, but whose options may be limited by conventional bank financing and who may benefit from the sophisticated structured finance products we offer.

Execute Transactions Rapidly. We act quickly and decisively on proposals, provide commitments and close transactions within a few weeks and sometimes days, if required. We believe that rapid execution attracts opportunities from both borrowers and other lenders that would not otherwise be available. We believe our ability to structure flexible terms and close loans in a timely manner gives us a competitive advantage over lending firms that also primarily serve this market.

Manage and Maintain Credit Quality. A critical component of our success in the real estate finance sector is our ability to manage the real estate risk that is underwritten by our manager and us. We actively manage and maintain the credit quality of our portfolio by using the expertise of our asset management group, which has a proven track record of structuring and repositioning structured finance investments to improve credit quality and yield.

Use Arbor Commercial Mortgage's Relationships with Existing Borrowers. We capitalize on ACM's reputation in the commercial real estate finance industry. ACM has relationships with a large borrower base nationwide. Since ACM's originators offer senior mortgage loans as well as our structured finance products, we are able to benefit from its existing customer base and use its senior lending business as a potential refinance vehicle for our structured finance

assets.

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Offer Broader Products and Expand Customer Base. We have the ability to offer a larger number of financing alternatives than ACM has been able to offer to its customers in the past. Our potential borrowers are able to choose from products offering longer maturities and larger principal amounts than ACM could previously offer.

Leverage the Experience of Executive Officers and Arbor Commercial Mortgage and Our Employees. Our executive officers and employees, and those of ACM, have extensive experience originating and managing structured commercial real estate investments. Our senior management team has on average over 20 years experience in the financial services industry including prior experience in managing and operating a public company, the predecessor of ACM.

Our Targeted Investments

We actively pursue lending and investment opportunities with property owners and developers who need interim financing until permanent financing can be obtained. We primarily target transactions under \$40 million where we believe we have competitive advantages, particularly our lower cost structure and in-house underwriting capabilities. Our structured finance investments generally have maturities of two to five years, depending on type, have extension options when appropriate, and generally require a balloon payment of principal at maturity. Borrowers in the market for these types of loans include, but are not limited to, owners or developers seeking either to acquire or refurbish real estate or to pay down debt and reposition a property for permanent financing.

Our investment program emphasizes the following general categories of real estate related activities:

Bridge Financing. We offer bridge financing products to borrowers who are typically seeking short term capital to be used in an acquisition of property. The borrower has usually identified an undervalued asset that has been under managed and/or is located in a recovering market. From the borrower's perspective, shorter term bridge financing is advantageous because it allows time to improve the property value through repositioning the property without encumbering it with restrictive long term debt.

The bridge loans we make typically range in size from \$1 million to \$60 million and are predominantly secured by first mortgage liens on the property. The term of these loans typically is up to five years. Historically, interest rates have typically ranged from 2.50% to 9.00% over 30-day LIBOR, with fixed rates ranging from 5.00% to 13.00%. In 2006, interest rates have typically ranged from 2.50% to 7.00% over 30-day LIBOR, with fixed rates ranging from 6.00% to 13.00%. Additional yield enhancements may include origination fees, deferred interest, yield look-backs, and participating interests, which are equity interests in the borrower that share in a percentage of the underlying cash flows of the property. Borrowers generally use the proceeds of a conventional mortgage to repay a bridge loan.

Mezzanine Financing. We offer mezzanine financing in the form of loans that are subordinate to a conventional first mortgage loan and senior to the borrower's equity in a transaction. These loans may be in the form of a junior participating interest in the senior debt. Mezzanine financing may take the form of loans secured by pledges of ownership interests in entities that directly or indirectly control the real property or subordinated loans secured by second mortgage liens on the property. We may also require additional collateral such as personal guarantees, letters of credit and/or additional collateral unrelated to the property.

Our mezzanine loans typically range in size from \$1 million to \$50 million and have terms of up to ten years. Historically, interest rates have typically ranged from 2.00% to 12.00% over 30-day LIBOR, with fixed rates ranging from 5.00% to 15.00%. In 2006, interest rates have typically ranged from 2.00% to 10.00% over 30-day LIBOR, with fixed rates ranging from 5.50% to 15.00%. As in the case with our bridge loans, the yield on these investments may be enhanced by prepaid and deferred interest payments, yield look-backs and participating interests.

We hold a majority of our mezzanine loans through subsidiaries of our operating partnership that are pass-through entities for tax purposes or taxable subsidiary corporations.

Preferred Equity Investments. We provide financing by making preferred equity investments in entities that directly or indirectly own real property. In cases where the terms of a first mortgage prohibit additional

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liens on the ownership entity, investments structured as preferred equity in the entity owning the property serve as viable financing substitutes. With preferred equity investments, we typically become a special limited partner or member in the ownership entity.

Real Property Acquisitions. We may purchase existing domestic real estate for repositioning and/or renovation and then disposition at an anticipated significant return. From time to time, we may identify real estate investment opportunities. In these situations, we may act solely on our own behalf or in partnership with other investors. Typically, these transactions are analyzed with the expectation that we will have the ability to sell the property within a one to three year time period, achieving a significant return on invested capital. In connection with these transactions, speed of execution is often the most critical component to success. We may seek to finance a portion of the acquisition price through short term financing. Repayment of the short term financing will either come from the sale of the property or conventional permanent debt.

Note Acquisitions. We may acquire real estate notes from lenders in situations where the borrower wishes to restructure and reposition its short term debt and the lender wishes, for a variety of reasons (such as risk mitigation, portfolio diversification or other strategic reasons), to divest certain assets from its portfolio. These notes may be acquired at a discount. In such cases, we intend to use our management resources to resolve any dispute concerning the note or the property securing it and to identify and resolve any existing operational or any other problems at the property. We will then either restructure the debt obligation for immediate resale or sale at a later date, or reposition it for permanent financing. In some instances, we may take title to the property underlying the real estate note.

Mortgage-Related Securities. We invest in certificates issued by the Government National Mortgage Association, or GNMA, Federal National Mortgage Association, or FNMA, or the Federal Home Loan Mortgage Association, or FHLMC that are collateralized by whole pools of fixed or adjustable rate residential or commercial mortgage loans. We refer to these mortgage-related securities as agency-sponsored whole loan pool certificates. The adjustable rate mortgage-related securities include adjustable-rate FHLMC ARM and FNMA ARM certificates, which are generally evidenced by pools of mortgage loans with a fixed rate of interest for the first three years with annual interest adjustments thereafter and GNMA ARM certificates, which have a fixed rate of interest for the first three years with annual adjustments in relation to the Treasury index thereafter. Unlike conventional fixed-income securities which provide for periodic fixed interest payments and principal payments at maturity and specified call dates, mortgage-related securities provide for monthly payments of interest and principal that, in effect, are a pass-through of the monthly payments made by the borrowers on the residential or commercial mortgage loans underlying such securities, net of any fees paid to the issuer or guarantor of such securities. Additional payments on the securities are made when repayments of principal are made due to the sale of the underlying property, refinancing or foreclosure, net of fees or costs that may be incurred. Some mortgage-related securities (such as securities issued by GNMA) are described as modified pass-through because they entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, at scheduled payment dates regardless of whether or not the mortgagor makes the payment.

The rate of prepayments on the underlying mortgage loans affect the price and volatility of mortgage-related securities and may have the effect of shortening or extending the effective maturity of the security beyond what was anticipated at the time of our investment in such securities. The yield and maturity characteristics of mortgage-related securities differ from conventional fixed-income securities in that the principal amount of mortgage-related securities may be prepaid at any time because the underlying mortgage loans may be prepaid at any time. Therefore, some mortgage-related securities may have less potential for growth in value than conventional fixed-income securities with comparable maturities. In addition, the rate of prepayments tends to increase in periods of falling interest rates. During such periods, the reinvestment of prepayment proceeds by us will generally be at lower rates than the rates that were carried by the obligations that have been prepaid. To the extent that we purchase mortgage-related securities at a premium, prepayments (which may be made without penalty) may result in loss of our principal investment to the

extent of the premium paid.

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Our Structured Finance Investments

We own a diversified portfolio of structured finance investments consisting primarily of real estate-related bridge and mezzanine loans as well as preferred equity investments and mortgage-backed securities.

At December 31, 2006, we had 102 loans and investments in our portfolio, totaling \$2.0 billion. These loans and investments were for 32 multi-family properties, 11 condominium properties, 26 office properties, 16 hotel properties, nine commercial properties, five land properties, two retail properties, and one other property. We have an \$8.5 million loan in our portfolio that is non-performing and income recognition has been suspended. The principal amount of the loan is not deemed to be impaired and no loan loss reserve has been recorded at this time. Income recognition will resume when the loan becomes contractually current and performance has recommenced. We continue to actively manage all loans and investments in the portfolio and believe that our strict underwriting and active asset management enable us to maintain the credit quality of our portfolio.

The overall yield on our portfolio in 2006 was 10.50%, excluding the impact from a first quarter recognition of previously deferred revenue and a fourth quarter distribution that were recorded as interest income totaling approximately \$10.4 million, on average assets of \$1.5 billion. This yield was computed by dividing the interest income earned during the year by the average assets during the year. Our cost of funds in 2006 was 7.11% on average borrowings of \$1.3 billion. This cost of funds was computed by dividing the interest expense incurred during the year by the average borrowings during the year.

Our average net investment (average assets less average borrowings) in 2006 was \$213.5 million, resulting in average leverage (average borrowings divided by average assets) of 86%. Including average trust preferred securities of \$197.5 million as equity, our average leverage was 73%. The net interest income earned in 2006 yielded a 35.70% return on our average net investment during the year. This yield was computed by dividing the net interest (interest income less interest expense) earned in 2006 by the average equity (computed as average assets minus average borrowings) invested during the year.

Our business plan contemplates that our leverage ratio, including our trust preferred securities as equity, will be approximately 70% to 80% of our assets in the aggregate. However, including our trust preferred securities as equity, our leverage will not exceed 80% of the value of our assets in the aggregate unless approval to exceed the 80% limit is obtained from our board of directors. At December 31, 2006, our overall leverage ratio including the trust preferred securities as equity was 73%.

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STRUCTURED FINANCE INVESTMENT PORTFOLIO
As of December 31, 2006

The following tables set forth information regarding our bridge and mezzanine loans, preferred equity investments and other real estate-related assets as of December 31, 2006.

Type	Asset Class	Number	Unpaid Principal (Dollars in thousands)	Weighted Average Pay Rate	Weighted Average Remaining Maturity (Months)
Bridge Loans	MultiFamily	12	\$ 133,075	8.2%	17.9
	Office	8	246,729	7.8%	31.4
	Hotel	4	124,096	8.1%	17.7
	Condo	6	261,328	9.0%	12.7
	Commercial	5	100,267	8.42%	17.8
	Land	3	95,118	10.41%	34.5
	Retail	1	2,802	9.9%	17.0
	Other	1	1,300	12.0%	3.0
		40	964,715	8.5%	21.5
Mezzanine Loans	MultiFamily	13	183,289	9.7%	33.2
	Office	17	345,765	9.1%	44.9
	Hotel	10	241,367	8.6%	17.8
	Condo	5	158,043	12.3%	14.4
	Commercial	2	60,000	10.0%	15.0
	Land	2	20,958	5.4%	38.4
	Retail	1	3,000	10.4%	21.0
			50	1,012,422	9.6%
Preferred Equity	MultiFamily	7	10,437	10.0%	111.2
	Office	1	11,000	10.9%	21.0
	Hotel	1	2,000	9.0%	3.0
		9	23,437	10.3%	59.6
Other	Hotel	1	1,846	7.4%	200.0
	Commercial	2	10,500	5.6%	15.0
		3	12,346	5.9%	42.7
Total		102	\$ 2,012,920	9.1%	26.2

Geographic Location	Unpaid Principal (Dollars in thousands)	Percentage(1)	Asset Class	Unpaid Principal (Dollars in thousands)	Percentage(1)
New York	\$ 1,070,342	53.2%	MultiFamily	\$ 326,801	16.2%
Florida	210,965	10.5%	Office	603,494	30.0%
California	109,499	5.4%	Hotel	369,309	18.3%
Maryland	68,790	3.4%	Condo	419,371	20.8%
Other(2)	282,571	13.5%	Commercial	170,767	8.5%
Diversified	270,753	14.0%	Land	116,076	5.8%
			Retail	5,802	0.3%
			Other	1,300	0.1%
Total	\$ 2,012,920	100%	Total	\$ 2,012,920	100%

(1) Based on a percentage of the total unpaid principal balance of the underlying loans.

(2) No other individual state makes up more than 3% of the total.

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In 2004, we invested \$57.4 million (including \$0.1 million of purchased interest) in agency-sponsored whole pool certificates. \$20.6 million of these securities were issued by FNMA and \$36.7 million were issued by FHLMC. Pools of FNMA and FHLMC adjustable rate residential mortgage loans underlie these securities. The underlying mortgage loans bear interest at a weighted average fixed rate for three years and adjust annually thereafter and have a weighted average coupon rate of 3.8%. We receive monthly payments of interest and principal on these securities based on the monthly interest and principal payments that are made on the underlying mortgage loans. At December 31, 2006, these securities were financed under a \$100.0 million repurchase agreement, maturing July 2007, at a rate of one-month LIBOR plus 0.20%. At December 31, 2006, the amortized cost of these securities was \$22.2 million and the amount outstanding on the repurchase agreement related to the financing of these securities was \$20.7 million. These investments had a weighted average balance of \$26.4 million for the year with an average yield of 2.17%, net of amortization of premiums. These assets were financed by borrowings with a weighted average balance of \$25.1 million and an average cost of funds of 5.28%.

The table below sets forth information regarding our investments in mortgage-related securities as of December 31, 2006. These securities have a fixed interest rate until March 2007, and adjust annually thereafter.

	Amortized Cost	Unrealized Loss	Market Value	Maturity	Initial Interest Rate
	(Dollars in thousands)				
FHLMC Security	\$ 11,792	\$ (38)	\$ 11,754	3/1/2034	3.80%
FHLMC Security	4,099	(35)	4,064	3/1/2034	3.76%
FNMA Security	6,307	(25)	6,282	3/1/2034	3.80%
Total	\$ 22,198	\$ (98)	\$ 22,100		

Regulatory Aspects of Our Investment Strategy

Real Estate Exemption from Investment Company Act. We believe that we conduct and we intend to conduct our business at all times in a manner that avoids registration as an investment company under the Investment Company Act of 1940. There is an exemption from registration for entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. This exemption generally requires us to maintain at least 55% of our assets directly in qualifying real estate assets. Assets that qualify for purposes of this 55% test include, among other things, real estate, mortgage loans and agency-sponsored whole loan pool certificates. Our bridge loans secured by first mortgage liens on the underlying properties, loans secured by second mortgage liens on the underlying properties and agency-sponsored whole loan pool certificates generally qualify for purposes of this 55% test. We believe that these assets and certain of our mezzanine loans are in excess of 55% of our assets as of December 31, 2006 and qualify for purposes of the 55% test. The percentage of our assets that we invest in agency-sponsored whole loan pool certificates may decrease if we determine that we do not need to purchase such certificates for purposes of meeting the 55% test. If the Securities and Exchange Commission (SEC) takes a position or makes an interpretation more favorable to us, we may have greater flexibility in the investments we make. Our investments in mortgage-related securities are limited to agency-sponsored whole loan pool certificates which qualify for purposes of the 55% test. Our investment guidelines provide that no more than 15% of our assets

may consist of any type of the mortgage-related securities and that the percentage of our investments in mortgage-related securities as compared to our structured finance investments be monitored on a regular basis.

Management Agreement

On July 1, 2003, we and our operating partnership entered into a management agreement with ACM. On January 19, 2005, we, our operating partnership, Arbor Realty SR, Inc., one of our subsidiaries and ACM entered into an amended and restated management agreement with substantially the same terms as the original management agreement in order to add Arbor Realty SR, Inc. as a beneficiary of ACM's services. Pursuant to the terms of the management agreement, our manager has agreed to service and manage our investments and to provide us with

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structured finance investment opportunities, finance and other services necessary to operate our business. Our manager is required to provide a dedicated management team to provide these services to us, the members of which will devote such of their time to our management as our independent directors reasonably deem necessary and appropriate, commensurate with our level of activity from time to time. We rely to a significant extent on the facilities and resources of our manager to conduct our operations. For performing services under the management agreement, ACM receives a base management fee and incentive compensation calculated as described in Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this report.

Operations

Our Manager's Investment Services. Under the management agreement, ACM is responsible for sourcing originations, providing underwriting services and processing approvals for all loans and other investments in our portfolio. ACM also provides certain administrative loan servicing functions with respect to our loans and investments. We are able to capitalize on ACM's well established operations and services in each area described below.

Origination. Our manager sources the origination of most of our investments. ACM has a network of nine sales offices located in Bloomfield Hills, Michigan; Boston, Massachusetts; Charlotte, North Carolina; Manhattan Beach, California; Dallas, Texas; North Myrtle Beach, South Carolina; New York, New York; Uniondale, New York; and Woodland Hills, California. These offices are staffed by approximately 12 loan originators who solicit property owners, developers and mortgage loan brokers. In some instances, the originators accept loan applications meeting our underwriting criteria from a select group of mortgage loan brokers. While a large portion of ACM's marketing effort occurs at the branch level, ACM also markets its products in industry publications and targeted direct mailings. ACM markets structured finance products and our product offerings using the same methods. Once potential borrowers have been identified, ACM determines which financing products best meet the borrower's needs. Loan originators in every branch office are able to offer borrowers the full array of ACM's and our structured finance products. After identifying a suitable product, ACM works with the borrower to prepare a loan application. Upon completion by the borrower, the application is forwarded to ACM's underwriters for due diligence.

Underwriting. ACM's loan originators work in conjunction with its underwriters who perform due diligence on all proposed transactions prior to loan approval and commitment. The underwriters analyze each loan application in accordance with the guidelines set forth below in order to determine the loan's conformity with respect to such guidelines. In general, ACM's underwriting guidelines require it to evaluate the following: the historic and current property revenues and expenses; the potential for near-term revenue growth and opportunity for expense reduction and increased operating efficiencies; the property's location, its attributes and competitive position within its market; the proposed ownership structure, financial strength and real estate experience of the borrower and property management; third party appraisal, environmental and engineering studies; market assessment, including property inspection, review of tenant lease files, surveys of property comparables and an analysis of area economic and demographic trends; review of an acceptable mortgagee's title policy and an as built survey; construction quality of the property to determine future maintenance and capital expenditure requirements; and the requirements for any reserves, including those for immediate repairs or rehabilitation, replacement reserves, tenant improvement and leasing commission costs, real estate taxes and property casualty and liability insurance. Key factors considered in credit decisions include, but are not limited to, debt service coverage, loan to value ratios and property, financial and operating performance. Consideration is also given to other factors, such as additional forms of collateral and identifying likely strategies to effect repayment. ACM will refine its underwriting criteria based upon actual loan portfolio experience and as market conditions and investor requirements evolve.

Investment Approval Process. ACM applies its established investment approval process to all loans and other investments proposed for our portfolio before submitting each proposal to us for final approval. A written report is generated for every loan or other investment that is submitted to ACM's credit committee for approval. The report

includes a description of the prospective borrower and any guarantors, the collateral and the proposed use of investment proceeds, as well as borrower and property consolidated financial statements and analysis. In addition, the report includes an analysis of borrower liquidity, net worth, cash investment, income, credit history and

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operating experience. If the transaction is approved by a majority of ACM's credit committee, it is presented for approval to our credit committee, which consists of our chief executive officer, chief credit officer, and executive vice president of structured finance. All transactions require the approval of a majority of the members of our credit committee. Following the approval of any such transaction, ACM's underwriting and servicing departments, together with our asset management group, assure that all loan approval terms have been satisfied and that they conform with lending requirements established for that particular transaction. If our credit committee rejects the loan and our independent directors allow ACM or one of its affiliates to pursue it, ACM will have the opportunity to execute the transaction.

Servicing. ACM services our loans and investments through its internal servicing operations. Our manager currently services an expanding portfolio, consisting of approximately 602 loans with outstanding balances of \$4.6 billion through its loan administration department in Buffalo, New York. ACM's loan servicing operations are designed to provide prompt customer service and accurate and timely information for account follow up, financial reporting and management review. Following the funding of an approved loan, all pertinent loan data is entered into ACM's data processing system, which provides monthly billing statements, tracks payment performance and processes contractual interest rate adjustments on variable rate loans. Our manager utilizes the operations of its loan administration department to service our portfolio with the same efficiency, accuracy and promptness. ACM also works closely with our asset management group to ensure the appropriate level of customer service and monitoring of these loans.

Our Asset Management Operations. Our asset management group is comprised of 21 of our employees. Prior to our formation, the asset management group successfully managed numerous transactions, including complex restructurings, refinancings and asset dispositions for ACM.

Effective asset and portfolio management is essential to maximizing the performance and value of a real estate investment. The asset management group customizes an asset management plan with the loan originators and underwriters to track each investment from origination through disposition. This group monitors each investment's operating history, local economic trends and rental and occupancy rates and evaluates the underlying property's competitiveness within its market. This group assesses ongoing and potential operational and financial performance of each investment in order to evaluate and ultimately improve its operations and financial viability. The asset management group performs frequent onsite inspections, conducts meetings with borrowers and evaluates and participates in the budgeting process, financial and operational review and renovation plans of each of the underlying properties. As an asset and portfolio manager, the asset management group focuses on increasing the productivity of onsite property managers and leasing brokers. This group communicates the status of each transaction against its established asset management plan to senior management, in order to enhance and preserve capital, as well as to avoid litigation and potential exposure.

Timely and accurate identification of an investment's operational and financial issues and each borrower's objectives is essential to implementing an executable loan workout and restructuring process, if required. Since existing property management may not have the requisite expertise to manage the workout process effectively, the asset management group determines current operating and financial status of an asset or portfolio and performs liquidity analysis of properties and ownership entities and then, if appropriate, identifies and evaluates alternatives in order to maximize the value of an investment.

Our asset management group continues to provide its services to ACM on a limited basis pursuant to an asset management services agreement between ACM and us. The asset management services agreement will be effective throughout the term of our management agreement and during the origination period described in the management agreement. In the event the services provided by our asset management group pursuant to this agreement exceed by more than 15% per quarter the level anticipated by our board of directors, we will negotiate in good faith with our manager an adjustment to our manager's base management fee under the management agreement, to reduce the scope

of the services, the quantity of serviced assets or the time required to be devoted to the services by our asset management group.

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Operating Policies and Strategies

Investment Guidelines. Our board of directors has adopted general guidelines for our investments and borrowings to the effect that: (1) no investment will be made that would cause us to fail to qualify as a REIT; (2) no investment will be made that would cause us to be regulated as an investment company under the Investment Company Act; (3) no more than 25% of our equity (including trust preferred securities as equity), determined as of the date of such investment, will be invested in any single asset; (4) no single mezzanine loan or preferred equity investment will exceed \$75 million; (5) our leverage (including trust preferred securities as equity) will generally not exceed 80% of the value of our assets, in the aggregate; (6) we will not co-invest with our manager or any of its affiliates unless such co-investment is otherwise in accordance with these guidelines and its terms are at least as favorable to us as to our manager or the affiliate making such co-investment; (7) no more than 15% of our gross assets may consist of mortgage-related securities. Any exceptions to the above general guidelines require the approval of our board of directors.

Financing Policies. We finance the acquisition of our structured finance investments primarily by borrowing against or leveraging our existing portfolio and using the proceeds to acquire additional mortgage assets. We expect to incur debt such that we will maintain an equity to assets ratio no less than 20% (including trust preferred securities as equity), although the actual ratio may be lower from time to time depending on market conditions and other factors deemed relevant by our manager. Our charter and bylaws do not limit the amount of indebtedness we can incur, and the board of directors has discretion to deviate from or change our indebtedness policy at any time. However, we intend to maintain an adequate capital base to protect against various business environments in which our financing and hedging costs might exceed the interest income from our investments.

Our investments are financed primarily by collateralized debt obligations, our variable rate junior subordinate notes, and through our floating rate warehouse lines of credit, loan repurchase agreements and other financing facilities with institutional lenders. Although we expect that these will be the principal means of leveraging our investments, we may issue preferred stock or secured or unsecured notes of any maturity if it appears advantageous to do so.

Credit Risk Management Policy. We are exposed to various levels of credit and special hazard risk depending on the nature of our underlying assets and the nature and level of credit enhancements supporting our assets. We originate or purchase mortgage loans that meet our minimum debt service coverage standards. ACM, as our manager, our chief credit officer, and our asset management group, reviews and monitors credit risk and other risks of loss associated with each investment. In addition, ACM seeks to diversify our portfolio of assets to avoid undue geographic, issuer, industry and certain other types of concentrations. Our board of directors monitors the overall portfolio risk and reviews levels of provision for loss.

Interest Rate Risk Management Policy. To the extent consistent with our election to qualify as a REIT, we follow an interest rate risk management policy intended to mitigate the negative effects of major interest rate changes. We minimize our interest rate risk from borrowings by attempting to structure the key terms of our borrowings to generally correspond to the interest rate term of our assets.

We may enter into hedging transactions to protect our investment portfolio from interest rate fluctuations and other changes in market conditions. These transactions may include interest rate swaps, the purchase or sale of interest rate collars, caps or floors, options, mortgage derivatives and other hedging instruments. These instruments may be used to hedge as much of the interest rate risk as ACM determines is in the best interest of our stockholders, given the cost of such hedges and the need to maintain our status as a REIT. In general, income from hedging transactions does not constitute qualifying income for purposes of the REIT gross income requirements. To the extent, however, that a hedging contract reduces interest rate risk on indebtedness incurred to acquire or carry real estate assets, any income

that is derived from the hedging contract, while comprising non-qualifying income for purposes of the REIT 75% gross income test, would not give rise to non-qualifying income for purposes of the 95% gross income test. ACM may elect to have us bear a level of interest rate risk that could otherwise be hedged when it believes, based on all relevant facts, that bearing such risk is advisable.

To date, we have entered into various interest rate swaps in connection with the issuance of floating rate secured notes, the issuance of variable rate junior subordinate notes, and to hedge the interest risk on forecasted

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outstanding LIBOR based debt. The notional amount of each interest rate swap agreement and the related terms have been designed to protect our investment portfolio from interest rate risk and to match the payment and receipts of interest on the underlying debt instruments, where applicable.

Disposition Policies. Although there are no current plans to dispose of properties or other assets within our portfolio, ACM evaluates our asset portfolio on a regular basis to determine if it continues to satisfy our investment criteria. Subject to certain restrictions applicable to REITs, ACM may cause us to sell our investments opportunistically and use the proceeds of any such sale for debt reduction, additional acquisitions or working capital purposes.

Equity Capital Policies. Subject to applicable law, our board of directors has the authority, without further stockholder approval, to issue additional authorized common stock and preferred stock or otherwise raise capital, including through the issuance of senior securities, in any manner and on the terms and for the consideration it deems appropriate, including in exchange for property. We may in the future issue common stock in connection with acquisitions. We also may issue units of partnership interest in our operating partnership in connection with acquisitions of property. We may, under certain circumstances, repurchase our common stock in private transactions with our stockholders, if those purchases are approved by our board of directors. Our board of directors currently has approved a stock repurchase plan. All share repurchases pursuant to the plan will only be taken in conformity with applicable federal and state laws and the applicable requirements for qualifying as a REIT, for so long as the board of directors concludes that we should continue to qualify as a REIT.

Conflicts of Interest Policies. We, our executive officers and ACM face conflicts of interests because of our relationships with each other. Mr. Kaufman is our chief executive officer and the chief executive officer of ACM. Mr. Ivan Kaufman and entities controlled by him own approximately 90% of the outstanding membership interests of ACM. In addition, Mr. Elenio, our chief financial officer, Mr. Weber, our executive vice president of structured finance, Mr. Kilgore, our executive vice president of securitization, Mr. Fogel, our senior vice president of asset management, and two of our directors, Mr. Joseph Martello and Mr. Walter Horn, have minority ownership interests in ACM. Mr. Horn also serves as our secretary, general counsel, and director of compliance. Mr. Martello serves as the trustee and co-trustee of two separate trusts through which Mr. Kaufman owns an equity interest in ACM.

We have implemented several policies, through board action and through the terms of our constituent documents and of our agreements with ACM, to help address these conflicts of interest:

Our charter requires that a majority of our board of directors be independent directors and that only our independent directors make any determination on our behalf with respect to the relationships or transactions that present a conflict of interest for our directors or officers.

Our board of directors has adopted a policy that decisions concerning our management agreement with ACM, including termination, renewal and enforcement thereof or our participation in any transactions with ACM or its affiliates outside of the management agreement, including our ability to purchase securities and mortgages or other assets from ACM, or our ability to sell securities and assets to ACM, must be reviewed and approved by a majority of our independent directors.

Our management agreement provides that our determinations to terminate the management agreement for cause or because the management fees are unfair to us or because of a change in control of our manager, will be made by a majority vote of our independent directors.

Our independent directors will periodically review the general investment standards established by ACM under the management agreement.

Our management agreement with ACM provides that ACM may not assign duties under the management agreement, except to certain affiliates of ACM, without the approval of a majority of our independent directors.

Our management agreement provides that decisions to approve or reject investment opportunities rejected by our credit committee that ACM or Mr. Kaufman wish to pursue will be made by a majority of our independent directors.

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Our board of directors has approved the operating policies and the strategies set forth above. The board of directors has the power to modify or waive these policies and strategies, or amend our agreements with ACM, without the consent of our stockholders to the extent that the board of directors (including a majority of our independent directors) determines that such modification or waiver is in the best interest of our stockholders. Among other factors, developments in the market that either affect the policies and strategies mentioned herein or that change our assessment of the market may cause our board of directors to revise its policies and strategies. However, if such modification or waiver involves the relationship of, or any transaction between, us and our manager or any affiliate of our manager, the approval of a majority of our independent directors is also required. We may not, however, amend our charter to change the requirement that a majority of our board consist of independent directors or the requirement that our independent directors approve related party transactions without the approval of two thirds of the votes entitled to be cast by our stockholders.

Compliance with Federal, State and Local Environmental Laws

Properties that we may acquire directly or indirectly through partnerships, and the properties underlying our structured finance investments and mortgage-related securities, are subject to various federal, state and local environmental laws, ordinances and regulations. Under these laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances or petroleum product releases at, on, under or in its property. These laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of the hazardous or toxic substances. The costs of investigation, remediation or removal of these substances may be substantial and could exceed the value of the property. An owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to materials containing asbestos. These laws allow third parties to seek recovery from owners of real properties for personal injuries associated with materials containing asbestos. Our operating costs and the values of these assets may be adversely affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation, and our income and ability to make distributions to our stockholders could be affected adversely by the existence of an environmental liability with respect to properties we may acquire. We will endeavor to ensure that these properties are in compliance in all material respects with all federal, state and local laws, ordinances and regulations regarding hazardous or toxic substances or petroleum products.

Competition

Our net income depends, in large part, on our manager's ability to originate structured finance investments with spreads over our borrowing costs. In originating these investments, our manager competes with other mortgage REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders, governmental bodies and other entities, some of which may have greater financial resources and lower costs of capital available to them. In addition, there are numerous mortgage REITs with asset acquisition objectives similar to ours, and others may be organized in the future. The effect of the existence of additional REITs may be to increase competition for the available supply of structured finance assets suitable for purchase by us. Competitive variables include market presence and visibility, size of loans offered and underwriting standards. To the extent that a competitor is willing to risk larger amounts of capital in a particular transaction or to employ more liberal underwriting standards when evaluating potential loans, our origination volume and profit margins for our investment portfolio could be impacted. Our competitors may also be willing to accept lower returns on their investments and may succeed in buying the assets that we have targeted for

acquisition. Although management believes that we are well positioned to continue to compete effectively in each facet of our business, there can be no assurance that we will do so or that we will not encounter further increased competition in the future that could limit its ability to compete effectively.

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Employees

We currently have 30 employees, including Mr. Kovarik, our chief credit officer, Mr. Weber, our executive vice president of structured finance, Mr. Horn, our secretary, general counsel, and director of compliance, Mr. Fogel, our senior vice president of asset management and Mr. Kilgore, our executive vice president of securitization. In addition, Mr. Kaufman, our chief executive officer and Mr. Elenio, our chief financial officer are full time employees of our manager, who perform the duties required pursuant to the management agreement with our manager.

Corporate Governance and Internet Address

We have adopted corporate governance guidelines and a code of business conduct and ethics, which delineate our standards for our officers and directors, and employees of our manager. We emphasize the importance of professional business conduct and ethics through our corporate governance initiatives.

The audit, nominating/corporate governance, and compensation committees of our board of directors are composed exclusively of independent directors.

Our internet address is www.arborrealtytrust.com. We make available, free of charge through a link on our site, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports, if any, as filed with the SEC as soon as reasonably practicable after such filing. Our site also contains our code of business conduct and ethics, code of ethics for senior financial officers, corporate governance guidelines, and the charters of the audit committee, nominating/corporate governance committee and compensation committee of our board of directors.

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ITEM 1A. RISK FACTORS

Our business is subject to various risks, including the risks listed below. If any of these risks actually occur, our business, financial condition and results of operations could be materially adversely affected and the value of our common stock could decline.

Risks Related to Our Business

We may be unable to invest excess equity capital on acceptable terms or at all, which would adversely affect our operating results.

We may not be able to identify investments that meet our investment criteria and we may not be successful in closing the investments that we identify. Unless and until we identify structured finance and mortgage-related security investments consistent with our investment criteria, any excess equity capital may be used to repay borrowings under our warehouse credit facility, bridge loan warehouse facility and repurchase agreements, which would not produce a return on capital. In addition, the investments that we acquire with our equity capital may not produce a return on capital. There can be no assurance that we will be able to identify attractive opportunities to invest our equity capital which would adversely affect our results of operations.

We depend on key personnel with long standing business relationships, the loss of whom could threaten our ability to operate our business successfully.

Our future success depends, to a significant extent, upon the continued services of our manager and our employees. In particular, the mortgage lending experience of Mr. Ivan Kaufman and Mr. Fred Weber and the extent and nature of the relationships they have developed with developers of multi-family and commercial properties and other financial institutions are critical to the success of our business. We cannot assure you of their continued employment with Arbor Commercial Mortgage or us. The loss of services of one or more members of our manager's officers or our officers could harm our business and our prospects.

We invest in mezzanine loans which are subject to a greater risk of loss than loans with a first priority lien on the underlying real estate.

We invest in mezzanine loans that take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of investments involve a higher degree of risk than long term senior mortgage lending secured by income producing real property because the investment may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan to value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

We invest in multi-family and commercial real estate loans, which may involve a greater risk of loss than single family real estate loans.

Our investments include multi-family and commercial real estate loans that are considered to involve a higher degree of risk than single family residential lending because of a variety of factors, including generally larger loan balances, dependency for repayment on successful operation of the mortgaged property and tenant businesses operating therein, and loan terms that include amortization schedules longer than the stated maturity and provide for balloon payments at stated maturity rather than periodic principal payments. In addition, the value of commercial real estate can be affected significantly by the supply and demand in the market for that type of property.

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Volatility of values of multi-family and commercial properties may adversely affect our loans and investments.

Multi-family and commercial property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs). In the event a property's net operating income decreases, a borrower may have difficulty paying our loan, which could result in losses to us. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses.

We may be unable to generate sufficient revenue from operations to pay our operating expenses and to pay dividends to our stockholders.

As a REIT, we are generally required to distribute at least 90% of our taxable income each year to our stockholders. In order to qualify for the tax benefits accorded to REITs, we intend to pay quarterly dividends and to make distributions to our stockholders in amounts such that we distribute all or substantially all of our taxable income each year, subject to certain adjustments. However, our ability to make distributions may be adversely affected by the risk factors described in this form 10-K. In the event of a downturn in our operating results and financial performance or unanticipated declines in the value of our asset portfolio, we may be unable to declare or pay quarterly dividends or make distributions to our stockholders. The timing and amount of dividends are in the sole discretion of our board of directors, which considers, among other factors, our earnings, financial condition, debt service obligations and applicable debt covenants, REIT qualification requirements and other tax considerations and capital expenditure requirements as our board may deem relevant from time to time.

Among the factors that could adversely affect our results of operations and impair our ability to make distributions to our stockholders are:

our ability to make profitable structured finance investments;

defaults in our asset portfolio or decreases in the value of our portfolio;

the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates; and

increased debt service requirements, including those resulting from higher interest rates on variable rate indebtedness.

A change in any one of these factors could affect our ability to make distributions. If we are not able to comply with the restrictive covenants and financial ratios contained in our credit facilities, our ability to make distributions to our stockholders may also be impaired. We cannot assure you that we will be able to make distributions to our stockholders in the future or that the level of any distributions we make will increase over time.

In addition, distributions to stockholders are generally taxable to our stockholders as ordinary income, but a portion of these distributions may be designated by us as long-term capital gains to the extent they are attributable to capital gain income recognized by us, or may constitute a return of capital to the extent they exceed our earnings and profits as determined for tax purposes.

We may need to borrow funds under our credit facilities in order to satisfy our REIT distribution requirements, and a portion of our distributions may constitute a return of capital. Debt service on any borrowings for this purpose will reduce our cash available for distribution.

We may need to borrow funds to meet the REIT requirement that we distribute at least 90% of our taxable income each year to our stockholders if our cash flows from operations are not sufficient to cover the distribution requirements or because there are differences in timing between the recognition of taxable income and the actual receipt of income in cash. Our warehouse credit facility, bridge loan warehouse facility and master repurchase

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agreements allow us to borrow up to a maximum amount against each of our investments financed under these credit facilities. If we have not borrowed the maximum allowable amount against any of these investments, we may borrow funds under our credit facilities up to these maximum amounts in order to satisfy REIT distribution requirements. Any required debt service will reduce cash and net income available for operations or distribution to our stockholders.

In order to maximize the return on our funds, cash generated from operations is generally used to temporarily pay down borrowings under credit facilities whose primary purpose is to fund our new loans and investments. When making distributions, we borrow the required funds by drawing on credit capacity available under our credit facilities. To date, all distributions have been funded in this manner. If distributions exceed cash available in the future, we may be required to borrow additional funds, which would reduce the amount of cash available for other purposes, or sell assets in order to meet our REIT distribution requirements.

Failure to maintain an exemption from the Investment Company Act would adversely affect our results of operations.

We believe that we conduct and we intend to conduct our business in a manner that allows us to avoid being regulated as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. Under Section 3(c) (5) (C), the Investment Company Act exempts entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. The staff of the SEC has provided guidance on the availability of this exemption. Specifically, the staff's position generally requires us to maintain at least 55% of our assets directly in qualifying real estate interests. To constitute a qualifying real estate interest under this 55% requirement, a real estate interest must meet various criteria. Loans that are secured by equity interests in entities that directly or indirectly own the underlying real property, rather than a mortgage on the underlying property itself, and ownership of equity interests in owners of real property may not qualify for purposes of the 55% test depending on the type of entity. Mortgage-related securities that do not represent all of the certificates issued with respect to an underlying pool of mortgages may also not qualify for purposes of the 55% test. Therefore, our ownership of these types of debt instruments and equity interests may be limited by the provisions of the Investment Company Act. To the extent that we do not comply with the SEC staff's 55% test or another exemption or exclusion from registration under the Investment Company Act or other interpretations under the Investment Company Act, we may be deemed to be an investment company. If we fail to maintain an exemption or other exclusion from registration as an investment company we could, among other things, be required either (a) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company, either of which could have an adverse effect on us and the market price of our common stock. If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration and other matters.

We are substantially controlled by Arbor Commercial Mortgage and its controlling equity owner, Mr. Kaufman.

Mr. Ivan Kaufman is our chairman and chief executive officer and the president and chief executive officer of our manager. Further, Mr. Kaufman and the Kaufman entities together beneficially own approximately 90% of the outstanding membership interests of Arbor Commercial Mortgage. Arbor Commercial Mortgage owns approximately 3.8 million operating partnership units, representing a 18% limited partnership interest in our operating partnership and we own the remaining 82%. The operating partnership units are redeemable for cash or, at our election, for shares of our common stock generally on a one-for-one basis. Each of the operating partnership units Arbor Commercial Mortgage owns is paired with one share of our special voting preferred stock, each of which entitle Arbor Commercial Mortgage to one vote on all matters submitted to a vote of our stockholders. Arbor Commercial Mortgage is currently

entitled to approximately 3.8 million votes, stock or 18% of the voting power of our outstanding stock as a result of its ownership of the special voting preferred stock. In addition, Arbor Commercial Mortgage owns 578,041 shares of our common stock, which gives Arbor Commercial Mortgage a total

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of 4,354,110 votes, or 20.7% of the voting power of our outstanding stock when combined with the special voting preferred stock. We granted Arbor Commercial Mortgage and Mr. Kaufman, as its controlling equity owner, an exemption from the ownership limitation contained in our charter, in connection with Arbor Commercial Mortgage's acquisition of approximately 3.1 million shares of our special voting preferred stock on July 1, 2003. Because of his position with us and our manager and his ability to effectively vote a substantial minority of our outstanding voting stock, Mr. Kaufman has significant influence over our policies and strategy.

Our charter as amended generally does not permit ownership in excess of 8.3% of our capital stock, and attempts to acquire our capital stock in excess of this limit are ineffective without prior approval from our board of directors.

For the purpose of preserving our REIT qualification, our charter generally prohibits direct or constructive ownership by any person of more than 8.3% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of our common stock or 8.3% (by value) of our outstanding shares of capital stock. For purposes of this calculation, warrants held by such person will be deemed to have been exercised if such exercise would result in a violation. Our charter's constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than these percentages of the outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of these percentages of the outstanding stock and thus be subject to our charter's ownership limit. Any attempt to own or transfer shares of our common or preferred stock in excess of the ownership limit without the consent of the board of directors will result in the shares being automatically transferred to a charitable trust or otherwise be void.

Risks Related to Conflicts of Interest

We are dependent on our manager with whom we have conflicts of interest.

We have only 30 employees, including Mr. Fred Weber, Mr. Mark Fogel, Mr. John C. Kovarik, Mr. Walter Horn, Mr. Gene Kilgore and are dependent upon our manager, Arbor Commercial Mortgage, 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. 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 90% of the outstanding membership interests of Arbor Commercial Mortgage and Messrs. Elenio, Weber, Fogel, Martello and Horn, also hold an ownership interest in Arbor Commercial Mortgage. Mr. Martello also serves as the trustee of one of the Kaufman entities that holds a majority of the outstanding membership interests in Arbor Commercial Mortgage and co-trustee of another Kaufman entity that owns an equity interest in our manager. Arbor Commercial Mortgage holds an 18% limited partnership interest in our operating partnership, which as a result has 18% of the voting power of our outstanding stock. In addition, Arbor Commercial Mortgage owns 578,041 shares of our common stock, which gives Arbor Commercial Mortgage a total of 4,354,110 votes, or 20.7% of the voting power of our outstanding stock when combined with the special voting preferred stock.

We may enter into transactions with Arbor Commercial Mortgage outside the terms of the management agreement with the approval of a majority vote of the independent members of our board of directors. Transactions required to be approved by a majority of our independent directors include, but are not limited to, our ability to purchase securities and mortgage and other assets from Arbor Commercial Mortgage or to sell securities and assets to Arbor Commercial Mortgage. Arbor Commercial Mortgage may from time to time provide permanent mortgage loan financing to clients of ours, which will be used to refinance bridge financing provided by us. We and Arbor Commercial Mortgage may also make loans to the same borrower or to borrowers that are under common control. Additionally, our policies and those of Arbor Commercial Mortgage may require us to enter into intercreditor agreements in situations where loans are made by us and Arbor Commercial Mortgage to the same borrower.

We have entered into a management agreement with our manager under which our manager provides us with all of the services vital to our operations other than asset management services. However, the management agreement was not negotiated at arm's length and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. Certain matters relating to our organization also were not

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approved at arm's length and the terms of the contribution of assets to us may not be as favorable to us as if the contribution was with an unaffiliated third party.

The results of our operations are dependent upon the availability of, and our manager's ability to identify and capitalize on, investment opportunities. Our manager's officers and employees are also responsible for providing the same services for Arbor Commercial Mortgage's portfolio of investments. As a result, they may not be able to devote sufficient time to the management of our business operations.

Our directors have approved very broad investment guidelines for our manager and do not approve each investment decision made by our manager.

Our manager is authorized to follow very broad investment guidelines. Our directors will periodically review our investment guidelines and our investment portfolio. However, our board does not review each proposed investment. In addition, in conducting periodic reviews, the directors rely primarily on information provided to them by our manager. Furthermore, transactions entered into by our manager may be difficult or impossible to unwind by the time they are reviewed by the directors. Our manager has great latitude within the broad investment guidelines in determining the types of assets it may decide are proper investments for us.

Our manager has broad discretion to invest funds and may acquire structured finance assets where the investment returns are substantially below expectations or that result in net operating losses.

Our manager has broad discretion, within the general investment criteria established by our board of directors, to allocate the proceeds of the concurrent offerings and to determine the timing of investment of such proceeds. Such discretion could result in allocation of proceeds to assets where the investment returns are substantially below expectations or that result in net operating losses, which would materially and adversely affect our business, operations and results.

The management compensation structure that we have agreed to with our manager may cause our manager to invest in high risk investments. Our manager is entitled to a base management fee, which is based on the equity of our operating partnership. The amount of the base management fee does not depend on the performance of the services provided by our manager or the types of assets it selects for our investment, but the value of our operating partnership's equity will be affected by the performance of these assets. Our manager is also entitled to receive incentive compensation based in part upon our achievement of targeted levels of funds from operations. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on funds from operations may lead our manager to place undue emphasis on the maximization of funds from operations at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our invested portfolio.

Risk Related to Our Status as a REIT

If we fail to remain qualified as a REIT, we will be subject to tax as a regular corporation and could face substantial tax liability.

We conduct our operations to qualify as a REIT under the Internal Revenue Code. However, qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent mistake could jeopardize our REIT status. Our continued qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In particular, our ability to qualify

as a REIT depends in part on the relative values of our common and special voting preferred stock, which have not been determined by independent appraisal, are susceptible to fluctuation, and could, if successfully challenged by the IRS, cause us to fail to meet the ownership requirements. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

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Furthermore, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

we would be taxed as a regular domestic corporation, which, among other things, means we would be unable to deduct distributions to stockholders in computing taxable income and would be subject to federal income tax on our taxable income at regular corporate rates;

any resulting tax liability could be substantial and would reduce the amount of cash available for distribution to stockholders; and

unless we were entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the subsequent four taxable years following the year during which we lost our qualification, and thus, our cash available for distribution to stockholders would be reduced for each of the years during which we did not qualify as a REIT.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. Any of these taxes would decrease cash available for distribution to our stockholders. In addition, in order to meet the REIT qualification requirements, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold some of our assets through taxable subsidiary corporations.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

Complying with REIT requirements may force us to liquidate otherwise attractive investments.

To qualify as a REIT we must ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities generally cannot comprise more than 10% of the outstanding voting securities, or more than 10% of the total value of the outstanding securities, of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than assets which qualify for purposes of the 75% asset test) may consist of the securities of any one issuer, and no more than 20% of the value of our total assets may be represented by securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter to avoid losing our REIT status and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments.

Liquidation of collateral may jeopardize our REIT status.

To continue to qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate investments to satisfy our obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our status as a REIT.

Complying with REIT requirements may force us to borrow to make distributions to stockholders.

In order to qualify as a REIT, we must generally, among other requirements, distribute at least 90% of our taxable income, subject to certain adjustments, to our stockholders each year. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate

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income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws.

From time to time, we may generate taxable income greater than our net income for financial reporting purposes, or our taxable income may be greater than our cash flow available for distribution to stockholders (for example, where a borrower defers the payment of interest in cash pursuant to a contractual right or otherwise). If we do not have other funds available in these situations we could be required to borrow funds, sell investments at disadvantageous prices or find another alternative source of funds to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may change. Any such changes may have retroactive effect, and could adversely affect us or our stockholders. Legislation enacted in 2003 and extended in 2006 generally reduced the federal income tax rate on most dividends paid by corporations to individual investors to a maximum of 15% (through 2010). REIT dividends, with limited exceptions, will not benefit from the rate reduction, because a REIT's income generally is not subject to corporate level tax. As such, this legislation could cause shares in non-REIT corporations to be a more attractive investment to individual investors than shares in REITs, and could have an adverse effect on the value of our common stock.

Restrictions on share accumulation in REITs could discourage a change of control of us.

In order for us to qualify as a REIT, not more than 50% of the value of our outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals during the last half of a taxable year.

In order to prevent five or fewer individuals from acquiring more than 50% of our outstanding shares and a resulting failure to qualify as a REIT, our charter provides that, subject to certain exceptions, no person, including entities, may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 8.3% of the aggregate value or number of shares (whichever is more restrictive) of our outstanding common stock, or more than 8.3%, by value, of our outstanding shares of capital stock of all classes, in the aggregate. For purposes of the ownership limitations, warrants held by a person will be deemed to have been exercised.

Shares of our stock that would otherwise be directly or indirectly acquired or held by a person in violation of the ownership limitations are, in general, automatically transferred to a trust for the benefit of a charitable beneficiary, and the purported owner's interest in such shares is void. In addition, any person who acquires shares in excess of these limits is obliged to immediately give written notice to us and provide us with any information we may request in order to determine the effect of the acquisition on our status as a REIT. We granted Arbor Commercial Mortgage and Mr. Kaufman, as its controlling equity owner, an exemption from the ownership limitation contained in our charter, in connection with Arbor Commercial Mortgage's acquisition of 3,146,724 shares of our special voting preferred stock on July 1, 2003, which exemption also allowed Arbor Commercial Mortgage to acquire an additional 629,345 shares of special voting preferred stock. Arbor Commercial Mortgage currently owns 3,776,069 shares of our special voting preferred stock.

While these restrictions are designed to prevent any five individuals from owning more than 50% of our shares, they could also discourage a change in control of our company. These restrictions may also deter tender offers that may be attractive to stockholders or limit the opportunity for stockholders to receive a premium for their shares if an investor

makes purchases of shares to acquire a block of shares.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Internal Revenue Code may limit our ability to hedge our operations. Under current law, any income that we generate from derivatives or other transactions intended to hedge our interest rate risks will generally constitute income that does not qualify for purposes of the 75% income requirement applicable

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to REITs, and will also be treated as nonqualifying income for purposes of the REIT 95% income test unless specified requirements are met. In addition, any income from foreign currency or other hedges would generally constitute nonqualifying income for purposes of both the 75% and 95% REIT income tests under current law. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous, which could result in greater risks associated with interest rate or other changes than we would otherwise incur.

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ITEM 1B. *UNRESOLVED STAFF COMMENTS*

Not applicable.

ITEM 2. *PROPERTIES*

Arbor Commercial Mortgage, our manager, leases our shared principal executive and administrative offices, located at 333 Earle Ovington Boulevard in Uniondale, New York.

ITEM 3. *LEGAL PROCEEDINGS*

We are not involved in any litigation nor, to our knowledge, is any litigation threatened against us.

ITEM 4. *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

No matters were submitted to a vote of our security holders during the fourth quarter of 2006.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock has been listed on the New York Stock Exchange under the symbol ABR since our initial public offering in April 2004. The following table sets forth for the indicated periods the high, low and last sales prices for our common stock, as reported on the New York Stock Exchange, and the dividends declared and paid with respect to such periods:

	High	Low	Last	Dividends Declared
2005				
First Quarter	\$ 27.00	\$ 23.52	\$ 24.75	\$ 0.55
Second Quarter	\$ 29.20	\$ 24.25	\$ 28.70	\$ 0.57
Third Quarter	\$ 31.20	\$ 26.68	\$ 28.10	\$ 0.65
Fourth Quarter(1)	\$ 29.42	\$ 24.55	\$ 25.92	\$ 0.70
2006				
First Quarter	\$ 27.76	\$ 24.80	\$ 26.99	\$ 0.72
Second Quarter	\$ 27.08	\$ 23.26	\$ 25.05	\$ 0.57
Third Quarter	\$ 26.05	\$ 23.89	\$ 25.56	\$ 0.58
Fourth Quarter(2)	\$ 30.57	\$ 24.40	\$ 30.09	\$ 0.60

(1) On January 11, 2006, we declared distributions of \$0.70 per share of common stock, payable with respect to the three months ended December 31, 2005 to stockholders of record at the close of business on January 23, 2006.

(2) On January 25, 2007, we declared distributions of \$0.60 per share of common stock, payable with respect to the three months ended December 31, 2006 to stockholders of record at the close of business on February 5, 2007.

We are organized and conduct our operations to qualify as a real estate investment trust, or a REIT, which requires that we distribute at least 90% of taxable income. Therefore, we intend to continue to declare quarterly distributions on our common stock. No assurance, however, can be given as to the amounts or timing of future distributions as such distributions are subject to our earnings, financial condition, capital requirements and such other factors as our board of directors deems relevant.

On February 16, 2007, the closing sale price for our common stock, as reported on the NYSE, was \$34.05. As of February 16, 2007, there were 8,134 record holders of our common stock.

Equity Compensation Plan Information

Information regarding securities authorized for issuance under our equity compensation plans which are set forth under the caption "Equity Compensation Plan Information" of the 2007 Proxy Statement is incorporated herein by

reference.

Performance Graph

Set forth below is a line graph comparing the cumulative total stockholder return on shares of our common stock with the cumulative total return of the NAREIT All REIT Index and the Russell 2000 Index. The periods shown commence on April 7, 2004, the date that our common stock began trading on the New York Stock Exchange after our common stock was first registered under Section 12 of the Exchange Act, and end on December 31, 2006, the end of our most recently completed fiscal year. The graph assumes an investment of \$100 on April 7, 2004 and the reinvestment of any dividends. This graph is not necessarily indicative of future price performance. The information included in the graph and table below was obtained from SNL Financial LC, Charlottesville, VA. © 2007.

Table of Contents***Arbor Realty Trust, Inc.*****Total Return Performance**

Index	Period Ending						
	04/07/04	6/30/2004	12/31/04	06/30/05	12/31/05	06/30/06	12/31/06
Arbor Realty Trust, Inc.	100.00	97.32	124.28	151.42	142.84	145.71	182.82
Russell 2000	100.00	98.56	109.23	107.87	114.21	123.59	135.18
NAREIT All REIT Index	100.00	100.07	124.09	130.17	134.37	151.47	180.53

In accordance with SEC rules, this section entitled Performance Graph shall not be incorporated by reference into any of our future filings under the Securities Act or the Exchange Act, and shall not be deemed to be soliciting material or to be filed under the Securities Act or the Exchange Act.

Recent Issuances of Unregistered Securities

In February 2006, 1,000 restricted shares were issued to each of three independent members of the board of directors under the stock incentive plan. One third of the restricted stock granted to each of these directors was vested as of the date of grant, another one third vested in January 2007 and the remaining third will vest in January 2008. In addition in February 2006, upon the resignation of a member of the Company's board of directors, 445 shares of restricted stock were forfeited. The Company issued 1,445 shares of common stock to this individual in conjunction with an advisory role taken with the Company. In April 2006, 1,000 restricted shares were issued to an independent member of the board of directors under the stock incentive plan. One third of the restricted stock grant to the director was vested as of the date of grant, another one third will vest in April 2007 and the remaining third will vest on April 2008. In addition in April 2006, the Company issued 89,250 shares of restricted common stock under the stock incentive plan to certain employees of the Company and of ACM. One fifth of the restricted stock granted to each of these employees were vested as of the date of grant, the second one-fifth will vest in April 2007, the third one-fifth will vest in April 2008, the fourth one-fifth will vest in April 2009, and the remaining one-fifth will vest in April 2010. The issuance of these 93,695 shares was not registered under the Securities Act in reliance on the exemption from registration provided by Section 4(2) thereof.

In 2006, we issued 243,129 shares of common stock to ACM as payment of the incentive compensation earned by ACM for the quarters ending December 31, 2005, March 31, 2006, June 30, 2006, and September 30, 2006. The issuance of these 243,129 shares as payment for ACM's incentive compensation was not registered under the Securities Act in reliance on the exemption from registration provided by Section 4(2) thereof.

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In August 2006, the Board of Directors authorized a stock repurchase plan that enabled the Company to buy up to one million shares of its common stock. At management's discretion, shares may be acquired on the open market, through privately negotiated transactions or pursuant to a Rule 10b5-1 plan. A Rule 10b5-1 plan permits the Company to repurchase shares at times when it might otherwise be prevented from doing so. As of December 31, 2006, the Company repurchased 279,400 shares of its common stock in the open market and under a 10b5-1 plan at a total cost of \$7.0 million (an average cost of \$25.10 per share). This plan expired on February 9, 2007.

Issuer Purchases of Equity Securities

During the three months ended December 31, 2006, we made the following purchases of shares of our common stock that are registered pursuant to Section 12(b) of the Securities Exchange Act of 1934.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet be Purchased Under the Plan(1)
October 1, 2006 through October 31, 2006	29,200	25.59	29,200	720,600
November 1, 2006 through November 30, 2006				720,600
December 1, 2006 through December 31, 2006				720,600
Total	29,200		29,200	

- (1) In August 2006, the Board of Directors authorized a stock repurchase plan that enabled the Company to buy up to one million shares of its common stock. At management's discretion, shares may be acquired on the open market, through privately negotiated transactions or pursuant to a Rule 10b5-1 plan. A Rule 10b5-1 plan permits the Company to repurchase shares at times when it might otherwise be prevented from doing so. This plan expired on February 9, 2007.

For the year ended December 31, 2006, we made the following purchases of shares of our common stock that are registered pursuant to Section 12(b) of the Securities Exchange Act of 1934.

Period	Total Number of Shares Purchased	Average Price Paid per Share
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January 1, 2006 through March 31, 2006		
April 1, 2006 through June 30, 2006		
July 1, 2006 through September 30, 2006	250,200	25.04
October 1, 2006 through December 31, 2006	29,200	25.59
Total	279,400	25.10

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA****SELECTED CONSOLIDATED FINANCIAL INFORMATION OF
ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

The following tables present selected historical consolidated financial information as of December 31, 2006, 2005, and 2004, and for the years ended December 31, 2006, 2005, 2004 and for the period from June 24, 2003 (inception) to December 31, 2003. The selected historical consolidated financial information presented below under the captions

Consolidated Income Statement Data and Consolidated Balance Sheet Data have been derived from our audited consolidated financial statements and include all adjustments, consisting only of normal recurring accruals, which management considers necessary for a fair presentation of the historical consolidated financial statements for such period. In addition, since the information presented below is only a summary and does not provide all of the information contained in our historical consolidated financial statements, including the related notes, you should read it in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements, including the related notes, included elsewhere in this report.

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004	Period from June 24, 2003 (Inception) to December 31, 2003
Consolidated Income Statement Data:				
Interest income	\$ 172,833,401	\$ 121,109,157	\$ 57,927,230	\$ 10,012,449
Income from swap derivative	696,960			
Other income	170,197	498,250	42,265	156,502
Total revenue	173,700,558	121,607,407	57,969,495	10,168,951
Management fees related party	12,831,791	12,430,546	3,614,830	587,734
Total expenses	116,966,562	68,392,843	27,545,997	5,452,865
Income from equity affiliates	4,784,292	8,453,440	525,000	
Income allocated to minority interest	11,104,481	11,280,981	5,875,816	1,308,167
Net income	50,413,807	50,387,023	25,072,682	3,407,919
Earnings per share, basic	2.94	2.99	1.81	0.42
Earnings per share, diluted(1)	2.93	2.98	1.78	0.42
Dividends declared per common share(2)(3)	2.57	2.24	1.16	0.50

	At December 31, 2006	At December 31, 2005	At December 31, 2004	At December 31, 2003
Consolidated Balance Sheet Data				
Loans and investments, net	\$ 1,993,525,064	\$ 1,246,825,906	\$ 831,783,364	\$ 286,036,610
Related party loans, net	7,752,038	7,749,538	7,749,538	35,940,881
Total assets	2,204,345,211	1,396,075,357	912,295,177	338,164,432
Repurchase agreements	395,847,359	413,624,385	409,109,372	113,897,845

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Collateralized debt obligations	1,091,529,000	299,319,000		
Junior subordinated notes to subsidiary trust issuing preferred securities	222,962,000	155,948,000		
Notes payable	94,574,240	115,400,377	165,771,447	58,630,626
Notes payable related party		30,000,000		
Total liabilities	1,842,765,882	1,044,775,284	589,292,273	183,416,716
Minority interest	65,468,252	63,691,556	60,249,731	43,631,602
Total stockholders equity	296,111,077	287,608,517	262,753,173	111,116,114

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004	Period from June 24, 2003 (Inception) to December 31, 2003
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Other Data

Total originations(4)	\$ 1,458,153,387	\$ 953,937,330	\$ 782,301,133	\$ 186,289,922
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- (1) The warrants underlying the units issued in the private placement at \$75.00 per unit had an initial exercise price of \$15.00 per share and expired on July 1, 2005. This exercise price is equal to the price per share of common stock underlying the units and approximates the market value of our common stock at December 31, 2003. Therefore, the assumed exercise of the warrants was not considered to be dilutive for purposes of calculating diluted earnings per share.
- (2) On January 25, 2007, our board of directors authorized and we declared a distribution to our stockholders of \$0.60 per share of common stock, payable with respect to the quarter ended December 31, 2006, to stockholders of record at the close of business on February 5, 2007. We made this distribution on February 20, 2007.
- (3) On January 11, 2006, our board of directors authorized and we declared a distribution to our stockholders of \$0.70 per share of common stock, payable with respect to the quarter ended December 31, 2005, to stockholders of record at the close of business on January 23, 2006. We made this distribution on February 6, 2006.
- (4) Year ended December 31, 2005 originations are net of a \$59.4 million participation in one of our loans.

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**SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE
STRUCTURED FINANCE BUSINESS OF ARBOR COMMERCIAL
MORTGAGE, LLC AND SUBSIDIARIES**

On July 1, 2003, Arbor Commercial Mortgage contributed a portfolio of structured finance investments and related liabilities to our operating partnership. In addition, certain employees of Arbor Commercial Mortgage became our employees. These assets, liabilities and employees represented a substantial portion of Arbor Commercial Mortgage's structured finance business.

The tables on the following page present selected historical consolidated financial information of the structured finance business of Arbor Commercial Mortgage at the dates and for the periods indicated. The structured finance business did not operate as a separate legal entity or business division or segment of Arbor Commercial Mortgage but as an integrated part of Arbor Commercial Mortgage's consolidated business. Accordingly, the statements of revenue and direct operating expenses do not include charges from Arbor Commercial Mortgage for corporate general and administrative expense because Arbor Commercial Mortgage considered such items to be corporate expenses and did not allocate them to individual business units. These expenses included costs for Arbor Commercial Mortgage's executive management, corporate facilities and overhead costs, corporate accounting and treasury functions, corporate legal matters and other similar costs. The selected consolidated financial information presented under the caption

Consolidated Statement of Revenue and Direct Operating Expenses Data for the year ended December 31, 2002, the six months ended June 30, 2003 and under the caption Consolidated Statement of Assets and Liabilities Data as of December 31, 2002 have been derived from the audited consolidated financial statements of the structured finance business of Arbor Commercial Mortgage. The selected consolidated financial information presented under the caption

Consolidated Statement of Revenue and Direct Operating Expenses Data for the six months ended June 30, 2003 is not necessarily indicative of the results of any other interim period or the year ended December 31, 2003.

The selected consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the six months ended June 30, 2002 have been derived from the unaudited interim consolidated financial statements of Arbor Commercial Mortgage's structured finance business and include all adjustments, consisting only of normal recurring accruals, which management considers necessary for a fair presentation of the historical consolidated financial information for such periods. The selected consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the six-month period ended June 30, 2002 are not necessarily indicative of the results of any other interim period or the year ended December 31, 2002.

Table of Contents**Consolidated Statement of Revenue and Direct Operating Expenses Data:**

	Six Months Ended June 30, 2003	2002 (Unaudited)	Year Ended December 31, 2002
Interest Income	\$ 7,688,465	\$ 7,482,750	\$ 14,532,504
Other income	1,552,414	553,625	1,090,106
Total revenue	9,240,879	8,036,375	15,622,610
Total direct operating expenses	5,737,688	8,344,302	13,639,755
Revenue in excess of direct operating expenses before gain on sale of loans and real estate and income from equity affiliates	3,503,191	(307,927)	1,982,855
Gain on sale of loans and real estate	1,024,268	7,006,432	7,470,999
Income from equity affiliates		601,100	632,350
Revenue, gain on sale of loans and real estate and income from equity affiliates in excess of direct operating expenses	4,527,459	7,299,605	10,086,204

Consolidated Statement of Assets and Liabilities Data:

	At December 31, 2002
Loans and investments, net	\$ 172,142,511
Related party loans, net	15,952,078
Investment in equity affiliates	2,586,026
Total assets	200,563,236
Notes payable and repurchase agreements	141,836,477
Total liabilities	144,280,806
Net assets	56,282,430

Other Data (Unaudited):

	Six Months Ended June 30, 2003	2002	Year Ended December 31, 2002
Total Originations	\$ 117,965,000	\$ 30,660,000	\$ 130,043,000

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the sections of this report entitled Risk Factors , Forward-Looking Statements , and Selected Consolidated Financial Information of Arbor Realty Trust, Inc. and Subsidiaries and the historical consolidated financial statements of Arbor Realty Trust, Inc. and Subsidiaries, including related notes, included elsewhere in this report.

Overview

We are a Maryland corporation that was formed in June 2003 to invest in real estate-related bridge and mezzanine loans, including junior participating interests in first mortgages, 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 also invest 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 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.

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. As the size of the portfolio increases, certain of these expenses, particularly employee compensation expenses, may increase.

We are organized and conduct our operations to qualify as a real estate investment trust, or a REIT and to comply with the provisions of the Internal Revenue Code of 1986, as amended, or the Code with respect thereto. A REIT is generally not subject to federal income tax on that portion of its REIT-taxable income which is distributed to its stockholders provided that at least 90% of its REIT-taxable income is distributed and provided that certain other requirements are met. Certain of our assets that produce non-qualifying income may be held in taxable REIT subsidiaries. Unlike other subsidiaries of a REIT, the income of a taxable REIT subsidiary is subject to Federal and state income taxes. The provision for income taxes related to these taxable subsidiaries has not been material as they have had minimal activity.

On July 1, 2003, Arbor Commercial Mortgage (ACM), our manager, contributed \$213.1 million of structured finance assets, encumbered by \$169.2 million of borrowings in exchange for an equity interest in our operating partnership represented by 3,146,724 units of limited partnership interest and 629,345 warrants to acquire additional units of limited partnership interest. In addition, certain employees of ACM became our employees. We are externally managed and advised by ACM and pay ACM a management fee in accordance with a management agreement. ACM originates, underwrites and services all structured finance assets on behalf of our operating partnership.

Concurrently with ACM's asset contribution, we consummated a private placement of 1.6 million units, each consisting of five shares of our common stock and one warrant to purchase one share of common stock, for \$75.00 per unit, resulting in gross proceeds of \$120.2 million. Gross proceeds from the private placement combined with the concurrent equity contribution by ACM totaled approximately \$164.1 million in equity capital.

On April 13, 2004, we sold 6,750,000 shares of our common stock at a price to the public of \$20.00 per share, for net proceeds of approximately \$124.4 million after deducting the underwriting discount and the other estimated offering expenses. On May 11, 2004, we issued and sold 524,200 additional shares of common stock, for net proceeds of approximately \$9.8 million after deducting the underwriting discount pursuant to the exercise of a

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portion of the over-allotment option granted to the underwriters of our initial public offering. Additionally, as of December 31, 2005, we issued 1,256,130 shares of common stock from the exercise of warrants originally issued as a component of units on July 1, 2003, for proceeds of \$17.1 million.

Changes in Financial Condition

In 2006, we originated 67 loans and investments totaling \$1.5 billion, of which \$1.3 billion was funded as of December 31, 2006. Of the new loans and investments, 29 were bridge loans totaling \$849.2 million, 17 were mezzanine loans totaling \$242.6 million, 13 were junior participating interests totaling \$325.8 million and 8 were preferred equity loans totaling \$40.5 million. We have received full satisfaction of 38 loans totaling \$694.7 million and partial repayment on 12 loans totaling \$9.8 million.

Since December 31, 2006, we have originated nine loans totaling approximately \$159.8 million. In addition, we have received \$162.8 million for the repayment in full of four loans of which \$94.3 million were loans on properties that were either sold or refinanced outside of Arbor and \$68.5 million was concurrent with an Arbor refinance. Lastly, we have received \$1.6 million for the partial repayment of six loans.

Our loan portfolio balance at December 31, 2006 was \$2.0 billion, with a weighted average current interest pay rate of 9.06%, as compared to \$1.3 billion, with a weighted average current interest pay rate of 9.24%, at December 31, 2005. At December 31, 2006, advances on financing facilities totaled \$1.8 billion, with a weighted average funding cost of 6.70% (6.55% excluding a \$59.4 million participation in one of our loans), as compared to \$1.0 billion, with a weighted average funding cost of 6.57% (6.36% excluding a \$59.4 million participation in one of our loans), at December 31, 2005. Additionally, our joint venture investment portfolio at December 31, 2006 was \$25.4 million as compared to \$18.1 million at December 31, 2005.

On January 11, 2006, we completed our second non-recourse collateralized debt obligation (CDO II) transaction, whereby a portfolio of real estate-related assets were contributed to a consolidated subsidiary which issued \$356.3 million of investment grade-rated floating-rate notes in a private placement. The subsidiary retained an equity interest in the portfolio with a value of approximately \$118.8 million. The notes are secured by a portfolio of real estate-related assets with a face value of approximately \$412.3 million, consisting primarily of bridge loans, mezzanine loans and junior participating interests in first mortgages, and by approximately \$62.7 million of cash available for acquisitions of loans and other permitted investments. The notes have an initial weighted average spread of approximately 74 basis points over three-month LIBOR. The facility has a five-year replenishment period that allows the principal proceeds from repayments of the collateral assets to be reinvested in qualifying replacement assets, subject to certain conditions. We intend to own the portfolio of real estate-related assets until its maturity and will account for this transaction on our balance sheet as a financing. These proceeds were used to repay outstanding debt with higher costs of funds. In connection with CDO II, we entered into interest rate swap agreements to hedge its exposure to the risk of changes in the difference between three-month LIBOR and one-month LIBOR as well as interest rate swaps on current and future projected LIBOR-based debt relating to certain fixed rate loans in our portfolio.

On December 14, 2006, we completed our third non-recourse collateralized debt obligation (CDO III) transaction, whereby a portfolio of real estate-related assets were contributed to a consolidated subsidiary which issued \$547.5 million of investment grade-rated floating-rate notes, including a \$100.0 million revolving note class that provides a revolving note facility. The notes were sold in a private placement. The subsidiary retained an equity interest in the portfolio with a value of approximately \$52.5 million. The notes are secured by a portfolio of real estate-related assets with a face value of approximately \$357.4 million, consisting primarily of bridge loans, mezzanine loans and junior participating interests in first mortgages, and by approximately \$142.6 million of cash available for acquisitions of loans and other permitted investments. The notes have a weighted average spread of

approximately 44 basis points over three-month LIBOR. In addition, the revolving note facility has a commitment fee of 0.22% per annum on the undrawn portion and initially there was no amount outstanding under this facility. The notes have a five-year replenishment period that allows the principal proceeds from repayments of the collateral assets to be reinvested in qualifying replacement assets, subject to certain conditions. We intend to own the portfolio of real estate-related assets until its maturity and account for this transaction on our balance sheet as a financing.

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These proceeds were used to repay outstanding debt with higher costs of funds. In connection with CDO III, we entered into interest rate swap agreements to hedge its exposure to the risk of changes in the difference between three-month LIBOR and one-month LIBOR as well as interest rate swaps on current and future projected LIBOR-based debt relating to certain fixed rate loans in our portfolio.

Sources of Operating Revenues

We derive our operating revenues primarily through interest received from making real estate-related bridge and mezzanine loans and preferred equity investments. Interest income earned on these loans and investments represented approximately 93%, 84% and 96% of our total revenues in 2006, 2005, and 2004, respectively.

Interest income is also derived from profits of equity participation interests. In 2006, 2005 and 2004 interest income from participation interests represented approximately \$10.4 million, \$17.2 million and \$1.2 million, or 6%, 14% and 2% of total revenues, respectively.

We also derive interest income from our investments in mortgage related securities. In 2006, 2005 and 2004, interest on these investments represented approximately less than 1%, 1% and 2% of our total revenues, respectively.

In addition, we derived operating revenue from income from swap derivative which represented income from interest rate swaps on junior subordinated notes relating to trust preferred securities. In 2006, income from swap derivative represented less than 1% of our total revenues. There was no such revenue in 2005 and 2004.

Additionally, we derive operating revenues from other income that represents loan structuring and miscellaneous asset management fees associated with our loans and investments portfolio. Revenue from other income represented less than 1% of our total revenues in 2006, 2005 and 2004.

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

We derive income 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 the equity method of accounting. We record our share of the net income and losses from the underlying properties on a single line item in the consolidated income statements as income from equity affiliates. In 2006, 2005 and 2004, income from equity affiliates totaled \$4.8 million, \$8.5 million and \$0.5 million, respectively.

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, dispose 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.

Significant Accounting Estimates and Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that could affect the reported amounts in our consolidated financial statements. Actual results could differ from these estimates. A summary of our significant accounting policies is presented in Note 2 to our consolidated financial statements, which appear in Financial Statements and Supplementary Data. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial

statements included in this report. Certain of the accounting policies used in the preparation of these consolidated financial statements are particularly important for an understanding of the financial position and results of operations presented in the historical consolidated financial statements included in this report and require the application of significant judgment by management and, as a result, are subject to a degree of uncertainty.

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Loans and Investments

Statement of Financial Accounting Standards (SFAS) No. 115 requires that at the time of purchase, we designate a security as held to maturity, available for sale, or trading depending on ability and intent. Securities held for sale are reported at fair value, while securities and investments held to maturity are reported at amortized cost. We do not have any trading securities at this time.

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, unless such loan or investment is deemed to be impaired. We invest in preferred equity interests that allow us 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.

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 an evaluation of operating cash flow from the property during the projected holding period, and estimated sales value 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. An allowance for each loan would be maintained at a level believed adequate by management to absorb probable losses. As of December 31, 2006, and 2005, no impairment has been identified and no valuation allowances have been established.

At December 31, 2006 we had an \$8.5 million loan in our portfolio that is non-performing and income recognition has been suspended. The principal amount of the loan is not deemed to be impaired and no loan loss reserve has been recorded at this time. Income recognition will resume when the loan becomes contractually current and performance has recommenced.

Repurchase Obligations

In certain circumstances, we have financed the purchase of investments from a counterparty through a repurchase agreement with that same counterparty. We currently record 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 any repurchase agreement as a liability on our consolidated balance sheet. Interest income earned on the investments and interest expense incurred on the repurchase obligations are reported separately on the consolidated income statement. There is discussion, based upon a technical interpretation of SFAS 140, that these transactions may not qualify as a purchase by us. We believe, and it is industry practice, that we are accounting for these transactions in an appropriate manner, however, if these investments do not qualify as a purchase under SFAS 140, we would be required to present the net investment on our balance sheet as a derivative with the corresponding change in fair value of the derivative being recorded in the income statement. 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. As of December 31, 2006 we had entered into four such transactions, with a book value of the associated assets of \$228.8 million financed with repurchase obligations of \$151.0 million. As of December 31, 2005 we had entered into eight such transactions, with a book value of the associated assets of \$176.7 million financed with repurchase obligations of \$124.6 million. Adoption of the aforementioned treatment would result in these assets and liabilities being recorded net on our balance sheets.

Available-For-Sale Securities

We invest in agency-sponsored whole pool mortgage related securities. Pools of Federal National Mortgage Association, or FNMA, and Federal Home Loan Mortgage Corporation, or FHLMC, adjustable rate residential mortgage loans underlie these mortgage related securities. We receive payments from the payments that are made on these underlying mortgage loans, which have a fixed rate of interest for three years and adjust annually thereafter. These securities are carried at their estimated fair value with unrealized gains and losses excluded from earnings and

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reported in other comprehensive income pursuant to SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities. Unrealized losses other than temporary losses are recognized currently in income.

Capitalized Interest

The Company capitalizes interest in accordance with Statement of Financial Accounting Standards (SFAS) No. 58

Capitalization of Interest Costs in Financial Statements that Include Investments Accounted for by the Equity Method. This statement amended SFAS No. 34 Capitalization of Interest Costs to include investments (equity, loans and advances) accounted for by the equity method as qualifying assets of the investor while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations. An investee, in one of the Company's joint ventures accounted for using the equity method, is in the process of using funds to acquire qualifying assets for its planned principal operations. During the years ended December 31, 2006 and 2005 the Company capitalized \$0.9 million and \$0.5 million, respectively of interest relating to this investment. There was no capitalization of interest during the year ended December 31, 2004.

Revenue Recognition

Interest Income. Interest income is recognized on the accrual basis as it is earned from loans, investments and available-for-sale 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 at the purchase or origination. 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 available-for-sale 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.

Variable Interest Entities

In December 2003, the FASB issued Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R) as a revision to FIN No. 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.

We have evaluated our loans and investments and investments in equity affiliates to determine whether they are VIE's. This evaluation resulted in us determining that our mezzanine loans, preferred equity investments and investments in equity affiliates were potential variable interests. For each of these investments, we have evaluated (1) the sufficiency of the fair value of the entities' equity investments at risk to absorb losses, (2) that as a group the holders of the equity investments at risk have (a) the direct or indirect ability through voting rights to make decisions about the entities' significant activities, (b) the obligation to absorb the expected losses of the entity and their obligations are not protected directly or indirectly, (c) the right to receive the expected residual return of the entity and their rights are not

capped, (3) the voting rights of some of these investors are proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected returns of the equity, or both, and that substantially all of the entities' activities do not involve or are not conducted on behalf of an investor that has disproportionately few voting rights. As of December 31, 2006, we have identified 27 loans and investments which were made to entities determined to be VIEs. A summary of our identified VIEs is presented in Note 2 of our consolidated financial statements, which appear in Financial Statements and Supplementary Data. However, for

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the 27 VIE s identified, we have determined that we are not the primary beneficiaries and as such the VIE s should not be consolidated in our financial statements. For all other investments, we have determined they are not VIE s. As such, we have continued to account for these loans and investments as a loan or joint venture, as appropriate.

Derivatives and Hedging Activities

In accordance with Financial Accounting Statement (FAS) 133, the carrying values of interest rate swaps and the underlying hedged liabilities are reflected at their fair value. We rely on quotations from a third party 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 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.

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 the Market Risk section.

Recently Issued Accounting Pronouncements

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155 (SFAS 155), Accounting for Certain Hybrid Financial Instruments , which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring after January 1, 2007. We do not expect adoption to have a material impact on our Consolidated Financial Statements.

In April 2006, the FASB issued FASB Staff Position (FSP) FIN 46(R)-6, Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R) , that became effective beginning third quarter of 2006. FSP FIN No. 46(R)-6 clarifies that the variability to be considered in applying Interpretation 46(R) shall be based on an analysis of the design of the variable interest entity. We believe that our current method of accounting for variable interest entities is consistent with FIN 46(R)-6.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. This interpretation prescribes a recognition threshold and measurement in the financial statements of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance as to its application and related transition, and is effective for fiscal years beginning after December 15, 2006. We do not expect adoption to have a material impact on our Consolidated Financial Statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. We do not expect adoption to have a material impact on

our Consolidated Financial Statements.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements , effective for fiscal years ending after November 15, 2006. SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement for the purpose

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of a materiality assessment. The adoption of SAB 108 did not have a material impact on our Consolidated Financial Statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits entities to choose to measure many financial instruments, and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the effect, if any; the adoption of SFAS 159 may have on our Consolidated Financial Statements.

Results of Operations

The following table sets forth our results of operations for the years ended December 31, 2006 and 2005:

	Year Ended December 31,		Increase/(Decrease)	
	2006	2005	Amount	Percent
Revenue:				
Interest income	\$ 172,833,401	\$ 121,109,157	\$ 51,724,244	43%
Income from swap derivative	696,960		696,960	nm
Other income	170,197	498,250	(328,053)	(66)%
Total revenue	173,700,558	121,607,407	52,093,151	43%
Expenses:				
Interest expense	92,693,419	45,745,424	46,947,995	103%
Employee compensation and benefits	4,648,644	4,274,609	374,035	9%
Stock based compensation	2,329,689	1,590,898	738,791	46%
Selling and administrative	4,463,019	4,351,366	111,653	3%
Management fee related party	12,831,791	12,430,546	401,245	3%
Total expenses	116,966,562	68,392,843	48,573,719	71%
Income before minority interest and income from equity affiliates	56,733,996	53,214,564	3,519,432	7%
Income from equity affiliates	4,784,292	8,453,440	(3,669,148)	(43)%
Income before minority interest	61,518,288	61,668,004	(149,716)	
Income allocated to minority interest	11,104,481	11,280,981	(176,500)	(2)%
Net income	\$ 50,413,807	\$ 50,387,023	\$ 26,784	

nm not meaningful

Revenue

Interest income increased \$51.7 million, or 43%, to \$172.8 million in 2006 from \$121.1 million in 2005. Included in interest income is the recognition of \$10.4 million and \$17.2 million of income in 2006 and 2005, respectively from a

16.7% carried profits interest in a \$30.1 million mezzanine loan that was repaid in January 2006. This income was a result of excess proceeds from the refinances of a portfolio of properties securing the loan. Excluding these transactions, interest income increased \$58.5 million, or 56%, over the same period. This increase was primarily due to a 53% increase in the average balance of the loan and investment portfolio from \$978.8 million in 2005 to \$1.50 billion in 2006 due to increased loan and investment originations, as well as a 1% increase in the average yield on assets from 10.4% in 2005 to 10.5% in 2006. This increase in yield is a result of increased interest rates on our floating rate portfolio due to the rise in LIBOR, largely offset by margin compression on new originations compared to loan payoffs from the same period in 2005 and 2006. In addition, interest earned on cash balances increased \$3.5 million from 2005 to 2006 as a result of 123% increase in the average cash balance directly attributable to the addition of two CDOs in 2006.

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Income from swap derivative totaled \$0.7 million and is the result of a change in accounting treatment according to a new technical clarification of accounting for interest rate swaps on one of our junior subordinated notes relating to trust preferred securities. This reflects the cumulative fair value of the interest rate swap on one of our trust preferred securities on the date it was deemed an ineffective cash flow hedge.

Other income decreased \$0.3 million, or 66%, to \$0.2 million from \$0.5 million in 2005. This decrease was primarily due to \$0.4 million in structuring fees received for services rendered in arranging a loan facility for a borrower in 2005, partially offset by increased miscellaneous asset management fees on our loan and investment portfolio.

Expenses

Interest expense increased \$47.0 million, or 103%, to \$92.7 million in 2006 from \$45.7 million in 2005. This increase was due to a 79% increase in the average debt financing on our loan and investment portfolio from \$717.5 million in 2005 to \$1.29 billion in 2006 directly attributable to increased loan and investment originations and increased leverage, combined with a 15% increase in the average cost of borrowings from 6.2% to 7.1% as a result of increased market interest rates, partially offset by income from interest rate swaps on our variable rate debt associated with certain of our fixed rate loans as well as reduced borrowing costs primarily due to an increase in total CDO debt in 2006 from 2005.

Employee compensation and benefits expense increased \$0.4 million, or 9%, to \$4.7 million in 2006 from \$4.3 million in 2005. This increase was primarily due to the expansion of staffing needs associated with the growth of the business and increased size of our portfolio. These expenses represent salaries, benefits, and incentive compensation for those employed by us during these periods.

Stock-based compensation expense increased \$0.7 million, or 46%, to \$2.3 million in 2006 from \$1.6 million in 2005. These expenses represent the cost of restricted stock granted to certain of our employees, directors and executive officers, and employees of our manager. This increase was primarily due to an increase in the ratable portion of unvested restricted stock granted as a result of 94,695 restricted stock shares granted in 2006, partially offset by a decrease in the ratable portion of unvested restricted stock from prior grants.

Selling and administrative expense increased \$0.1 million, or 3%, to \$4.5 million in 2006 from \$4.4 million in 2005. These expenses remained largely unchanged from 2005 to 2006. They include, but are not limited to, professional and consulting fees, marketing costs, insurance expense, director's fees, licensing fees, travel and placement fees.

Management fees increased \$0.4 million, or 3%, to \$12.8 million in 2006 from \$12.4 million in 2005. These amounts represent compensation in the form of base management fees and incentive management fees as provided for in the management agreement with our manager. The base management fees increased by \$0.1 million, or 4%, to \$2.6 million in 2006 from \$2.5 million in 2005. The increase is primarily due to increased stockholder's equity directly attributable to increased capital over the same period in 2005. The incentive management fees increased \$0.3 million, or 3% to \$10.2 million in 2006 from \$9.9 million in 2005. This increase was primarily due to increased profitability in 2006 as compared to 2005.

Income From Equity Affiliates

Income from equity affiliates decreased \$3.7 million, or 43%, to \$4.8 million in 2006 from \$8.5 million for 2005. This decrease was primarily due to the recognition of \$4.8 million and \$8.0 million of income from excess proceeds received from the refinance of properties in the portfolio of one of our equity investments in 2006 as compared to 2005, respectively.

Income Allocated to Minority Interest

Income allocated to minority interest decreased \$0.2 million, or 2%, to \$11.1 million in 2006 from \$11.3 million in 2005. These amounts represent the portion of our income allocated to our manager. This decrease was due to a decrease in our manager's limited partnership interest in us. Our manager had a weighted average limited partnership interest of 18.0% and 18.3% in our operating partnership in 2006 and 2005, respectively.

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The following table sets forth our results of operations for the years ended December 31, 2005 and 2004:

	Year Ended December 31,		Increase/(Decrease)	
	2005	2004	Amount	Percent
Revenue:				
Interest income	\$ 121,109,157	\$ 57,927,230	\$ 63,181,927	109%
Other income	498,250	42,265	455,985	1079%
Total revenue	121,607,407	57,969,495	63,637,912	110%
Expenses:				
Interest expense	45,745,424	19,372,575	26,372,849	136%
Employee compensation and benefits	4,274,609	2,325,727	1,948,882	84%
Stock based compensation	1,590,898	324,343	1,266,555	390%
Selling and administrative	4,351,366	1,908,522	2,442,844	128%
Management fee related party	12,430,546	3,614,830	8,815,716	244%
Total expenses	68,392,843	27,545,997	40,846,846	148%
Income before minority interest and income from equity affiliates	53,214,564	30,423,498	22,791,066	75%
Income from equity affiliates	8,453,440	525,000	7,928,440	1510%
Income before minority interest Income allocated to minority interest	61,668,004	30,948,498	30,719,506	99%
	11,280,981	5,875,816	5,405,165	92%
Net income	\$ 50,387,023	\$ 25,072,682	\$ 25,314,341	101%

Revenue

Interest income increased \$63.2 million, or 109%, to \$121.1 million in 2005 from \$57.9 million in 2004. This increase was due in part to a distribution of \$17.2 million in 2005 representing a 16.7% carried profits interest in a \$30.1 million mezzanine loan that we have outstanding. This distribution was a result of excess proceeds from the refinance of a portfolio of properties securing the loan. Excluding this transaction, interest income increased \$46.0 million, or 79%, over the same period. This increase was due to a 50% increase in the average balance of the loan and investment portfolio from \$653.1 million in 2004 to \$978.8 million in 2005 due to increased loan and investment originations, as well as an 18% increase in the average yield on the assets from 8.8% in 2004 to 10.4% in 2005 primarily due to increased market interest rates, partially offset by an increased average balance of our fixed rate loan portfolio. Interest income from available for sale securities decreased \$0.3 million, or 25%, to \$0.8 million in 2005 from \$1.1 million in 2004. This decrease is due to a lower average balance in 2005 as a result of prepayments received on our investment.

Other income totaled \$0.5 million in 2005, up from \$42,265 in 2004. This is primarily due to increased structuring fees received for services rendered in arranging loan facilities in 2005.

Expenses

Interest expense increased \$26.4 million, or 136%, to \$45.7 million in 2005 from \$19.4 million in 2004. This increase was due to an 87% increase in the average debt financing on our loan and investment portfolio from \$383.8 million in 2004 to \$717.5 million in 2005 due to increased loan and portfolio originations, a 29% increase in the average cost of borrowings from 4.8% to 6.2% as a result of increased market interest rates, as well as the cost of interest rate swaps on our variable rate debt associated with certain of our fixed rate loans. In addition, interest expense on debt financing of our available-for-sale securities portfolio increased \$0.6 million, or 100%, to \$1.3 million in 2005 from \$0.6 million in 2004. This increase is due to a higher cost of borrowings in 2005 as a result of increased market interest rates, partially offset by a lower average balance in 2005 as a result of prepayments received on our investment.

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Employee compensation and benefits expense increased \$1.9 million or 84%, to \$4.3 million in 2005 from \$2.3 million in 2004. This increase was primarily due to the expansion of staffing needs associated with the growth of the business and increased size of our portfolio. These expenses represent salaries, benefits, and incentive compensation for those employed by us during these periods.

Stock-based compensation expense totaled \$1.6 million in 2005, up from \$0.3 million in 2004. These expenses represent the cost of restricted stock granted to certain of our employees, directors and executive officers, and employees of our manager. The increase was primarily due to the initial one-fifth vesting of 118,500 shares granted in 2005 combined with the initial one-third vesting of 6,000 shares granted in 2005, partially offset by a decrease in the ratable portion of the 2003 unvested restricted stock grants in 2005 as compared to 2004.

Selling and administrative expense increased \$2.4 million, or 128%, to \$4.4 million in 2005 from \$1.9 million in 2004. This increase is directly attributable to professional fees, including legal, accounting services, and consulting fees relating to investor relations and Sarbanes-Oxley compliance, marketing costs, insurance expense and director's fees.

Management fees totaled \$12.4 million in 2005, up from \$3.6 million in 2004. These amounts represent compensation in the form of base management fees and incentive management fees as provided for in the management agreement with our manager. The base management fees increased by \$0.5 million, or 27%, to \$2.5 million in 2005 from \$2.0 million in 2004. This increase was primarily due to increased stockholder's equity directly attributable to increased profits and contributed capital over the same period in 2004. The incentive management fees totaled \$9.9 million in 2005, up from \$1.6 million in 2004. This increase was primarily due to increased profitability.

Income From Equity Affiliates

Income from equity affiliates totaled \$8.5 million in 2005, up from \$0.5 million in 2004. This increase was primarily due to excess proceeds received from the refinance of properties in the portfolio of one of our investments in equity affiliates in 2005.

Income Allocated to Minority Interest

Income allocated to minority interest increased \$5.4 million, or 92%, to \$11.3 million in 2005 from \$5.9 million in 2004. These amounts represent the portion of our income allocated to our manager. This increase was due to a 99% increase in income before minority interest, partially offset by a decrease in our manager's limited partnership interest in us. Our manager had a weighted average limited partnership interest of 18.3% and 20.1% in our operating partnership in 2005 and 2004, respectively.

Liquidity and Capital Resources

Sources of Liquidity

Liquidity is a measurement of the ability to meet potential cash requirements, including ongoing commitments to repay borrowings, pay dividends, fund loans and investments and other general business needs. Our primary sources of funds for liquidity consist of funds raised from our private equity offering in July 2003, net proceeds from our initial public offering of our common stock in April 2004, the issuance of floating rate notes resulting from our CDO's (described below) in January 2005, January 2006 and December 2006, the issuance of junior subordinated notes to subsidiary trusts issuing preferred securities (described below) in 2005 and 2006, borrowings under credit agreements, net cash provided by operating activities including cash from equity participation interests, repayments of outstanding

loans and investments, funds from junior loan participation arrangements and the future issuance of common, convertible and/or preferred equity securities.

In 2003, we received gross proceeds from the private placement totaling \$120.2 million, which combined with ACM's equity contribution of \$43.9 million, resulted in total contributed capital of \$164.1 million. These proceeds were used to pay down borrowings under our existing credit facilities.

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In 2004, we sold 6,750,000 shares of our common stock in a public offering on April 13, 2004 for net proceeds of approximately \$125.4 million. In addition, in May 2004 the underwriters exercised a portion of their over allotment option, which resulted in the issuance of 524,200 additional shares for net proceeds of approximately \$9.8 million. Additionally, in 2004, 1.3 million common stock warrants were exercised which resulted in proceeds of \$12.9 million. Also, Arbor Realty Limited Partnership (ARLP), the operating partnership of Arbor Realty Trust received proceeds of \$9.4 million from the exercise of ACM s warrants for a total of 629,345 operating partnership units. These proceeds were used to pay down borrowings under our existing credit facilities.

We also maintain liquidity through four master repurchase agreements, one warehouse credit facility and one bridge loan warehousing credit agreement with five different financial institutions. In addition, we have issued three collateralized debt obligations and seven separate junior subordinated notes. London interbank offered rate, or LIBOR, refers to one-month LIBOR unless specifically stated.

We have a \$500.0 million master repurchase agreement with Wachovia Bank National Association, dated as of December 23, 2003, with an initial term of three years and bears interest at LIBOR plus pricing of 0.94% to 3.50%, varying on the type of asset financed. In December 2005, we amended this facility on a temporary basis which provided for an increase in the amount of financing available under this facility from \$350 million to \$500 million. This increase expired in January of 2006 in conjunction with the close of CDO II. Subsequent to December 31, 2005, \$269.1 million of this facility was paid down in connection with the CDO II closing (see below). In September 2006, we amended this facility on a temporary basis which provided for an increase in the amount of financing available under this facility from \$350 million to \$550 million in preparation for the CDO III closing (see below). In October 2006, this repurchase agreement was amended, increasing the amount of available financing from \$350 million to \$500 million and extended the maturity to March 2007. On December 14, 2006, \$200.0 million of this facility was paid down in connection with the closing of CDO III. At December 31, 2006, the outstanding balance under this facility was \$328.5 million with a current weighted average note rate of 6.99%. In addition, we have a \$100 million repurchase agreement with the same financial institution that we entered into for the purpose of financing our securities available for sale. This agreement expires in July 2007 and has an interest rate of LIBOR plus 0.20%. At December 31, 2006, the outstanding balance under this facility was \$20.7 million with a current weighted average note rate of 5.55%.

We have a \$100.0 million master repurchase agreement with a second financial institution, effective in December 2005, which was extended in December 2006 for one year and bears interest at LIBOR plus pricing of 1.00% to 3.00%, varying on the type of asset financed. At December 31, 2006, the outstanding balance under this facility was \$46.6 million with a current weighted average note rate of 7.29%.

We have a \$150.0 million master repurchase agreement with a third financial institution, effective in October 2006, that has a term expiring in October 2009 and bears interest at LIBOR plus pricing of 1.00% to 1.80%, varying on the type of asset financed. At December 31, 2006, there was no outstanding balance under this facility.

We have a \$75.0 million bridge loan warehousing credit agreement with a fourth financial institution, to provide financing for bridge loans. This agreement bears a variable rate of interest, payable monthly, based on Prime plus 0% or 1,2,3 or 6-month LIBOR plus 1.75%, at the Company s option. In September 2006, this repurchase agreement was amended extending the maturity date to August 2007, increasing the amount of available financing from \$50 million to \$75 million and amending certain terms of this agreement. At December 31, 2006, the outstanding balance under this facility was \$20.2 million with a current weighted average note rate of 7.10%.

We have a \$50.0 million warehousing credit facility with a fifth financial institution, effective in December 2005, that has a term expiring in December 2007 and bears interest at LIBOR plus pricing of 1.50% to 2.50%, varying on the

type of asset financed. At December 31, 2006, the outstanding balance under this facility was \$11.8 million with a current weighted average note rate of 7.06%.

We had a \$50.0 million master repurchase agreement with a sixth financial institution, dated as of July 1, 2003, which expired in July 2006 and bore interest at LIBOR plus pricing of 1.75% to 3.50%, varying on the type of asset financed. This facility was not utilized.

We had a \$50.0 million warehouse credit facility with a seventh financial institution, who beneficially owned approximately 2% of our outstanding common stock as of December 31, 2005 which was terminated in January

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2006. This agreement had a term of one year with two six-month extension periods and bore interest at LIBOR plus 6.00%.

We have a non-recourse collateralized debt obligation transaction or CDO, which closed on January 19, 2005, whereby \$469 million of real estate related and other assets were contributed to a newly-formed consolidated subsidiary which issued \$305 million of investment grade-rated floating-rate notes in a private placement. These notes are secured by the portfolio of assets and pay interest quarterly at a weighted average rate of approximately 77 basis points over a floating rate of interest based on three-month LIBOR. The CDO may be replenished with substitute collateral for loans that are repaid during the first four years. Thereafter, the outstanding debt balance will be reduced as loans are repaid. The Company incurred approximately \$7.2 million of issuance costs which is being amortized on a level yield basis over the average estimated life of the CDO. Proceeds from the CDO were used to repay outstanding debt under our existing facilities totaling \$267 million. By contributing these real estate assets to the CDO, this transaction resulted in a decreased cost of funds relating to the CDO assets and created capacity in our existing credit facilities. At December 31, 2006, the outstanding balance under this facility was \$291.3 million with a weighted average current note rate of 6.10%. Proceeds from the repayment of assets which serve as collateral for our CDO must be retained in the CDO structure until such collateral can be replaced or used to paydown the secured notes 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. For accounting purposes, the CDO is consolidated in our financial statements.

On January 11, 2006, we completed our second non-recourse collateralized debt obligation transaction, or CDO II, whereby \$475 million of real estate related and other assets were contributed to a newly-formed consolidated subsidiary which issued \$356 million of investment grade-rated floating-rate notes in a private placement. These notes are secured by the portfolio of assets and pay interest quarterly at a weighted average rate of approximately 74 basis points over a floating rate of interest based on three-month LIBOR. CDO II may be replenished with substitute collateral for loans that are repaid during the first five years. Thereafter, the outstanding debt balance will be reduced as loans are repaid. Proceeds from CDO II were used to repay outstanding debt under our existing facilities totaling \$301.0 million. The Company incurred approximately \$6.2 million of issuance costs which is being amortized on a level yield basis over the average estimated life of CDO II. By contributing these real estate assets to CDO II, this transaction resulted in a decreased cost of funds relating to CDO II's assets and created capacity in our existing credit facilities. Proceeds from the repayment of assets which serve as collateral for CDO II must be retained in its structure 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. For accounting purposes, CDO II is consolidated in our financial statements. At December 31, 2006, the outstanding balance under this facility was \$352.7 million with a weighted average current note rate of 6.11%.

On December 14, 2006, we completed our third non-recourse collateralized debt obligation transaction, or CDO III, whereby \$500.0 million of real estate related and other assets were contributed to a newly-formed consolidated subsidiary which issued \$547.5 million of investment grade-rated floating-rate notes, including a \$100.0 million revolving note class that provides a revolving note facility in a private placement. These notes are secured by the portfolio of assets and pay interest quarterly at a weighted average rate of approximately 44 basis points over a floating rate of interest based on three-month LIBOR. In addition, the revolving note facility has a commitment fee of 0.22% per annum on the undrawn portion. CDO III may be replenished with substitute collateral for loans that are repaid during the first five years. Thereafter, the outstanding debt balance will be reduced as loans are repaid. The Company incurred approximately \$9.7 million of issuance costs which is being amortized on a level yield basis over the average estimated life of the CDO III. Proceeds from CDO III were used to repay outstanding debt under our existing facilities totaling \$317.1 million. By contributing these real estate assets to CDO III, this transaction resulted in a decreased cost of funds relating to CDO III's assets and created capacity in our existing credit facilities. Proceeds from the repayment of assets which serve as collateral for CDO III must be retained in its structure 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. For accounting purposes, CDO III is consolidated in our financial statements. At December 31, 2006, the outstanding balance under this facility was \$447.5 million with a weighted average current note rate of 5.82%.

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In 2005, we, through newly-formed wholly-owned subsidiaries of our operating partnership, issued a total of \$155.9 million of junior subordinated notes in five separate private placements. In 2006, we, through wholly-owned subsidiaries of our operating partnership, issued a total of \$67.0 million of junior subordinated notes in two separate private placements. These junior subordinated notes are described in Note 6 Debt Obligations of our consolidated financial statements, which appears in Financial Statements and Supplementary Data. These securities are unsecured, have a maturity of 29 to 30 years, pay interest quarterly at a floating rate of interest based on three-month LIBOR and, absent the occurrence of special events, are not redeemable during the first five years. At December 31, 2006, the outstanding balance under these facilities was \$222.9 million with a current weighted average note rate of 8.36%.

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

The warehouse credit agreement, 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. The financial institutions also have the right to request immediate payment of any outstanding borrowings on any loan or investment that is at least 60 days delinquent.

As of December 31, 2006, these facilities had an aggregate capacity of \$2.5 billion and borrowings were approximately \$1.8 billion.

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 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. Violations of these covenants may result in our being unable to borrow unused amounts under our credit facilities, even if repayment of some or all borrowings is not required. As of December 31, 2006, we are in compliance with all covenants and restrictions under these credit facilities.

We have three junior loan participations with a total outstanding balance at December 31, 2006 of \$62.5 million. These participation borrowings have maturity dates equal to the corresponding mortgage loans and are secured by the participant's interests in the mortgage loans. Interest expense is based on a portion of the interest received from the loans.

We believe our existing sources of funds will be adequate for purposes of meeting our short-term liquidity (within one year) and long-term liquidity needs. Our short-term and long-term liquidity needs include ongoing commitments to repay borrowings, fund future investments, fund operating costs and fund distributions to our stockholders. Our loans and investments are financed under existing credit facilities and their credit status is continuously monitored; therefore, these loans and investments are expected to generate a generally stable return. Our ability to meet our long-term liquidity and capital resource requirements is subject to obtaining additional debt and equity financing. If we are unable to renew our sources of financing on substantially similar terms or at all, it would have an adverse effect on our business and results of operations. Any decision by our lenders and investors to enter into such transactions with us will depend upon a number of factors, such as our financial performance, compliance with the terms of our existing credit arrangements, industry or market trends, the general availability of and rates applicable to financing

transactions, such lenders and investors resources and policies concerning the terms under which they make such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

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To maintain our status as a REIT under the Internal Revenue Code, we must distribute annually at least 90% of our taxable income. These distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations. However, we believe that our significant 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, including expected new lending and investment opportunities.

In order to maximize the return on our funds, cash generated from operations is generally used to temporarily pay down borrowings under credit facilities whose primary purpose is to fund our new loans and investments. When making distributions, we borrow the required funds by drawing on credit capacity available under our credit facilities. To date, all distributions have been funded in this manner. All funds borrowed to make distributions have been repaid by funds generated from operations.

Share Repurchase Plan

In August 2006, the Board of Directors authorized a stock repurchase plan that enabled us to buy up to one million shares of our common stock. At management's discretion, shares may be acquired on the open market, through privately negotiated transactions or pursuant to a Rule 10b5-1 plan. A Rule 10b5-1 plan permits us to repurchase shares at times when we might otherwise be prevented from doing so. As of December 31, 2006, we repurchased 279,400 shares of our common stock in the open market and under a 10b5-1 plan at a total cost of \$7.0 million (an average cost of \$25.10 per share). This plan expired on February 9, 2007.

Contractual Commitments

As of December 31, 2006, we had the following material contractual obligations (payments in thousands):

Contractual Obligations	Payments Due by Period(1)						Total
	2007	2008	2009	2010	2011	Thereafter	
Notes payable	\$ 21,315	\$ 2,522	\$	\$	\$ 1,733	\$ 6,479	\$ 32,049
Collateralized debt obligations(2)	12,720	12,720	96,493	96,493	295,778	577,325	1,091,529
Repurchase agreements	118,095	140,492	60,000	4,000	36,060	37,200	395,847
Trust preferred securities						222,962	222,962
Loan participations	125	62,400					62,525
Outstanding unfunded commitments(3)	40,815	7,669	7,511	920	18,190		75,105
Totals	\$ 193,070	\$ 225,803	\$ 164,004	\$ 101,413	\$ 351,761	\$ 843,966	\$ 1,880,017

(1) Represents amounts due based on contractual maturities.

(2) Comprised of \$291.3 million of CDO I debt, \$352.7 million of CDO II debt and \$447.5 million of CDO III debt with a weighted average remaining maturity of 3.40, 4.88 and 5.48 years, respectively, as of December 31, 2006.

- (3) In accordance with certain of our loans and investments, we have outstanding unfunded commitments of \$75.1 million as of December 31, 2006, 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.

Management Agreement

Base Management Fees. In exchange for the services that ACM provides us pursuant to the management agreement, we pay 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.

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The base management fee is not calculated based on the manager's performance or the types of assets it selects for investment on our behalf, but it is affected by the performance of these assets because it is based on the value of our operating partnership's equity. We incurred \$2.6 million and \$2.5 million in base management fees for services rendered in 2006 and 2005, respectively.

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.

In 2006, our manager earned a total of \$10.2 million of incentive compensation and elected to receive it partially in cash totaling, \$1.7 million, and partially in 306,764 shares of common stock. In 2005, our manager earned a total of \$9.9 million of incentive compensation and elected to receive it partially in cash totaling \$4.4 million and partially in 205,069 shares of common stock.

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. 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.

Origination Fees. Our manager is entitled to 100% of the origination fees paid by borrowers on all loans and investments 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 has an initial term of two years and is renewable automatically for an additional one year period every year thereafter, unless terminated with six months' prior written notice. If we terminate or elect not to renew the management agreement in order to manage our portfolio internally, we are 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 terminate or elect not to renew the management agreement for any other reason, including a change of control of us, we are required to pay a

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termination fee equal to two times the base management fee and incentive compensation paid for the 12-month period preceding the termination.

Inflation

In our two most recent fiscal years, inflation and changing prices have not had a material effect on our net income and revenue. Changes in the general level of interest rates prevailing in the economy in response to changes in the rate of inflation generally have little effect on our income because the majority of our interest-earning assets and interest-bearing liabilities have floating rates of interest. Additionally, we also have various fixed rate loans in our portfolio which are financed with variable rate LIBOR borrowings. In connection with these loans, we have entered into various interest swaps to hedge our exposure to the interest rate risk on our variable rate LIBOR borrowings as it relates to certain fixed rate loans in our portfolio. However, the value of our interest-earning assets, our ability to realize gains from the sale of assets, and the average life of our interest-earning assets, among other things, may be effected. See Item 7A Quantitative and Qualitative Disclosures about Market Risk.

Related Party Transactions

Related Party Loans

As of December 31, 2006 and 2005, we had a \$7.75 million first mortgage loan receivable that bore interest at a variable rate of one month LIBOR plus 4.25% and was scheduled to mature in March 2006. In March 2006, this loan was extended for one year with no other change in terms. This loan was made to a not-for-profit corporation that holds and manages investment property from the endowment of a private academic institution. Two of our directors are members of the board of trustees of the borrower and the private academic institution. Interest income recorded from this loan for the year ended December 31, 2006 and 2005, was approximately \$0.7 million and \$0.6 million, respectively.

ACM had a 50% non-controlling interest in a joint venture, which was formed to acquire, develop and/or sell real estate assets. In 2005, ACM received all of the invested capital and retained its interest in the joint venture. All loans outstanding to this joint venture were repaid in full in 2004. In 2003, we had a \$16.0 million bridge loan outstanding to the joint venture, which was collateralized by a first lien position on a commercial real estate property. This loan was funded by ACM in June 2003 and was purchased by us in July 2003. The loan required monthly interest payments based on one month LIBOR and was repaid in full in 2004. We had agreed to provide the borrower with additional mezzanine financing in the amount of up to \$8.0 million. The mezzanine financing required interest payments based on one month LIBOR and was repaid in full in 2004.

Our \$16.0 million bridge loan to the joint venture was contributed by ACM as one of the structured finance assets contributed to us on July 1, 2003 at book value, which approximates fair value. At the time of contribution, ACM also agreed to provide a limited guarantee of the loan's principal amount based on any profits realized on its retained 50% interest in the joint venture with the borrower and ACM's participating interests in borrowers under three other contributed structured finance assets.

At the time of ACM's origination of three of the structured finance assets that it contributed to us on July 1, 2003 at book value, which approximates fair value, each of the property owners related to these contributed assets granted ACM participating interests that share in a percentage of the cash flows of the underlying properties. Upon contribution of the structured finance assets, ACM retained these participating interests and its 50% non-controlling interest in the joint venture to which it had made the \$16.0 million bridge loan. ACM agreed that if any portion of the outstanding amount of any of these four contributed assets is not paid at its maturity or repurchase date, ACM will pay to us, subject to the limitation described below, the portion of the unpaid amount of the contributed asset up to the

total amount then received by ACM due to the realization of any profits on its retained interests associated with any of the four contributed assets (which had an aggregate balance of \$22.3 million and \$48.3 million as of December 31, 2004 and 2003, respectively). However, ACM will no longer be obligated to make such payments to us when the remaining accumulated principal amount of the four contributed assets, collectively, falls below \$5 million and none of the four contributed assets were in default. In 2004 and 2005, these four investments matured, the borrowers paid the amounts due in full and ACM's guarantee on these investments has been satisfied.

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ACM has a 50% non-controlling interest in an entity, that owns 15% of a real estate holding company that owns and operates a factory outlet center. At December 31, 2006, ACM's investment in this joint venture was approximately \$0.2 million. The Company had a \$28.3 million preferred equity investment in this joint venture, which was collateralized by a pledge of the ownership interest in this commercial real estate property. This loan was funded by ACM in September 2005 and was purchased by us in March 2006. The loan required monthly interest payments based on one month LIBOR and matures in September 2007. Interest income recorded from this loan for the year ended December 31, 2006 was approximately \$2.7 million. The loan was repaid in full in November 2006.

In 2005, ACM received a brokerage fee for services rendered in arranging a loan facility for a borrower. We provided a portion of the loan facility. We were credited \$0.4 million of this brokerage fee, which was included in other income.

During the first quarter 2006, ACM originated permanent financing of \$31.5 million to a borrower to repay an existing \$30.0 million bridge loan with us. Pursuant to the terms of the bridge loan agreement, we had a right of first offer to provide permanent financing, a right of first refusal to match the terms and conditions from a third party lender and a potential prepayment fee of \$0.9 million. In August 2006, ACM received a \$0.5 million fee for the securitization of the \$31.5 million permanent financing. This fee was remitted to us in August 2006 in lieu of waiving our right of first refusal and potential prepayment fee under the original terms of the bridge loan.

As of December 31, 2006 and 2005, \$0.1 million and \$0.2 million, respectively of escrows received at loan closings were due to ACM and included in due to related party. These payments were remitted in January 2007 and January 2006, respectively. In addition, as of December 31, 2005, approximately \$0.1 million of net expenses due from ACM were included in due to related party. These payments were remitted in January 2006.

Other Related Party Transactions

ACM contributed the majority of its structured finance portfolio to our operating partnership pursuant to a contribution agreement. The contribution agreement contains representations and warranties concerning the ownership and terms of the structured finance assets it contributed and other customary matters. ACM has agreed to indemnify us and our operating partnership against breaches of those representations and warranties. In exchange for ACM's asset contribution, we issued to ACM approximately 3.1 million operating partnership units, each of which ACM may redeem for one share of our common stock or an equivalent amount in cash, at our election, and 629,345 warrants, each of which entitled ACM to purchase one additional operating partnership unit at an initial exercise price of \$15.00. The operating partnership units and warrants for additional operating partnership units issued to ACM were valued at approximately \$43.9 million at July 1, 2003, based on the price offered to investors in our units in the private placement, adjusted for the initial purchaser's discount. We also granted ACM certain demand and other registration rights with respect to the shares of common stock issuable upon redemption of its operating partnership units. In 2004, ACM exercised all of its warrants for a total of 629,345 operating partnership units and proceeds of \$9.4 million.

Each of the approximately 3.8 million operating partnership units owned by ACM is paired with one share of our special voting preferred stock that entitles the holder to one vote on all matters submitted to a vote of our stockholders. As operating partnership units are redeemed for shares of our common stock or cash an equivalent number of shares of special voting preferred stock will be redeemed and cancelled. As a result of the ACM asset contribution and the related formation transactions, ACM owns approximately an 18% limited partnership interest in our operating partnership and the remaining 82% interest in our operating partnership is owned by us. In addition, ACM has approximately 20% of the voting power of our outstanding stock.

We and our operating partnership have entered into a management agreement with ACM pursuant to which ACM has agreed to provide us with structured finance investment opportunities and loan servicing as well as other services necessary to operate our business. As discussed above in Contractual Commitments, we have agreed to pay our manager an annual base management fee and incentive compensation each fiscal quarter and share with ACM a portion of the origination fees that we receive on loans we originate with ACM pursuant to this agreement.

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Under the terms of the management agreement, ACM is also required to provide us with a right of first refusal with respect to all structured finance transactions identified by ACM or its affiliates. We have agreed not to pursue, and to allow ACM to pursue, any real estate opportunities other than structured finance transactions.

In addition, Mr. Kaufman has entered into a non-competition agreement with us pursuant to which he has agreed not to pursue structured finance investment opportunities, except as approved by our board of directors.

We are dependent upon our manager, ACM, to provide services to us that are vital to our operations with whom we have conflicts of interest. 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 90% 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 an 18% limited partnership interest in our operating partnership and 20% of the voting power of our outstanding stock.

We and our operating partnership have also entered into a services agreement with ACM pursuant to which our asset management group provides asset management services to ACM. In the event the services provided by our asset management group pursuant to the agreement exceed by more than 15% per quarter the level of activity anticipated by our board of directors, we will negotiate in good faith with our manager an adjustment to our manager's base management fee under the management agreement, to reflect the scope of the services, the quantity of serviced assets or the time required to be devoted to the services by our asset management group.

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ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

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

Real Estate Risk

Commercial mortgage assets may be viewed as exposing an investor to greater risk of loss than residential mortgage assets since such assets are typically secured by larger loans to fewer obligors than residential mortgage assets. Multi-family and commercial property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry 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 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 reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses. Even when the net operating income is sufficient to cover the related property's debt service, there can be no assurance that this will continue to be the case in the future.

Interest Rate Risk

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

Our operating results will depend in large part on differences between the income from our loans and our borrowing costs. Most of our loans and borrowings are variable-rate instruments, based on LIBOR. The objective of this strategy is to minimize the impact of interest rate changes on our net interest income. 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 the loans and liabilities as of December 31, 2006, and assuming the balances of these loans and liabilities remain unchanged for the subsequent twelve months, a 1% increase in LIBOR would increase our annual net income and cash flows by approximately \$2.0 million. This is primarily due to 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 1% increase. Based on the loans and liabilities as of December 31, 2006, and assuming the balances of these loans and liabilities remain unchanged for the subsequent twelve months, a 1% decrease in LIBOR would decrease our annual net income and cash flows by approximately \$1.5 million. This is primarily due to 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 1% decrease, partially offset by loans currently subject to interest rate floors (and, therefore, not be subject to the full downward interest rate adjustment).

As of December 31, 2005, a 1% increase in LIBOR would have increased our annual net income and cash flows in the subsequent twelve months by approximately \$2.0 million. This is primarily due to 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 1% increase. As of December 31, 2005, a 1% decrease in LIBOR would have decreased our annual net income and cash flows in the subsequent twelve months by approximately \$1.1 million. This is primarily due to 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 1% decrease, partially offset by loans currently subject to interest rate floors (and, therefore, not be subject to the full downward interest rate adjustment).

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

We invest in securities, which are designated as available-for-sale. These securities are adjustable rate securities that have a fixed component for three years and, thereafter, generally reset annually. These securities are financed with a repurchase agreement that bears interest at a rate of one month LIBOR plus .20%. Since the repricing of the debt obligations occurs more quickly than the repricing of the securities, on average, our cost of borrowings will rise more quickly in response to an increase in market interest rates than the earnings rate on the securities. This will result in a reduction to our net interest income and cash flows related to these securities. Based on the securities and borrowings as of December 31, 2006, and assuming the balances of these securities and borrowings remain unchanged for the subsequent twelve months, a 1% increase in LIBOR would reduce our annual net income and cash flows by approximately \$0.2 million. A 1% decrease in LIBOR would increase our annual net income and cash flows by approximately \$0.2 million. As of December 31, 2005, assuming the balances of these securities and borrowings remained unchanged for the subsequent twelve months, a 1% increase in LIBOR would have reduced our annual net income and cash flows by approximately \$0.3 million. A 1% decrease in LIBOR would have increased our annual net income and cash flows by approximately \$0.3 million.

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

As of December 31, 2006 we had ten of these interest rate swap agreements outstanding that have a combined notional value of \$1.2 billion. As of December 31, 2005 we had five of these interest rate swap agreements outstanding with a combined notional value of \$757.3 million. The market value of these interest rate swaps is dependent upon existing market interest rates and swap spreads, which change over time. As of December 31, 2006, and December 31, 2005, if there were a 50 basis point increase in forward interest rates, the value of these interest rate swaps would have decreased by approximately \$0.7 million and \$0.1 million, respectively. If there were a 50 basis point decrease in forward interest rates, the value of these interest rate swaps would have increased by approximately \$0.7 million and \$0.1 million, respectively.

In connection with the issuance of variable rate junior subordinate notes during 2006 and 2005, we entered into various interest rate swap agreements. These swaps have total notional values of \$140.0 million and \$50.0 million, respectively, as of December 31, 2006 and December 31, 2005. The market value of these interest rate swaps is dependent upon existing market interest rates and swap spreads, which change over time. As of December 31, 2006 and December 31, 2005, if there had been a 50 basis point increase in forward interest rates, the fair market value of these interest rate swaps would have increased by approximately \$2.5 million and \$0.9 million, respectively. If there were a 50 basis point decrease in forward interest rates, the fair market value of these interest rate swaps would have decreased by approximately \$2.4 million and \$0.9 million, respectively.

As of December 31, 2006, we had eighteen interest rate swap agreements outstanding that have a combined notional value of \$330.4 million. As of December 31, 2005 we had two interest rate swap agreements outstanding with combined notional values of \$140.0 million to hedge current and outstanding LIBOR based debt relating to certain fixed rate loans within our portfolio. The fair market value of these interest rate swaps is dependent upon existing market interest rates and swap spreads, which change over time. As of December 31, 2006, and December 31, 2005, if

there had been a 50 basis point increase in forward interest rates, the fair market value of these interest rate swaps would have increased by approximately \$8.9 million and \$4.7 million respectively. If there were a 50 basis point decrease in forward interest rates, the fair market value of these interest rate swaps would have decreased by approximately \$9.2 million and \$4.7 million, respectively.

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

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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.

Market Value Risk

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

Prepayment Risk

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
ARBOR REALTY TRUST, INC. AND SUBSIDIARIES**

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	50
<u>Consolidated Balance Sheets at December 31, 2006 and 2005</u>	51
<u>Consolidated Income Statements for the years ended December 31, 2006, 2005, and 2004</u>	52
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2006, 2005 and 2004</u>	53
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004</u>	54
<u>Notes to Consolidated Financial Statements</u>	55
<u>Schedule IV - Loans and Other Lending Investments</u>	93

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Arbor Realty Trust, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Arbor Realty Trust, Inc. and Subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index to the Consolidated Financial Statements. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arbor Realty Trust, Inc. and Subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 28, 2007

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	December 31, 2006	December 31, 2005
ASSETS:		
Cash and cash equivalents	\$ 7,756,857	\$ 19,427,309
Restricted cash	84,772,062	35,496,276
Loans and investments, net	1,993,525,064	1,246,825,906
Related party loans, net	7,752,038	7,749,538
Available-for-sale securities, at fair value	22,100,176	29,615,420
Investment in equity affiliates	25,376,949	18,094,242
Other assets	63,062,065	38,866,666
Total Assets	\$ 2,204,345,211	\$ 1,396,075,357
LIABILITIES AND STOCKHOLDERS EQUITY:		
Repurchase agreements	\$ 395,847,359	\$ 413,624,385
Collateralized debt obligations	1,091,529,000	299,319,000
Junior subordinated notes to subsidiary trust issuing preferred securities	222,962,000	155,948,000
Notes payable	94,574,240	115,400,377
Notes payable related party		30,000,000
Due to related party	3,983,647	1,777,412
Due to borrowers	16,067,295	10,691,355
Other liabilities	17,802,341	18,014,755
Total liabilities	1,842,765,882	1,044,775,284
Minority interest	65,468,252	63,691,556
Stockholders equity:		
Preferred stock, \$0.01 par value: 100,000,000 shares authorized; 3,776,069 shares issued and outstanding	37,761	37,761
Common stock, \$0.01 par value: 500,000,000 shares authorized; 17,388,770 shares issued, 17,109,370 shares outstanding at December 31, 2006 and 17,051,391 shares issued and outstanding at December 31, 2005	173,888	170,514
Additional paid-in capital	273,037,744	264,691,931
Treasury stock, at cost 279,400 shares	(7,023,361)	
Retained earnings	27,732,489	21,452,789
Accumulated other comprehensive income	2,152,556	1,255,522
Total stockholders equity	296,111,077	287,608,517
Total liabilities and stockholders equity	\$ 2,204,345,211	\$ 1,396,075,357

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED INCOME STATEMENTS**

	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005	For the Year Ended December 31, 2004
Revenue:			
Interest income	\$ 172,833,401	\$ 121,109,157	\$ 57,927,230
Income from swap derivative	696,960		
Other income	170,197	498,250	42,265
Total revenue	173,700,558	121,607,407	57,969,495
Expenses:			
Interest expense	92,693,419	45,745,424	19,372,575
Employee compensation and benefits	4,648,644	4,274,609	2,325,727
Stock based compensation	2,329,689	1,590,898	324,343
Selling and administrative	4,463,019	4,351,366	1,908,522
Management fee related party	12,831,791	12,430,546	3,614,830
Total expenses	116,966,562	68,392,843	27,545,997
Income before minority interest and income from equity affiliates	56,733,996	53,214,564	30,423,498
Income from equity affiliates	4,784,292	8,453,440	525,000
Income before minority interest	61,518,288	61,668,004	30,948,498
Income allocated to minority interest	11,104,481	11,280,981	5,875,816
Net income	\$ 50,413,807	\$ 50,387,023	\$ 25,072,682
Basic earnings per common share	\$ 2.94	\$ 2.99	\$ 1.81
Diluted earnings per common share	\$ 2.93	\$ 2.98	\$ 1.78
Dividends declared per common share	\$ 2.57	\$ 2.24	\$ 1.16
Weighted average number of shares of common stock outstanding:			
Basic	17,161,346	16,867,466	13,814,199
Diluted	21,001,804	20,672,502	17,366,015

See notes to consolidated financial statements

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**

	Preferred Stock Shares	Preferred Stock Par Value	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock	Retained Earnings
Comprehensive income	3,146,724	\$ 31,467	8,199,567	\$ 81,996	\$ 111,694,516		\$	\$ (691,865)
	629,345	6,294						
			7,274,200	72,742	134,115,399			
			973,354	9,733	12,862,937			
			22,498	225	499,234			
					324,343			(15,567,679)
			(2,401)	(24)	24			
					(5,229,251)			
25,072,682								25,072,682
(529,600)								
24,543,082	3,776,069	\$ 37,761	16,467,218	\$ 164,672	\$ 254,267,202		\$	\$ 8,813,138
			191,342	1,913	5,265,142			
			282,776	2,828	4,189,027			
			124,500	1,245	(1,245)			
					1,590,898			(37,747,372)
			(14,445)	(144)	144			
					(619,237)			
50,387,023								50,387,023
(365,698)								
49,150,820								

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172,145	3,776,069	\$ 37,761	17,051,391	\$ 170,514	\$ 264,691,931		\$	\$ 21,452,789
			243,129	2,431	6,277,782			
			94,695	947	(947)	(279,400)	(7,023,361)	
					2,329,689			(44,134,107)
			(445)	(4)	4			
					(260,715)			
413,807								50,413,807
796,922								
100,112								
310,842	3,776,069	\$ 37,761	17,388,770	\$ 173,888	\$ 273,037,744	(279,400)	\$ (7,023,361)	\$ 27,732,489

See notes to consolidated financial statements

Table of Contents**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOW**

	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005	For the Year Ended December 31, 2004
Operating activities:			
Net income	\$ 50,413,807	\$ 50,387,023	\$ 25,072,682
Adjustments to reconcile net income to cash provided by operating activities			
Stock based compensation	2,329,689	1,590,898	324,343
Minority interest	11,104,481	11,280,981	5,875,816
Amortization and accretion of interest	(219,820)	(165,906)	(1,431,146)
Non-cash incentive compensation to manager	8,453,489	5,545,506	1,623,106
Income from equity affiliates			(525,000)
Changes in operating assets and liabilities:			
Others assets	(6,336,004)	(7,771,987)	(6,192,238)
Other liabilities	(212,413)	12,207,088	838,159
Deferred origination fees	(471,814)	(130,560)	1,163,039
Due to related party	32,956	292,927	1,324,901
Net cash provided by operating activities	\$ 65,094,371	\$ 73,235,970	\$ 28,073,662
Investing activities:			
Loans and investments originated and purchased, net	(1,449,405,924)	(989,797,797)	(733,136,131)
Payoffs and paydowns of loans and investments	704,467,014	574,393,425	221,425,780
Due to borrowers	5,375,940	2,104,285	177,125
Securities available for sale			(57,228,552)
Prepayments on securities available for sale	7,897,845	15,999,968	9,722,630
Change in restricted cash	(49,275,786)	(35,496,276)	
Contributions to equity affiliates	(7,282,707)	(18,280,824)	(9,562,190)
Distributions from equity affiliates		5,441,315	3,525,000
Net cash used in investing activities	\$ (788,223,618)	\$ (445,635,904)	\$ (565,076,388)
Financing activities:			
Proceeds from notes payable and repurchase agreements	702,024,038	759,168,998	605,600,178
Payoffs and paydowns of notes payable and repurchase agreements	(770,627,202)	(775,025,055)	(203,247,830)
Proceeds from issuance of collateralized debt obligation	803,750,000	305,319,000	
Payoffs and paydowns of collateralized debt obligation	(11,540,000)	(6,000,000)	
Proceeds from issuance of junior subordinated notes	67,014,000	155,948,000	
Issuance of common stock		5,381,172	158,356,670
Purchases of treasury stock	(7,023,361)		
Issuance of ARSR preferred stock	116,000		

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Exercise of warrants from minority interest			9,440,175
Distributions paid to minority interest	(9,704,497)	(8,458,394)	(3,920,819)
Offering expenses paid			(11,236,483)
Distributions paid on common stock	(44,134,107)	(37,747,372)	(15,567,679)
Payment of deferred financing costs	(18,416,076)	(13,160,807)	(2,135,360)
Net cash provided by financing activities	\$ 711,458,795	\$ 385,425,542	\$ 537,288,852
Net (decrease)/increase in cash	\$ (11,670,452)	\$ 13,025,608	\$ 286,176
Cash at beginning of period	19,427,309	6,401,701	6,115,525
Cash at end of period	\$ 7,756,857	\$ 19,427,309	\$ 6,401,701
Supplemental cash flow information:			
Cash used to pay interest, net of capitalized interest	\$ 85,650,217	\$ 41,376,179	\$ 18,547,842
Supplemental schedule of non-cash financing and investing activities:			
Accrued offering expenses			59,377
Conversion of investment in equity affiliates to loan			6,700,000

See notes to consolidated financial statements

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**

Note 1 Description of Business and Basis of Presentation

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

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 units, each consisting of five shares of common stock and one warrant to purchase one share of common stock. 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 stockholders' equity and minority interest of \$154.0 million as a result of the private placement.

On April 13, 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 the other estimated offering expenses. The Company used the proceeds to pay down indebtedness. After giving effect to this offering, the Company had 14,949,567 shares of common stock outstanding. In 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 a total of 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). As of December 31, 2006, the Company had 17,109,370 shares of common stock outstanding.

The accompanying consolidated financial statements include the financial statements of the Company, its wholly owned subsidiaries, and partnerships or other joint ventures in which the Company controls. Entities which the Company does not control and entities which are variable interest entities (see Note 2 Summary of Significant Accounting Policies), which the Company is not the primary beneficiary, are accounted for under the equity method. All significant intercompany transactions and balances have been eliminated.

Note 2 Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2006

Reclassifications

Certain prior year amounts have been reclassified to conform to current period presentation.

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 December 31, 2006 and 2005, the Company had restricted cash of \$84.8 million and \$35.5 million, respectively, on deposit with the trustees for the Company's collateralized debt obligations (CDOs), see Note 6 Debt Obligations, primarily representing ramp-up proceeds received from the Company's third collateralized debt obligation (CDO III) which will be used to purchase underlying assets, 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

SFAS No. 115 requires that at the time of purchase, we designate a security as held to maturity, available for sale, or trading depending on ability and intent. Securities available for sale are reported at fair value, while securities and investments held to maturity are reported at amortized cost. We do not have a trading security at this time. 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, unless 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.

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 an evaluation of operating cash flow from the property during the projected holding period, and estimated sales value 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. An allowance for each loan would be maintained at a level believed adequate by management to absorb probable losses. As of December 31, 2006 and 2005, no impairment has been identified and no valuation allowances have been established.

At December 31, 2006, there was an \$8.5 million loan in the loan and investment portfolio that is non-performing and income recognition has been suspended. The principal amount of the loan is not deemed to be impaired and no loan loss reserve has been recorded at this time. Income recognition will resume when the loan becomes contractually current and performance has recommenced.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2006

Capitalized Interest

The Company capitalizes interest in accordance with Statement of Financial Accounting Standards (SFAS) No. 58 Capitalization of Interest Costs in Financial Statements that Include Investments Accounted for by the Equity Method . This statement amended SFAS No. 34 Capitalization of Interest Costs to include investments (equity, loans and advances) accounted for by the equity method as qualifying assets of the investor while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee s activities include the use of funds to acquire qualifying assets for its operations. One of the Company s joint ventures accounted for using the equity method, is in the process of using funds to acquire qualifying assets for its planned principal operations. During the year ended December 31, 2006 and 2005 the Company capitalized \$0.9 million and \$0.5 million, respectively of interest relating to this investment.

Available-For-Sale Securities

The Company invests in agency-sponsored whole pool mortgage related securities. Pools of Federal National Mortgage Association, or FNMA, and Federal Home Loan Mortgage Corporation, or FHLMC, adjustable rate residential mortgage loans underlie these mortgage related securities. The Company receives payments from the payments that are made on these underlying mortgage loans, which have a fixed rate of interest for three years and adjust annually thereafter. These securities are carried at their estimated fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income pursuant to SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities. Unrealized losses other than temporary losses are recognized currently in income. The estimated fair value of these securities fluctuate primarily due to changes in interest rates and other factors; however, given that these securities are guaranteed as to principal and/or interest by an agency of the U.S. Government, such fluctuations are generally not based on the creditworthiness of the mortgages securing these securities.

Revenue Recognition

Interest Income Interest income is recognized on the accrual basis as it is earned from loans, investments and available-for-sale 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 at the purchase or origination. 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 available-for-sale 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. For the years ended December 31, 2006 and 2005, the

Company recorded \$13.2 million and \$19.7 million of interest on such loans and investments, respectively. These amounts represent interest collected in accordance with the contractual agreement with the borrower.

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

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Gain on Sale of Loans and Real Estate

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

Income 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 us, and are not consolidated in our financial statements. These investments are recorded under the equity method of accounting. The Company records its share of the net income and losses from the underlying properties on a single line item in the consolidated income statements as income from equity affiliates.

Other Comprehensive Income (Loss)

SFAS No. 130 Reporting comprehensive income, divides comprehensive income into net income 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, net unrealized gains or losses are reported as a component of accumulated other comprehensive income, see Derivatives and Hedging Activities below.

Income Taxes

The Company is organized and conducts its operations to qualify as a real estate investment trust (REIT) and to comply with the provisions of the Internal Revenue Code with respect thereto. A REIT is generally not subject to federal income tax on that portion of its REIT taxable income (Taxable Income) which is distributed to its stockholders, provided that at least 90% of Taxable Income is distributed and provided that certain other requirements are met. Certain assets of the Company that produce non-qualifying income are held in taxable REIT subsidiaries. Unlike other subsidiaries of a REIT, the income of a taxable REIT subsidiary is subject to federal and state income taxes. During the year ended December 31, 2006 and 2005 the Company recorded a \$0.2 million and a \$0.1 million provision for income taxes related to these assets that are held in taxable REIT subsidiaries. This provision is included in selling and administrative expense on the income statement.

Earnings Per Share

In accordance with SFAS No. 128 Earnings Per Share, the Company presents both basic and diluted earnings per share. Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower earnings per share amount.

Derivatives and Hedging Activities

The Company accounts for derivative financial instruments in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), as amended by

Statement of Financial Accounting Standards 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 shareholders' equity in other comprehensive income 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.

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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. The Company relies on quotations from a third party to determine these fair values.

The following is a summary of derivative financial instruments held by the Company as of December 31, 2006 and 2005 (in thousands):

Date Executed	Notional Value December 31, 2006	Notional Value December 31, 2005	Expiration Date	Designation/ Cash Flow	Fair Value December 31, 2006	Fair Value December 31, 2005
December 21, 2004	\$ 386,321	\$ 338,095	January 2012	Non-Qualifying	\$ 326	\$ 52
December 21, 2004	82,706	130,931	December 2009	Non-Qualifying	162	183
June 22, 2005	25,000	25,000	March 2010	Non-Qualifying	682	653
December 23, 2005	119,171	119,171	July 2015	Non-Qualifying	205	(30)
December 23, 2005	111,000	111,000	July 2013	Non-Qualifying	113	(24)
December 23, 2005	58,085	58,085	January 2013	Non-Qualifying	47	(13)
December 13, 2006	112,425		January 2013	Non-Qualifying	(4)	
December 13, 2006	25,000		January 2013	Non-Qualifying	(1)	
December 13, 2006	221,900		January 2013	Non-Qualifying	(7)	
December 13, 2006	31,170		January 2013	Non-Qualifying	(5)	
December 13, 2006	31,170		January 2013	Non-Qualifying	(4)	
Total Non-Qualifying	\$ 1,203,948	\$ 782,282			\$ 1,514	\$ 821
June 16, 2005	\$ 25,000	\$ 25,000	April 2010	Qualifying	\$ 612	\$ 554
December 23, 2005	134,050	134,050	October 2015	Qualifying	1,037	(844)
December 23, 2005		5,922	November 2010	Qualifying		(15)
February 28, 2006	5,000		September 2010	Qualifying	(11)	
March 2, 2006	20,000		November 2012	Qualifying	(133)	
March 10, 2006	10,000		March 2016	Qualifying	(132)	
March 14, 2006	7,200		April 2011	Qualifying	(37)	
March 15, 2006	9,000		November 2010	Qualifying	(39)	
March 15, 2006	3,709		November 2010	Qualifying	(16)	
May 17, 2006	9,000		June 2007	Qualifying	0	

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June 1, 2006	1,889	June 2016	Qualifying	(71)
June 2, 2006	15,000	June 2011	Qualifying	(217)
July 21, 2006	7,215	July 2011	Qualifying	(120)
July 28, 2006	25,000	July 2011	Qualifying	(398)
August 4, 2006	5,165	August 2011	Qualifying	(55)
August 15, 2006	25,000	July 2011	Qualifying	(322)
September 21, 2006	25,000	January 2011	Qualifying	(44)
September 27, 2006	7,000	June 2016	Qualifying	16
September 27, 2006	6,500	May 2016	Qualifying	16
November 29, 2006	7,950	February 2017	Qualifying	64
December 1, 2006	2,800	July 2011	Qualifying	32
December 13, 2006	39,285	July 2011	Qualifying	218
December 20, 2006	11,796	June 2011	Qualifying	28
December 22, 2006	42,807	December 2016	Qualifying	230
Total Qualifying	\$ 445,366	\$ 164,972		\$ 658 \$ (305)

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
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December 31, 2006

The fair value of Non-Qualifying Hedges as of December 31, 2006 and December 31, 2005 was \$1.5 million and \$0.8 million, respectively, and is recorded in other assets and other liabilities on the Balance Sheet. For the year ended December 31, 2006 and 2005 the change in unrealized fair value of the Non-Qualifying Swaps was \$0.7 million and \$0.1 million respectively, and is recorded as a reduction to interest expense on the Consolidated Income Statement.

The fair value of Qualifying Cash Flow Hedges as of December 31, 2006 and December 31, 2005 was \$0.7 million and \$(0.3) million, respectively and is recorded in Other Comprehensive Income and other assets and other liabilities on the Balance Sheet, respectively. As of December 31, 2006 the Company expects to reclassify approximately \$0.7 million of Other Comprehensive Income from Qualifying Cash Flow Hedges to earnings over the next twelve months assuming interest rates on that date are held constant.

In June 2005, the Company entered into an interest rate swap agreement on one of its junior subordinated notes relating to one of its series of Trust Preferred securities (Trust Preferred swap) that was accounted for as a cash flow hedge under SFAS No. 133. The Company elected an abbreviated method (the short-cut method) of documenting the effectiveness of the Trust Preferred swap as a hedge, which allowed the Company to assume no ineffectiveness in this transaction as long as critical terms did not change. The Company recently concluded that the Trust Preferred swap did not qualify for this method in prior periods. The presence of an interest deferral feature in the Trust Preferred security, in retrospect, violated short-cut method criteria. Hedge accounting under SFAS No. 133 is not allowed retrospectively because the hedge documentation required for the long-haul method was not in place at the inception of the hedge. Eliminating the application of cash flow hedge accounting reverses the fair value adjustments that were made to the hedged item and results in the reclassification of approximately \$0.7 million of the cumulative fair value of the Trust Preferred swap on the balance sheet to income from swap derivative on the income statement. This is a result of a change in accounting treatment according to a new technical clarification of accounting for interest rate swaps on Trust Preferred securities. As of December 31, 2006, the Company re-evaluated the overall effectiveness of this swap, as required under SFAS 133, and determined it does not qualify as a cash flow hedge. During the fourth quarter of 2006, the Company has recorded a \$14,575 decrease in the market value of this swap in the income statement and subsequent to year end this swap was terminated.

The cumulative amount of Other Comprehensive Income related to net unrealized gains on derivatives designated as Cash Flow Hedges as of December 31, 2006 and December 31, 2005 of \$2.3 million and \$2.2 million, respectively, is a combination of the fair value of qualifying cash flow hedges of \$0.7 million and \$0.4 million, respectively, and deferred gain on termination of interest swaps of \$1.6 million and \$1.8 million, respectively. The remaining portion included in Other Comprehensive Income is related to the Company's Available for Sale Securities as discussed in Note 4 Available For Sale Securities of these Consolidated Financial Statements.

The following interest rate swap agreements designated as hedging the Company's exposure to interest rate risk on current and future forecasted outstanding LIBOR based debt were entered into at various times during 2006 and 2005, two of these swap agreements were terminated in 2006 and six were terminated in 2005.

Date Terminated	Date Executed	Original Maturity Date	Notional Value (Thousands)	Hedge Type	Designation
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December 13, 2006	December 23, 2005	November 1, 2010	\$ 5,921	Interest Rate Swap	Qualifying Cash Flow Hedge
December 13, 2006	December 1, 2006	May 31, 2011	20,000	Interest Rate Swap	Qualifying Cash Flow Hedge
December 22, 2005	May 2, 2005	April 2015	9,860	Interest Rate Swap	Qualifying Cash Flow Hedge
December 22, 2005	May 27, 2005	March 2015	37,537	Interest Rate Swap	Qualifying Cash Flow Hedge
December 22, 2005	June 24, 2005	August 2010	23,500	Interest Rate Swap	Qualifying Cash Flow Hedge
December 22, 2005	August 9, 2005	November 2009	6,382	Interest Rate Swap	Qualifying Cash Flow Hedge
December 22, 2005	August 9, 2005	November 2009	7,973	Interest Rate Swap	Qualifying Cash Flow Hedge
December 22, 2005	August 9, 2005	July 2015	7,032	Interest Rate Swap	Qualifying Cash Flow Hedge

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**ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
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December 31, 2006

The Company had accounted for these derivatives as cash flow hedges. As a result of terminating these derivatives at market value, unrealized deferred hedging gains of \$0.1 million and \$1.8 million have been recorded to other comprehensive income for the years ended December 31, 2006 and 2005, respectively. As of December 31, 2006, and 2005, respectively \$1.6 million and \$1.8 million of such gains are deferred through other comprehensive income. These deferred gains are being accreted to income over the remaining life of the related swap agreement. For the years ended December 31, 2006 and 2005, respectively, the Company accreted approximately \$0.3 million and less than \$0.1 million to earnings. The Company expects to accrete approximately \$0.3 million of these deferred gains to earnings over the next twelve months.

Variable Interest Entities

Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46R, 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 VIE s. This evaluation resulted in the Company determining that its bridge 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) the voting rights of these investors are proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected returns of the equity, or both, and that substantially all of the entities activities do not involve or are not conducted on behalf of an investor that has disproportionately few voting rights. As of December 31, 2006, the Company has identified 27 loans and investments which were made to entities determined to be VIE s.

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The following is a summary of the identified VIE s as of December 31, 2006:

Type	Carrying Amount	Property	Location
Loan and investment	\$ 63,962,648	Commercial	California
Loan and investment	47,710,938	Office	New York
Loan	30,653,000	Hotel	Various
Loan and investment	97,418,115	Condo	New York
Loan	17,050,000	Office	New York
Loan	7,752,038	Multifamily	Indiana
Loan	1,900,000	Multifamily	New York
Loan	10,000,000	Office	Pennsylvania
Loan	7,063,275	Multifamily	South Carolina
Loan	4,464,285	Multifamily	Indiana
Loan	7,000,000	Office	Texas
Loan	2,800,000	Office	Rhode Island
Loan	28,000,000	Office	New York
Loan	4,000,000	Multifamily	Virginia
Loan	1,600,000	Multifamily	South Carolina
Loan	2,400,000	Multifamily	North Carolina
Loan	30,000,000	Commercial	New York
Loan	14,500,000	Multifamily	Florida
Loan	112,600,000	Multifamily	Various
Loan	33,100,000	Multifamily	Maryland
Investment	1,550,000	Junior subordinated notes(1)	N/A
Investment	1,550,000	Junior subordinated notes(1)	N/A
Investment	820,000	Junior subordinated notes(1)	N/A
Investment	780,000	Junior subordinated notes(1)	N/A
Investment	774,000	Junior subordinated notes(1)	N/A
Investment	774,000	Junior subordinated notes(1)	N/A
Investment	464,000	Junior subordinated notes(1)	N/A

(1) These entities that issued the junior subordinated notes are VIE s, 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, it is not considered to be at risk.

For the 27 VIE s identified, the Company has determined that they are not the primary beneficiaries of the VIE s and as such the VIE s 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 VIE s. As such, the Company has continued to account for these loans and investments as a loan or investment in equity affiliate, as appropriate.

Recently Issued Accounting Pronouncements

In December 2004, the FASB published SFAS 123(R) entitled Share-Based Payment. It requires all public companies to report share-based compensation expense at the grant date fair value of the related share-based awards. We are required to adopt the provisions of the standard effective for periods beginning after June 15, 2005.

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The Company believes that our current method of accounting for share-based payments is consistent with SFAS 123(R).

Deferred compensation of \$1.7 million for the period ending December 31, 2005, relating to unvested restricted stock was reclassified to additional paid-in capital in accordance with SFAS 123(R). As of December 31, 2006, the Company has deferred unearned compensation related to its unvested restricted stock of approximately \$1.9 million.

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155 (SFAS 155), Accounting for Certain Hybrid Financial Instruments , which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring after January 1, 2007. The Company does not expect adoption to have a material impact on the Company's Consolidated Financial Statements.

In April 2006, the FASB issued FASB Staff Position (FSP) FIN 46(R)-6, Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R) , that became effective beginning third quarter of 2006. FSP FIN No. 46(R)-6 clarifies that the variability to be considered in applying Interpretation 46(R) shall be based on an analysis of the design of the variable interest entity. The Company believes that its current method of accounting for variable interest entities is consistent with FIN 46(R)-6.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation prescribes a recognition threshold and measurement in the financial statements of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance as to its application and related transition, and is effective for fiscal years beginning after December 15, 2006. The Company does not expect adoption to have a material impact on the Company's Consolidated Financial Statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements , which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company does not expect adoption to have a material impact on the Company's Consolidated Financial Statements.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements , effective for fiscal years ending after November 15, 2006. SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement for the purpose of a materiality assessment. The adoption of SAB 108 did not have a material impact on the Company's Consolidated Financial Statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits entities to choose to measure many financial instruments, and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect, if any; the adoption of SFAS 159 may have on the Company s Consolidated Financial Statements.

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Note 3 Loans and Investments

	December 31, 2006	December 31, 2005	Loan Count	At December 31, 2006		At December 31, 2005		
				Wtd. Avg. Pay Rate	Wtd. Avg. Remaining Months to Maturity	Loan Count	Wtd. Avg. Pay Rate	Wtd. Avg. Remaining Months to Maturity
Bridge loans	\$ 956,963,018	\$ 405,702,234	39	8.54%	21.5	21	8.21%	17.7
Mezzanine loans	1,012,422,010	821,454,043	50	9.56%	29.6	42	9.81%	27.5
Preferred equity investments	23,436,955	18,855,388	9	10.32%	59.6	4	9.64%	26.1
Other	12,345,865	13,891,005	3	5.89%	42.7	4	5.63%	53.2
	2,005,167,848	1,259,902,670	101	9.06%	26.2	71	9.25%	24.6
Unearned revenue	(11,642,784)	(13,076,764)						
Loans and investments, net	\$ 1,993,525,064	\$ 1,246,825,906						

Bridge loans are loans to borrowers who are typically seeking short term capital to be used in an acquisition of property and are predominantly secured by first mortgage liens on the property.

Mezzanine loans are loans that are subordinate to a conventional first mortgage loan and senior to the borrower's equity in a transaction. These loans may be in the form of a junior participating interest in the senior debt. Mezzanine financing may take the form of loans secured by pledges of ownership interests in entities that directly or indirectly control the real property or subordinated loans secured by second mortgage liens on the property.

A preferred equity investment is another form of financing in which preferred equity investments in entities that directly or indirectly own real property are formed. In cases where the terms of a first mortgage prohibit additional liens on the ownership entity, investments structured as preferred equity in the entity owning the property serve as viable financing substitutes. With preferred equity investments, the Company typically becomes a special limited partner or member in the ownership entity.

In June 2006, the Company originated a \$60.0 million bridge loan secured by approximately 769 acres of land, partially improved by an operating ski resort in Lake Tahoe, California. In October 2006, we provided additional financing of \$3.9 million which is secured by an adjacent parcel of land partially improved by an inn and cross

collateralized with the original bridge loan. The additional financing carries the same terms and conditions of the original bridge loan. The loan accrues interest on a monthly basis at a rate of 12.74%, requires a monthly fixed interest payment at 10.37% and matures in June 2011. In addition, the Company has a 25.6% equity kicker in the borrowing entity. At December 31, 2006 the outstanding balance on this loan was \$63.9 million. No income from the equity kicker has been recognized for the year ended December 31, 2006.

In July and August 2006, the Company originated two bridge and preferred equity loans totaling \$13.0 million. The loans accrue interest based on LIBOR on a monthly basis and mature in 2011. In addition, the Company has a 25% equity kicker in the borrowing entities. At December 31, 2006 the outstanding balance on these loans was \$11.5 million. No income from the equity kickers has been recognized for the year ended December 31, 2006.

At December 31, 2006, there was an \$8.5 million loan in the loan and investment portfolio that is non-performing and income recognition has been suspended. The principal amount of the loan is not deemed to be impaired and no loan loss reserve has been recorded at this time. Income recognition will resume when the loan becomes contractually current and performance has recommenced.

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Concentration of Credit Risk

Loans and investments can potentially subject the Company to concentrations of credit risk. The Company is subject to concentration risk in that, as of December 31, 2006, the unpaid principal balance related to 16 loans with five unrelated borrowers represented approximately 27% of total assets, and as of December 31, 2005, the unpaid principal balance related to 32 loans with five unrelated borrowers represented approximately 31% of total assets. As of December 31, 2006 and 2005, the Company had 102 and 72 loans and investments, respectively.

In addition, in 2006 and 2005, no single loan or investment represented at least 10% of the Company's total assets. In 2006, the Company generated approximately 17% of revenue from the Chetrit Group L.L.C. In 2005, the Company generated approximately 12% and 19% of revenue from the Chetrit Group L.L.C. and Prime Outlet Acquisition Group L.L.C. two of the Company's borrowers, respectively.

Geographic Concentration Risk

As of December 31, 2006, 53%, 11%, and 5% of the outstanding balance of the Company's loans and investments portfolio had underlying properties in New York, Florida and California, respectively. As of December 31, 2005, 57%, 8%, and 8% of the outstanding balance of the Company's loans and investments portfolio had underlying properties in New York, Florida and California, respectively.

Note 4 Available-For-Sale Securities

The following is a summary of the Company's available-for-sale securities at December 31, 2006.

	Face Value	Amortized Cost	Unrealized Loss	Estimated Fair Value
Federal Home Loan Mortgage Corporation, variable rate security, fixed rate of interest for three years at 3.783% and adjustable rate interest thereafter, due March 2034 (including unamortized premium of \$37,680)	\$ 11,754,694	\$ 11,792,374	\$ (37,679)	\$ 11,754,695
Federal Home Loan Mortgage Corporation, variable rate security, fixed rate of interest for three years at 3.778% and adjustable rate interest thereafter, due March 2034 (including unamortized premium of \$15,238)	4,084,000	4,099,238	(35,658)	4,063,580
Federal National Mortgage Association, variable rate security,	6,281,900	6,306,940	(25,039)	6,281,901

fixed rate of interest for three years at 3.804% and adjustable rate interest thereafter, due March 2034 (including unamortized premium of \$25,039)

\$ 22,120,594	\$ 22,198,552	\$ (98,376)	\$ 22,100,176
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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2006

The following is a summary of the Company's available-for-sale securities at December 31, 2005.

	Face Value	Amortized Cost	Unrealized Loss	Estimated Fair Value
Federal Home Loan Mortgage Corporation, variable rate security, fixed rate of interest for three years at 3.797% and adjustable rate interest thereafter, due March 2034 (including unamortized premium of \$226,895)	\$ 15,228,360	\$ 15,455,255	\$ (441,044)	\$ 15,014,211
Federal Home Loan Mortgage Corporation, variable rate security, fixed rate of interest for three years at 3.758% and adjustable rate interest thereafter, due March 2034 (including unamortized premium of \$83,967)	4,763,621	4,847,588	(156,909)	4,690,679
Federal National Mortgage Association, variable rate security, fixed rate of interest for three years at 3.800% and adjustable rate interest thereafter, due March 2034 (including unamortized premium of \$181,415)	10,026,460	10,207,875	(297,345)	9,910,530
	\$ 30,018,441	\$ 30,510,718	\$ (895,298)	\$ 29,615,420

As of December 31, 2006 and 2005, all available-for-sale securities were carried at their estimated fair market value based on current market quotes received from financial sources that trade such securities. The estimated fair value of these securities fluctuate primarily due to changes in interest rates and other factors; however, given that these securities are guaranteed as to principal and/or interest by an agency of the U.S. Government, such fluctuations are generally not based on the creditworthiness of the mortgages securing these securities. The Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity; the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2006.

During the years ended December 31, 2006 and 2005, the Company received prepayments of \$8.0 million and \$16.0 million on these securities and amortized \$0.4 million and \$0.6 million, respectively, of the premium paid for these securities against interest income.

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

The cumulative amount of Other Comprehensive Income related to unrealized gains or (losses) on these securities as of December 31, 2006 and December 31, 2005 was (\$98,376) and (\$895,298), respectively.

Note 5 Investment in Equity Affiliates

As of December 31, 2006 and 2005, the Company had approximately \$25.4 million and \$18.1 million of investments in equity affiliates, respectively, which are described below.

In 2006, the Company invested \$2.0 million for 100% of the common shares of two affiliate entities of the Company which were formed to facilitate the issuance of \$67.0 million of junior subordinate notes. In 2005, the Company invested \$4.7 million for 100% of the common shares of five affiliate entities of the Company which were formed to facilitate the issuance of \$155.9 million of junior subordinate notes. These entities pay dividends on both the common shares and preferred securities on a quarterly basis at a variable rate based on LIBOR. The financing

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
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December 31, 2006

terms of these junior subordinate notes are presented in the notes payable table of Note 6. The impact of these entities in accordance with FIN 46R Consolidation of Variable Interest Entities is discussed in Note 2.

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. As of December 31, 2005 the Company had a mezzanine loan outstanding to an affiliate entity of the joint venture for \$30.1 million. In addition, the Company had a \$10.0 million junior loan participation interest outstanding to an affiliate entity of the joint venture as of December 31, 2005. The loans required monthly interest payments based on one month LIBOR and matured in January 2006. Additionally, the Company has a 16.7% carried profits interest in the borrowing entity. The Company received \$1.2 million of distributions from this investment in 2004 as a result of the 16.7% carried profits interest which was recorded in interest income. In addition, The Company received \$0.5 million from its 50% non-controlling interest in this joint venture, which was recorded as income from equity affiliates. In June 2005, POM refinanced the debt on a portion of the assets in its portfolio, receiving proceeds in excess of the amount of the previously existing debt. The excess proceeds were distributed to each of the partners in accordance with POM's operating agreement of which the Company received \$36.5 million. In accordance with this transaction, the joint venture members of POM agreed to guarantee \$38 million of the new debt. The guarantee expires at the earlier of maturity or prepayment of the debt and would require performance by the members if not repaid in full. This guarantee was allocated to the members in accordance with their ownership percentages. Of the distribution received by the Company, \$17.2 million was recorded as interest income, representing the portion attributable to the 16.7% carried profits interest, \$2.1 million was recorded as a return of the Company's equity investment, \$8.0 million was recorded as income from equity affiliates, representing the portion attributable to the 7.5% equity interest, and \$9.2 million was recorded as deferred revenue, representing the Company's portion of the \$38 million guarantee. In January 2006, POM refinanced the debt on a portion of the assets in its portfolio and repaid in full the debt that was added in June 2005 and the \$30.1 million mezzanine loan and the \$10.0 million junior loan participating interest that the Company had outstanding as of December 31, 2005. As a result, the \$38 million guarantee was removed and the Company recorded the \$9.2 million of deferred revenue, \$6.3 million as interest income and \$2.9 million as income from equity affiliates. In 2006, POM refinanced the debt on a portion of the assets in its portfolio, receiving proceeds in excess of the amount of the previously existing debt. The excess proceeds were distributed to each of the partners in accordance with POM's operating agreement. In December 2006, the Company received a \$6.0 million distribution from POM and recorded \$4.1 million as interest income, representing the portion attributable to the 16.7% carried profits interest and \$1.9 million as income from equity affiliates, representing the portion attributable to the 7.5% equity interest.

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Summarized consolidated financial information of POM (amounts in thousands):

	December 31,	
	2006	2005
Balance Sheets		
Assets:		
Cash and cash equivalents	\$ 58,338	\$ 14,658
Real estate assets	661,349	638,712
Other assets	132,611	116,001
Total assets	\$ 852,298	\$ 769,371
Liabilities:		
Notes payable	\$ 958,678	\$ 855,902
Other liabilities	12,547	17,503
Total liabilities	971,225	873,405
Shareholders' equity Arbor		
Shareholders' (deficit)/equity	(118,927)	(104,034)
Total shareholders' (deficit)/equity	(118,927)	(104,034)
Total liabilities and equity	\$ 852,298	\$ 769,371

	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005	For the Year Ended December 31, 2004
Income Statements:			
Revenue:			
Rental income	\$ 93,624	\$ 82,759	\$ 68,447
Reimbursement income	45,578	42,978	37,305
Other income	51,970	11,353	18,440
Total revenues	191,172	137,090	124,192
Expenses:			
Operating expenses	82,707	73,198	40,665

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Interest expense	61,796	35,725	30,332
Depreciation and amortization	29,209	31,211	24,207
Other expenses		2,691	17,031
Total expenses	173,712	142,825	112,235
Net (loss)/income	\$ 17,460	\$ (5,735)	\$ 11,957

During 2005, the Company invested \$6.1 million in a joint venture, which as part of an investor group, used these proceeds to make a deposit on the potential purchase of a property in New York City. In April 2005, this joint venture closed on the purchase of the property and the Company invested additional capital that, combined with its deposit, represented a \$10 million equity investment, in exchange for a 20% ownership interest in a limited liability corporation of this joint venture (200 Fifth LLC). It is intended that the property, with over one million square feet of space, will be converted from an office property into condominium units. In addition, the Company provided

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December 31, 2006

loans to three partners in the investor group totaling \$13 million, of which \$10.5 million is outstanding as of December 31, 2006. The loans are secured by their ownership interest in the joint venture and mature in April 2008. In 2005, the Company purchased three mezzanine loans totaling \$137 million from the primary lender. These loans are secured by the property, require monthly interest payments based on one month LIBOR and mature in April 2008. The Company sold a participating interest in one of the loans for \$59 million which was recorded as a financing and is included in notes payable. For the years ended December 31, 2006 and 2005 the Company capitalized \$0.9 million and \$0.5 million, respectively, of interest on its equity investment. During 2006, the Company contributed an additional \$4.2 million to the joint venture increasing its equity investment to approximately \$15.6 million. In January 2007, the Company contributed an additional \$0.5 million to the joint venture increasing its equity investment to approximately \$16.1 million.

Summarized consolidated financial information of 200 Fifth LLC (amounts in thousands):

	December 31,	
	2006	2005
Balance Sheets		
Assets:		
Cash and cash equivalents	\$ 6,123	\$ 61,122
Real estate assets	362,294	355,177
Other assets	121,509	50,672
Total assets	\$ 489,926	\$ 466,971
Liabilities:		
Notes payable	\$ 415,614	\$ 415,864
Other liabilities	3,078	1,107
Total liabilities	418,692	416,971
Shareholders' equity Arbor	14,247	10,000
Shareholders' (deficit)/equity	56,987	40,000
Total shareholders' (deficit)/equity	71,234	50,000
Total liabilities and equity	\$ 489,926	\$ 466,971

The Company did not include summarized income statement information because the project is under development and any income statement activity was deemed to be incidental operations as defined by Financial Accounting Standard No. 67. The income generated by the incidental operations has been recorded as a reduction to the development cost of the project.

In October 2004, the Company invested \$0.5 million in exchange for an 8.7% non-managing preferred interest in a LBREP York Avenue Holdings, LLC that was formed to operate as a real estate business, to acquire, own, manage, develop, and sell real estate assets. The Company accounts for this investment under the equity method. In December 2005, the joint venture issued new debt on an existing property. The proceeds were distributed to each of the partners in accordance with the operating agreement of which the Company received \$0.5 million which was recorded as a return of the Company's equity investment.

As of December 31, 2004, the Company had two mezzanine loans outstanding, totaling \$45 million, to 450 Partners Mezz III LLC, a wholly-owned subsidiary of 450 Westside Partners, LLC and the owner of 100% of the outstanding membership interests in 450 Partners Mezz II LLC, who used the proceeds to acquire and renovate an office building. In addition, as of December 31, 2004, the Company had a \$1.5 million equity interest in an affiliate of the borrower. The Company also has participating profits interests in several affiliates of the borrower

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December 31, 2006

aggregating approximately 29%. In March 31, 2005, the property was refinanced with new debt and the Company's loans totaling \$45 million were repaid in full. In accordance with the refinancing, the Company was repaid its \$1.5 million investment, including approximately \$0.4 million of a preferred return which was recorded in income from equity affiliates. In addition, the Company received a structuring fee of \$0.4 million for arranging the financing which was recorded in other income. The Company participated in \$45 million of new debt in the form of a mezzanine loan that matures in March 2015 with a fixed rate of 8.17%. In addition, the Company invested \$2.7 million in an affiliate of the borrower which entitles the Company to a preferred return of 12.5% in this limited liability corporation.

In June 2003, ACM invested approximately \$0.8 million in exchange for a 12.5% preferred interest in a joint venture, which owns and operates two commercial properties. The Company purchased this investment from ACM in August 2003. The Company subsequently contributed an additional \$0.3 million and \$0.4 million in 2004 and 2005, respectively. The Company accounts for this investment under the equity method. The Company had a \$4.8 million bridge loan and a \$3.5 million mezzanine loan outstanding to affiliated entities of the joint venture. The loans required monthly interest payments based on one month LIBOR and matured in November 2006 and June 2006, respectively. In August 2005, the joint venture refinanced one of these properties with a \$25 million bridge loan that the Company provided which matures in August 2010 with a fixed rate of 6.45%. Proceeds from this loan were used to pay off senior debt as well as the Company's \$3.5 million mezzanine loan. Excess proceeds were distributed to each of the members in accordance with the operating agreement of which the Company received \$1.3 million. The Company recorded this amount as a return of its equity investment. In October 2006, the \$4.8 million bridge loan was extended for one year with no other change in terms. In December 2006, the Company contributed an additional \$0.1 million to the joint venture increasing its equity investment to approximately \$0.3 million at December 31, 2006.

The condensed combined balance sheets for the unconsolidated investments in equity affiliates that are individually not greater than 10% of total assets at December 31, 2006 and 2005, are as follows (amounts in thousands):

	December 31,	
	2006	2005
Condensed Combined Balance Sheets		
Assets:		
Cash and cash equivalents	\$ 639	\$ 7,281
Real estate assets	320,082	331,713
Other assets	31,268	39,181
Total assets	\$ 351,989	\$ 378,175
Liabilities:		
Notes payable	\$ 379,800	\$ 413,800
Other liabilities	7,287	5,071
Total liabilities	387,087	418,871
Shareholders' equity Arbor	3,037	2,920

Shareholders (deficit)/equity	(38,135)	(43,616)
Total shareholders (deficit)/equity	(35,098)	(40,696)
Total liabilities and equity	\$ 351,989	\$ 378,175

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December 31, 2006

The condensed combined statements of operations for the unconsolidated investments in equity affiliates that are individually not greater than 10% of total income for the years ended December 31, 2006, 2005 and 2004, are as follows (amounts in thousands):

	2006	2005	2004
Income Statements:			
Revenue:			
Rental income	\$ 36,449	\$ 40,865	\$ 34,304
Reimbursement income	9,064	13,510	6,726
Other income	3,587	24	2,098
 Total revenues	 49,100	 54,399	 43,128
Expenses:			
Operating expenses	23,851	22,791	19,516
Interest expense	23,581	33,367	20,893
Depreciation and amortization	8,248	8,275	387
Other expenses	384	477	475
 Total expenses	 56,064	 67,910	 41,271
 Net (loss)/income	 \$ (6,964)	 \$ (13,511)	 \$ 1,857

Note 6 Debt Obligations***Repurchase Agreements***

The Company utilizes repurchase agreements, warehouse lines of credit, 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.

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The following table outlines borrowings under the Company's repurchase agreements as of December 31, 2006 and 2005:

	December 31, 2006		December 31, 2005	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Repurchase agreement, Wachovia Bank National Association, \$500 million committed line, expiration March 2007, interest is variable based on one-month LIBOR; the weighted average note rate was 6.99% and 6.37%, respectively	\$ 328,546,202	\$ 521,561,563	\$ 380,544,323	\$ 554,322,023
Repurchase agreement, Nomura Credit and Capital, Inc., \$100 million committed line, expiration July 2007, interest is variable based on one-month LIBOR; the weighted average note rate was 5.55% and 4.48%, respectively	20,653,994	22,100,176	28,425,062	29,615,420
Repurchase agreement, financial institution, \$100 million committed line, expiration December 2007, interest is variable based on one-month LIBOR; the weighted average note rate was 7.29% and 5.37%, respectively	46,647,163	83,459,519	4,655,000	4,834,000
Repurchase agreement, financial institution, \$150 million committed line, expiration October 2009, interest is variable based on one-month LIBOR;				
Repurchase agreement, financial institution, \$50 million committed line, expired July 2006, interest was variable based on one-month LIBOR				

Total repurchase agreements	\$ 395,847,359	\$ 627,121,258	\$ 413,624,385	\$ 588,771,443
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In December 2005, the Wachovia Bank National Association repurchase agreement was amended to provide for an increase in the committed amount of this facility to \$500 million from \$350 million until January 2006 in conjunction with the close of the Company's second collateralized debt obligation at which time approximately \$269.1 million was repaid. In September 2006, this facility was amended to provide for a temporary increase in the committed amount of this facility to \$550 million from \$350 million in preparation for the close of the Company's third collateralized debt obligation. In October 2006, this repurchase agreement was amended, increasing the amount of available financing from \$350 million to \$500 million and extending the maturity to March 2007. The Company is in the process of renewing this agreement. On December 14, 2006, in conjunction with the close of the Company's third collateralized debt obligation approximately \$200 million of this facility was repaid. In addition, the \$100 million repurchase agreement with the same financial institution entered into for the purpose of financing securities available for sale and was extended in July 2006 for one year. The current borrowings equate to 97% of the estimated fair value of the securities (net of principal payment receivables of approximately \$1.0 million) and

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December 31, 2006

bear interest at a rate of one month LIBOR plus 0.20%. If the estimated fair value of the securities decreases, the Company may be required to pay down borrowings from the repurchase agreement due to such a decline in the estimated fair value of the securities collateralizing the repurchase agreement.

In October 2006, the Company entered into a \$150.0 million master repurchase agreement with a financial institution. The facility has a rolling one year term not to exceed three years from the effective date of the agreement and bears interest at a spread over LIBOR.

In certain circumstances, the Company has financed the purchase of investments from 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 any repurchase agreement as a liability on our consolidated balance sheet. Interest income earned on the investments and interest expense incurred on the repurchase obligations are reported separately on the consolidated income statement. There is discussion, based upon a technical interpretation of SFAS 140, that these transactions may not qualify as a purchase by the Company. The Company believes, and it is industry practice, that the accounting for these transactions is recorded in an appropriate manner, however, if these investments do not qualify as a purchase under SFAS 140, 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 income statement. 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. As of December 31, 2006 the Company had entered into four such transactions, with a book value of the associated assets of \$228.8 million financed with repurchase obligations of \$151.0 million. As of December 31, 2005 the Company had entered into eight such transactions, with a book value of the associated assets of \$176.7 million financed with repurchase obligations of \$124.6 million. Adoption of the aforementioned treatment would result in the Company recording these assets and liabilities net on its balance sheets.

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Junior Subordinated Notes

The following table outlines borrowings under the Company's junior subordinated notes as of December 31, 2006 and 2005:

	December 31, 2006	December 31, 2005
	Debt Carrying Value	Debt Carrying Value
Junior subordinated notes, maturity March 2034, unsecured, face amount of \$27.1 million, interest rate variable based on three-month LIBOR, the weighted average note rate was 9.11% and 8.28%, respectively	\$ 27,070,000	\$ 27,070,000
Junior subordinated notes, maturity March 2034, unsecured, face amount of \$25.8 million, interest rate variable based on three-month LIBOR, the weighted average note rate was 8.63% and 7.49%, respectively	25,780,000	25,780,000
Junior subordinated notes, maturity April 2035, unsecured, face amount of \$25.8 million, interest rate variable based on three-month LIBOR, the weighted average note rate was 8.58% and 7.44%, respectively	25,774,000	25,774,000
Junior subordinated notes, maturity July 2035, unsecured, face amount of \$25.8 million, interest rate variable based on three-month LIBOR, the weighted average note rate was 8.63% and 7.49%, respectively	25,774,000	25,774,000
Junior subordinated notes, maturity January 2036, unsecured, face amount of \$51.6 million, interest rate variable based on three-month LIBOR, the weighted average note rate was 8.13% and 7.21%, respectively	51,550,000	51,550,000
Junior subordinated notes, maturity July 2036, unsecured, face amount of \$51.6 million, interest rate variable based on three-month LIBOR, the weighted average note rate was 7.98%	51,550,000	
Junior subordinated notes, maturity June 2036, unsecured, face amount of \$15.5 million, interest rate variable based on three-month LIBOR, the weighted average note rate was 7.88%	15,464,000	
Total junior subordinated notes	\$ 222,962,000	\$ 155,948,000

The junior subordinated notes are unsecured, have a maturity of 30 years, pay interest quarterly at a floating rate of interest based on three-month LIBOR and, absent the occurrence of special events, are not redeemable during the first

five years.

In 2006, the Company, through wholly-owned subsidiaries of the Company's operating partnership, issued a total of \$67.0 million of junior subordinated notes in two separate private placements. These securities are unsecured, have a maturity of 29 to 30 years, pay interest quarterly at a floating rate of interest based on three-month LIBOR and, absent the occurrence of special events, are not redeemable during the first five years. At December 31, 2006, the outstanding balance under these facilities was \$222.9 million with a current weighted average note rate of 8.36%. 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 December 31, 2006 and 2005:

	December 31, 2006		December 31, 2005	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Bridge loan warehouse, financial institution, \$75 million committed line, expiration August 2007, interest rate variable based on Prime or LIBOR, the weighted average note rate was 7.10% and 6.32%, respectively	\$ 20,235,000	\$ 21,659,275	\$ 46,490,512	\$ 55,244,721
Secured term credit facility Related Party, financial institution, \$50 million committed line, expiration January 2006 with two six-month renewal options, interest rate variable based on one-month LIBOR, the weighted average note rate was 10.29% as of December 31, 2005. This facility was paid in full in January 2006			30,000,000	48,419,907
Warehousing credit facility, financial institution, \$50 million committed line, expiration December 2007, interest is variable based on one-month LIBOR; the weighted average note rate was 7.06% and 6.68%, respectively	11,814,240	13,365,451	2,632,365	3,096,900
Junior loan participation, maturity April 2008, secured by Company's interest in a second mortgage loan with a principal balance of \$60 million, participation interest is based on a portion of the interest received from the loan, the loan's interest is variable based on one-month LIBOR	59,400,000	59,400,000	59,400,000	59,400,000
Junior loan participation, maturity April 2008, secured by Company's interest in a second mortgage loan with a principal balance of \$35 million, participation interest is based on a portion of the interest received from the loan, the loan's interest is variable based on one-month LIBOR. The loan participation was			6,752,500	6,752,500

paid in full in July 2006

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	December 31, 2006		December 31, 2005	
	Debt Carrying Value	Collateral Carrying Value	Debt Carrying Value	Collateral Carrying Value
Junior loan participation, maturity December 2008, secured by Company's interest in a first mortgage loan with a principal balance of \$68.5 million, participation interest is based on a portion of the interest received from the loan, the loan's interest is variable based on one-month LIBOR	3,000,000	3,000,000		
Junior loan participation, maturity April 2007, secured by Company's interest in a first mortgage loan with a principal balance of \$1.3 million, participation interest is based on a portion of the interest received from the loan, the loan has a fixed rate of interest	125,000	125,000	125,000	125,000
Total notes payable	\$ 94,574,240	\$ 97,549,726	\$ 145,400,377	\$ 173,039,028

On January 31, 2005, the Company entered into a \$50.0 million secured term credit facility with a shareholder who beneficially owned approximately 2% of the Company's outstanding common stock as of December 31, 2005. At December 31, 2005, the outstanding balance under this facility was \$30.0 million and is reflected in Notes payable related party on the accompanying balance sheet. In January 2006, this facility was terminated.

In October 2006, the \$50.0 million bridge loan warehouse credit facility was amended which increased the committed amount of this facility to \$75.0 million.

In 2005, the Company entered into two junior loan participations with a total outstanding balance at December 31, 2005 of \$59.5 million. These participation borrowings have maturity dates 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 loan.

In 2006, the Company entered into one junior loan participation with a total outstanding balance at December 31, 2006 of \$3.0 million. This participation borrowing has a maturity date equal to the corresponding mortgage loan and is secured by the participant's interest in the mortgage loan. Interest expense is based on a portion of the interest received from the loan.

Collateralized Debt Obligations

On January 19, 2005, the Company issued to third party investors four tranches of investment grade collateralized debt obligations, CDO, through a newly-formed wholly-owned subsidiary, Arbor Realty Mortgage Securities Series 2004-1, Ltd. (the Issuer). The Issuer holds assets, consisting primarily of bridge loans, mezzanine loans and cash totaling approximately \$469 million, which serve as collateral for the CDO. The Issuer issued investment grade rated notes with a principal amount of approximately \$305 million and a wholly-owned subsidiary of the Company purchased the preferred equity interests of the Issuer. The four investment grade tranches were issued with floating rate coupons with a combined weighted average rate of three-month LIBOR plus 0.77%. The combined weighted average rate was 4.93% at December 31, 2005. The CDO may be replenished with substitute collateral for loans that are repaid during the first four years of the CDO. Thereafter, the outstanding debt balance will be reduced as loans are repaid. The Company incurred approximately \$7.2 million of issuance costs which is being amortized on a level yield basis over the average estimated life of the CDO. The Company intends to own the portfolio of real estate-related assets until its maturity and accounts for this transaction on its balance sheet

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as a financing facility. For accounting purposes, the CDO is consolidated in the Company's financial statements. The four investment grade tranches are treated as a secured financing, and are non-recourse to the Company. Proceeds from the CDO are distributed quarterly with approximately \$2.0 million being paid to investors as a reduction of their capital invested. In 2006 and 2005, \$8.0 million and \$6.0 million, respectively of proceeds were distributed and recorded as a reduction of the CDO liability. At December 31, 2006 and 2005 the CDO balance was \$291.3 and \$299.3 million, respectively.

On January 11, 2006, the Company completed its second collateralized debt obligation issuing to third party investors nine tranches of investment grade collateralized debt obligations, (CDO II), through a newly-formed wholly-owned subsidiary, Arbor Realty Mortgage Securities Series 2005-1, Ltd. (the Issuer II). The Issuer II holds assets, consisting primarily of bridge loans, mezzanine loans and cash totaling approximately \$475 million, which serve as collateral for CDO II. The Issuer II issued investment grade rated notes with a principal amount of approximately \$356 million and a wholly-owned subsidiary of the Company purchased the preferred equity interests of the Issuer II. The nine investment grade tranches were issued with floating rate coupons with an initial combined weighted average rate of three-month LIBOR plus 0.74%. CDO II may be replenished with substitute collateral for loans that are repaid during the first five years. Thereafter, the outstanding debt balance will be reduced as loans are repaid. The Company incurred approximately \$6.2 million of issuance costs which is being amortized on a level yield basis over the average life of CDO II. The Company intends to own the portfolio of real estate-related assets until its maturity and accounts for this transaction on its balance sheet as a financing facility. For accounting purposes, CDO II is consolidated in the Company's financial statements. The nine investment grade tranches are treated as a secured financing, and are non-recourse to the Company. Proceeds from CDO II are distributed quarterly with approximately \$1.2 million being paid to investors as a reduction of their capital invested. In 2006, \$3.5 million of proceeds were distributed and recorded as a reduction of the CDO II liability. At December 31, 2006 the CDO II balance was \$352.7 million.

On December 14, 2006, the Company completed its third collateralized debt obligation issuing to third party investors 10 tranches of investment grade collateralized debt obligations, (CDO III), through a newly-formed wholly-owned subsidiary, Arbor Realty Mortgage Securities Series 2006-1, Ltd. (the Issuer III). The Issuer III holds assets, consisting primarily of bridge loans, mezzanine loans and cash totaling approximately \$500.0 million, which serve as collateral for CDO III. The Issuer III issued investment grade rated notes with a principal amount of approximately \$547.5 million, including a \$100.0 million revolving note class that provides a revolving note facility and a wholly-owned subsidiary of the Company purchased the preferred equity interests of the Issuer III. The 10 investment grade tranches were issued with floating rate coupons with an initial combined weighted average rate of three-month LIBOR plus 0.44% and the revolving note facility has a commitment fee of 0.22% per annum on the undrawn portion of the facility. CDO III may be replenished with substitute collateral for loans that are repaid during the first five years. Thereafter, the outstanding debt balance will be reduced as loans are repaid. The Company incurred approximately \$9.7 million of issuance costs which is being amortized on a level yield basis over the average life of CDO III. The Company intends to own the portfolio of real estate-related assets until its maturity and accounts for this transaction on its balance sheet as a financing facility. For accounting purposes, CDO III is consolidated in the Company's financial statements. The 10 investment grade tranches are treated as a secured financing, and are non-recourse to the Company. At December 31, 2006 the CDO III balance was \$447.5 million and the revolving note facility had not been utilized.

Proceeds from the sale of the 23 investment grade tranches issued in CDO, CDO II and CDO III were used to repay outstanding debt under the Company's repurchase agreements and notes payable. The assets pledged as collateral were contributed from the Company's existing portfolio of assets.

Each of the credit facilities contains various financial covenants and restrictions, including minimum net worth and debt-to-equity ratios. In 2005, the Company had four institutions permanently amend the interest expense coverage ratio covenant. As amended, the Company is required to have an interest expense coverage ratio

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of no less than 1.75 to 1.0, calculated on the preceding twelve months. The Company was in compliance with all financial covenants and restrictions at December 31, 2006 and 2005.

Note 7 Minority Interest

On July 1, 2003, ACM contributed \$213.1 million of structured finance assets and \$169.2 million of borrowings supported by \$43.9 million of equity in exchange for a commensurate equity ownership in ARLP, the Company's operating partnership. This transaction was accounted for as minority interest and entitled ACM to a 28% interest in ARLP. In April 2004, the Company issued 6,750,000 shares of its common stock in an initial public offering and a concurrent offering to one of the Company's directors. In May 2004, the underwriters of the initial public offering exercised a portion of their over-allotment option, which resulted in the issuance of 524,200 additional shares.

In 2005, the Company issued 0.6 million shares of common stock, of which approximately 0.3 million shares were issued upon the exercise of approximately 0.3 million warrants, 0.2 million shares were issued as payment to its manager, ACM, for the incentive management fee and 0.1 million shares were issued by means of restricted stock grants issued to certain employees of the company and of ACM. As a result, minority interest was reduced by \$0.6 million to properly reflect ACM's 18% limited partnership interest in ARLP and its wholly-owned subsidiaries at December 31, 2005.

In 2006, the Company issued 337,824 shares of common stock, of which 243,129 common shares were payment for ACM's incentive management fee. In addition, the Company repurchased 279,400 shares of its common stock. This had a nominal effect on ACM's limited partnership interest and at December 31, 2006, minority interest was increased by \$0.3 million to properly reflect ACM's 18% limited partnership interest in ARLP and its wholly-owned subsidiaries.

In order for the Company's wholly-owned private REIT, ARSR, Inc., to qualify as a REIT under the Internal Revenue Code for the taxable year ending December 31, 2005, it was required to have at least 100 stockholders by January 2006. Accordingly, ARSR, Inc. issued 116 shares of preferred stock in a private offering to approximately 116 investors and certain employees of the Company and ACM for \$1,000 per share in January 2006. These shares have a par value of \$0.01 and yield a preferred annual return of 12.5%. For accounting purposes, \$116,000 was recorded in the Company's financial statements as minority interest.

Note 8 Commitments and Contingencies

As of December 31, 2006, the Company had the following material contractual obligations (payments in thousands):

Contractual Obligations	Payments Due by Period(1)						Total
	2007	2008	2009	2010	2011	Thereafter	
Notes payable	\$ 21,315	\$ 2,522	\$	\$	\$ 1,733	\$ 6,479	\$ 32,049
Collateralized debt obligations(2)	12,720	12,720	96,493	96,493	295,778	577,325	1,091,529

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Repurchase agreements	118,095	140,492	60,000	4,000	36,060	37,200	395,847
Trust preferred securities						222,962	222,962
Loan participations	125	62,400					62,525
Outstanding unfunded commitments(3)	40,815	7,669	7,511	920	18,190		75,105
Totals	\$ 193,070	\$ 225,803	\$ 164,004	\$ 101,413	\$ 351,761	\$ 843,966	\$ 1,880,017

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- (1) Represents amounts due based on contractual maturities.
- (2) Comprised of \$291.3 million of CDO I debt, \$352.7 million of CDO II debt and 447.5 million of CDO III debt with a weighted average remaining maturity of 3.40, 4.88 and 5.48 years, respectively, as of December 31, 2006.
- (3) In accordance with certain loans and investments, the Company has outstanding unfunded commitments of \$75.1 million as of December 31, 2006, 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.

Litigation

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

Note 9 Stockholders' Equity

Common Stock

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

On July 1, 2003 the Company completed a private placement for the sale of 1,610,000 units (including an over-allotment option), each consisting of five shares of the Company's common stock and one warrant to purchase one share of common stock, at \$75.00 per unit, for proceeds of approximately \$110.1 million, net of expenses. 8,050,000 shares of common stock were sold in the offering. In addition, the Company issued 149,500 shares of restricted common stock under the stock incentive plan as described below under *Deferred Compensation*.

On April 13, 2004, the Company issued 6,750,000 shares of its common stock in a public offering at a price to the public of \$20.00 per share, for net proceeds of approximately \$125.4 million after deducting the underwriting discount and the other estimated offering expenses. The Company used the proceeds to pay down indebtedness. 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. The Company issued 973,354 shares of common stock from the exercise of warrants under the Warrant Agreement and received net proceeds of \$12.9 million. Additionally, ACM was paid its third quarter incentive management fee in shares of common stock totaling 22,498. After giving effect to these transactions, the Company had approximately 16.5 million shares of common stock issued and outstanding at December 31, 2004.

During the year ended December 31, 2005, the Company issued 124,500 shares of restricted stock under the stock incentive plan to its independent directors, certain employees of the company and of ACM. In addition, the Company issued 282,776 shares of common stock from the exercise of warrants under the July 1, 2003 warrant agreement and

received net proceeds of \$4.2 million. Additionally, ACM elected to be paid a portion of its incentive management fees in shares of stock totaling 191,342. After giving effect to these transactions, the Company had approximately 17.1 million shares issued and outstanding.

In February 2006, 1,000 restricted shares were issued to each of three independent members of the board of directors under the stock incentive plan. One third of the restricted stock granted to each of these directors was vested as of the date of grant, another one third vested in January 2007 and the remaining third will vest in January 2008. In addition, upon the resignation of a member of the Company's board of directors, 445 shares of restricted stock were forfeited. The Company issued 1,445 shares of common stock to this individual in conjunction with an advisory role taken with the Company

In April 2006, 1,000 restricted shares were issued to an independent member of the board of directors under the stock incentive plan. One third of the restricted stock grant to the director was vested as of the date of grant,

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another one third will vest in April 2007 and the remaining third will vest on April 2008. In addition, the Company issued 89,250 shares of restricted common stock under the stock incentive plan to certain employees of the Company and of ACM. One fifth of the restricted stock granted to each of these employees were vested as of the date of grant, the second one-fifth will vest in April 2007, the third one-fifth will vest in April 2008, the fourth one-fifth will vest in April 2009, and the remaining one-fifth will vest in April 2010.

In August 2006, the Board of Directors authorized a stock repurchase plan that enabled the Company to buy up to one million shares of its common stock. At management's discretion, shares may be acquired on the open market, through privately negotiated transactions or pursuant to a Rule 10b5-1 plan. A Rule 10b5-1 plan permits the Company to repurchase shares at times when it might otherwise be prevented from doing so. As of December 31, 2006, the Company repurchased 279,400 shares of its common stock in the open market and under a 10b5-1 plan at a total cost of \$7.0 million (an average cost of \$25.10 per share). This plan expired on February 9, 2007. Furthermore, in February 2006, May 2006, August 2006 and November 2006, ACM was paid the fourth quarter 2005, first quarter 2006, a portion of the second quarter 2006 and third quarter 2006 incentive management fee in 57,370 shares, 64,891 shares, 55,586 shares and 65,282 shares of common stock, respectively. After giving effect to these transactions, the Company had approximately 17.1 million shares outstanding.

Deferred Compensation

The Company has a stock incentive plan, under which the board of directors has the authority to issue shares of stock to certain directors, officers and employees of the Company and ACM. Under the stock incentive plan as amended in 2005, 685,000 shares of common stock were reserved for issuance pursuant to restricted stock awards. As of December 31, 2004, 149,500 shares of restricted stock were awarded and were outstanding. Of the shares awarded, two-thirds vested immediately and the remaining one-third will vest ratably over three years on the anniversary date of the initial award.

In February 2005, 1,000 restricted shares were issued to each of four independent members of the board of directors under the stock incentive plan. One third of the restricted stock granted to each of these directors were vested as of the date of grant, another one third vested on January 31, 2006 and the remaining third will vest on January 31, 2007. In May 2005, the Company issued 41,000 shares of restricted common stock under the stock incentive plan to certain employees of the Company and of ACM. One fifth of the restricted stock granted to each of these employees were vested as of the date of grant and recognized currently in earnings, the second one-fifth vested in May 2006, the third one-fifth will vest in May 2007, the fourth one-fifth will vest in May 2008, and the remaining one-fifth will vest in May 2009. In July 2005, the Company issued 77,500 shares of restricted common stock under the stock incentive plan to certain employees of the Company and of ACM. One fifth of the restricted stock granted to each of these employees were vested as of the date of grant and is recognized currently in earnings, the second one-fifth vested in May 2006, the third one-fifth will vest in May 2007, the fourth one-fifth will vest in May 2008, and the remaining one-fifth will vest in May 2009. In August 2005, the Company issued 2,000 shares of restricted common stock under the stock incentive plan to two of the Company's directors. One third of the restricted stock granted to each of these directors were vested as of the date of grant and is recognized currently in earnings, the second one-third vested in August 2006, the third one-third will vest in August 2007. Additionally, in 2005, 14,445 shares of unvested restricted stock were forfeited.

In February 2006, 1,000 restricted shares were issued to each of three independent members of the board of directors under the stock incentive plan. One third of the restricted stock granted to each of these directors was vested as of the

date of grant, another one third vested in February 2007 and the remaining third will vest in February 2008. In addition in February 2006, upon the resignation of a member of the Company's board of directors, 445 shares of restricted stock were forfeited and the Company issued 1,445 shares of common stock to this individual in conjunction with an advisory role taken with the Company. In April 2006, 1,000 restricted shares were issued to an independent member of the board of directors under the stock incentive plan. One third of the restricted stock grant to the director was vested as of the date of grant, another one third will vest in April 2007 and

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the remaining third will vest on April 2008. In addition in April 2006, the Company issued 89,250 shares of restricted common stock under the stock incentive plan to certain employees of the Company and of ACM. One fifth of the restricted stock granted to each of these employees were vested as of the date of grant, the second one-fifth will vest in April 2007, the third one-fifth will vest in April 2008, the fourth one-fifth will vest in April 2009, and the remaining one-fifth will vest in April 2010.

Dividends were paid on the restricted shares as dividends were paid on shares of the Company's common stock whether or not they are vested. For accounting purposes, 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. For the years ended December 31, 2006, 2005 and 2004, compensation expense related to this plan totaled \$2.3 million, \$1.6 million and \$0.3 million, respectively. Such amounts appear on the Company's Consolidated Income Statement under stock-based compensation expense .

Warrants

In connection with the private placement of units by the Company on July 1, 2003, the Company issued warrants to acquire 1,610,000 shares of common stock, as adjusted for dilution, at \$15.00 per share. Concurrently, ACM was issued warrants to purchase 629,345 operating partnership units. In July 2004, these warrants became eligible for exercise through a cash payment or by surrendering additional warrants or shares of common stock in a cashless transaction.

For the year ended December 31, 2004, 1,321,975 common stock warrants were exercised for a total amount of \$12.9 million and 973,354 common shares were issued. Of these totals, 115,176 common shares were issued from 463,797 warrants from a cashless exercise. As of December 31, 2004, there were 288,025 common stock warrants outstanding. On October 12, 2004, ACM exercised all of its warrants for a total of 629,345 operating partnership units of ARLP and proceeds of \$9.4 million.

For the year ended December 31, 2005, 287,144 common stock warrants were exercised for a total amount of \$4.2 million and 282,766 common shares were issued. As of December 31, 2005, there were no outstanding common stock warrants, as they expired July 1, 2005, under the Company's July 1, 2003 warrant agreement.

Preferred Stock

Concurrent with the formation of the Company, ACM contributed a portfolio of structured finance investments and related debt to ARLP, the operating partnership of the Company, in exchange for 3,146,724 units of limited partnership interest in ARLP and warrants to purchase an additional 629,345 operating partnership units. Concurrently, the Company, ARLP and ACM entered into a pairing agreement. Pursuant to the pairing agreement, each operating partnership unit issued to ACM and issuable to ACM upon exercise of its warrants for additional operating partnership units in connection with the contribution of initial assets was paired with one share of the Company's special voting preferred stock. The preferred stock was issued to ACM by the Company in exchange for a capital contribution in the amount of \$31,467. Each share of special voting preferred stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. A holder of special voting preferred stock will not be entitled to any regular or special dividend payments or other distributions, other than a \$0.01 per share liquidation preference. The Company has classified and designated 5,000,000 shares of its 100,000,000 authorized

shares of preferred stock as special voting preferred stock. In 2004, ACM exercised 629,345 warrants in exchange for operating partnership units resulting in the issuance of 629,345 shares of preferred stock. As of December 31, 2006 and 2005, the Company had 3,776,069 shares issued and outstanding.

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Note 10 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 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 minority interest by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period. The Company's common stock equivalents are ARLP's operating partnership units, warrants to purchase additional shares of common stock and warrants to purchase additional operating partnership units. The dilutive effect of the warrants is calculated using the treasury stock method.

In 2004, ACM, the manager of our Company, earned incentive management fees totaling \$1.6 million. Based on the terms of the management agreement, ACM elected to be paid its incentive management fee in common shares totaling 66,141, of which 43,643 were issued in 2005. These 43,643 shares were considered anti-dilutive and have been excluded from the calculation of diluted EPS.

In 2005, ACM, earned incentive management fees totaling \$9.9 million. Based on the terms of the management agreement, ACM elected to be paid its 2005 incentive management fees partially in cash totaling \$4.4 million and partially in common shares totaling 205,069, of which 57,370 were issued in 2006.

In 2006, ACM, earned incentive management fees totaling \$10.2 million. Based on the terms of the management agreement, ACM elected to be paid its 2006 incentive management fees partially in cash totaling \$1.7 million and partially in common shares totaling 306,764, of which 121,005 were issued in 2007.

The following is a reconciliation of the numerator and denominator of the basic and diluted net earnings per share computations for the years ended December 31, 2006, 2005, and 2004, respectively.

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	For the Year Ended December 31, 2006		For the Year Ended December 31, 2005		For the Period Ended December 31, 2004	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income	\$ 50,413,807	\$ 50,413,807	\$ 50,387,023	\$ 50,387,023	\$ 25,072,682	\$ 25,072,682
Add: Income allocated to minority interest		11,104,481		11,280,981		5,875,816
Earnings per EPS calculation	\$ 50,413,807	\$ 61,518,288	\$ 50,387,023	\$ 61,668,004	\$ 25,072,682	\$ 30,948,498
Weighted average number of common shares outstanding	17,161,346	17,161,346	16,867,466	16,867,466	13,814,199	13,814,199
Weighted average number of operating partnership units		3,776,069		3,776,069		3,286,387
Dilutive effect of incentive management fee shares		64,389		10,934		
Dilutive effect of warrants				18,033		265,429
Total weighted average common shares outstanding	17,161,346	21,001,804	16,867,466	20,672,502	13,814,199	17,366,015
Earnings per common share	\$ 2.94	\$ 2.93	\$ 2.99	\$ 2.98	\$ 1.81	\$ 1.78

Note 11 Related Party Transactions

As of December 31, 2006 and 2005, the Company had a \$7.75 million first mortgage loan receivable that bore interest at a variable rate of one month LIBOR plus 4.25% and was scheduled to mature in March 2006. In March 2006, this loan was extended for one year with no other change in terms. This loan was made to a not-for-profit corporation that holds and manages investment property from the endowment of a private academic institution. Two of the Company's directors are members of the board of trustees of the borrower and the private academic institution. Interest income recorded from this loan for the year ended December 31, 2006 and 2005, was approximately \$0.7 million and \$0.6 million, respectively.

ACM had a 50% non-controlling interest in a joint venture, which was formed to acquire, develop and/or sell real estate assets. In 2005, ACM received all of its investment in this joint venture and retained its interest in the joint venture. All loans outstanding to this joint venture were repaid in full in 2004. In 2003, the Company had a \$16.0 million bridge loan outstanding to the joint venture, which was collateralized by a first lien position on a commercial real estate property. This loan was funded by ACM in June 2003 and was purchased by the Company in July 2003. The loan required monthly interest payments based on one month LIBOR and was repaid in full in 2004. The Company had agreed to provide the borrower with additional mezzanine financing in the amount of up to \$8.0 million. The mezzanine financing required interest payments based on one month LIBOR and was repaid in full in 2004.

The Company's \$16.0 million bridge loan to the joint venture was contributed by ACM as one of the structured finance assets contributed to the Company on July 1, 2003 at book value, which approximates fair value. At the time of contribution, ACM also agreed to provide a limited guarantee of the loan's principal amount based on any profits

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realized on its retained 50% interest in the joint venture with the borrower and ACM's participating interests in borrowers under three other contributed structured finance assets.

At the time of ACM's origination of three of the structured finance assets that it contributed to the company on July 1, 2003 at book value, which approximates fair value, each of the property owners related to these contributed assets granted ACM participating interests that share in a percentage of the cash flows of the underlying properties. Upon contribution of the structured finance assets, ACM retained these participating interests and its 50% non-controlling interest in the joint venture to which it had made the \$16.0 million bridge loan. ACM agreed that if any portion of the outstanding amount of any of these four contributed assets is not paid at its maturity or repurchase date, ACM will pay to the Company, subject to the limitation described below, the portion of the unpaid amount of the contributed asset up to the total amount then received by ACM due to the realization of any profits on its retained interests associated with any other of the four contributed assets. However, ACM will no longer be obligated to make such payments to the Company when the remaining accumulated principal amount of the four contributed assets, collectively, falls below \$5 million and none of the four contributed assets were in default. In 2004 and 2005, these four investments matured, the borrowers paid the amounts due in full and ACM's guarantee on these investments has been satisfied.

ACM has a 50% non-controlling interest in an entity, which owns 15% of a real estate holding company that owns and operates a factory outlet center. At December 31, 2006, ACM's investment in this joint venture was approximately \$0.2 million. The Company had a \$28.3 million preferred equity investment to this joint venture, which was collateralized by a pledge of the ownership interest in this commercial real estate property. This loan was funded by ACM in September 2005 and was purchased by the Company in March 2006. The loan required monthly interest payments based on one month LIBOR and matures in September 2007. Interest income recorded from this loan for the year ended December 31, 2006 was approximately \$2.7 million. The loan was repaid in full in November 2006.

In 2005, ACM received a brokerage fee for services rendered in arranging a loan facility for a borrower. The Company provided a portion of the loan facility. The Company was credited \$0.4 million of this brokerage fee, which was included in other income.

During the first quarter 2006, ACM originated permanent financing of \$31.5 million to a borrower to repay an existing \$30.0 million bridge loan with the Company. Pursuant to the terms of the bridge loan agreement, the Company had a right of first offer to provide permanent financing, a right of first refusal to match the terms and conditions from a third party lender and a potential prepayment fee of \$0.9 million. In August 2006, ACM received a \$0.5 million fee for the securitization of the \$31.5 million permanent financing. This fee was remitted to the Company in August 2006 in lieu of the Company waving its right of first refusal and potential prepayment fee under the original terms of the bridge loan.

As of December 31, 2006 and 2005, \$0.1 million and \$0.2 million, respectively of escrows received at loan closings were due to ACM and included in due to related party. These payments were remitted in January 2007 and January 2006, respectively. In addition, as of December 31, 2005, approximately \$0.1 million of net expenses payments due from ACM were included in due to related party. These payments were remitted in January 2006.

The Company is dependent upon its manager, ACM, to provide services to the Company that are vital to its operations with whom it has conflicts of interest. 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 90% 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

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currently holds an 18% limited partnership interest in the Company's operating partnership and 20% of the voting power of its outstanding stock.

Note 12 Distributions

In order to qualify as a REIT, the Company must currently distribute at least 90% of its taxable income and must distribute 100% of its taxable income in order not to be subject to corporate federal income taxes on retained income. The Company anticipates it will distribute all of its taxable income to its stockholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses (such as depreciation), in certain circumstances, the Company may generate operating cash flow in excess of its distributions or, alternatively, may be required to borrow to make sufficient distribution payments.

During the year ended December 31, 2006 the Company paid distributions totaling \$44.1 million, or \$2.57 per share. During the year ended December 31, 2005 the Company paid distributions totaling \$37.7 million, or \$2.24 per share. During the year ended December 31, 2004 the Company declared and paid distributions totaling \$15.6 million, or \$1.16 per share.

For tax purposes, 77.43% or \$1.99 per share of dividends declared in 2006 were classified as ordinary income with 22.57% or \$0.58 per share of dividends represented a return of capital. Of the ordinary taxable dividend, approximately 0.50% represents qualified dividend income and will be eligible for reduced dividend rates. For tax purposes, 70.44% or \$1.58 per share of dividends declared in 2005 were classified as ordinary income with 29.56% or \$0.66 per share of dividends represented a return of capital. Of the ordinary taxable dividend, approximately 0.65% represents qualified dividend income and will be eligible for reduced dividend rates. In 2004, 100% of dividends declared were classified as ordinary income.

On December 11, 2006 the Company declared distributions of \$14,143. This distribution represents a 12.5% return on the preferred shares of its private REIT with respect to the year ended December 31, 2006 to stockholders of record at the close of business on December 15, 2006. These distributions were paid on December 29, 2006.

On January 25, 2007 the Company declared distributions of \$0.60 per share of common stock, payable with respect to the three months ended December 31, 2006, to stockholders of record at the close of business on February 5, 2007. These distributions were subsequently paid on February 20, 2007.

Note 13 Management Agreement

The Company and ARLP have entered into a management agreement with ACM which has an initial term of two years with automatic one year extensions, subject to certain termination rights. After the initial two year term, the Company will be able to terminate the management agreement without cause for any reason upon six months prior written notice to ACM. If the Company terminates the management agreement without cause, or gives ACM notice of non-renewal, in order to manage its operations internally, the Company will be required to pay ACM a termination fee equal to the base management fee and the incentive compensation earned by ACM during the 12-month period preceding the termination. If, without cause, the Company terminates the management agreement or elects not to renew it for any other reason, the Company will be required to pay ACM a termination fee equal to two times the base management fee and the incentive compensation earned by ACM during the 12-month period preceding the termination.

The Company's chief executive officer is also ACM's chief executive officer and controlling equity owner. ACM has agreed to provide the Company with structured finance investment opportunities and loan servicing as well as other services necessary to operate its business. The Company's chief executive officer and chief financial officer are not employees of the Company. The Company relies to a significant extent on the facilities and resources of ACM to conduct its operations. The management agreement requires ACM to manage the business affairs in conformity with the policies and the general investment guidelines that are approved and monitored by the

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Company's board of directors. ACM's management of the Company is under the direction or supervision of the Company's board of directors.

For performing services under the management agreement, the Company pays 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 equals 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.

The Company also pays ACM incentive compensation each fiscal quarter, 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. With respect to all loans and investments originated during the term of the management agreement, the Company has also agreed with ACM that the Company pays ACM an amount equal to 100% of the origination fees paid by the borrower up to 1% of the loan's principal amount.

The incentive compensation is measured annually in arrears; provided, however, ACM shall receive quarterly installments thereof in advance. The quarterly installments are calculated based on the results for the period of twelve months ending on the last day of the fiscal quarter with respect to which such installment is payable. Each quarterly installment payment is deemed to be an advance of a portion of the incentive fee payable for the year. At least 25% of this incentive compensation fee is paid to ACM in shares of the Company's common stock, subject to ownership limitations in the Company's charter. For purposes of determining the number of shares that are paid to ACM to satisfy the common stock portion of the incentive management fee from and after the date the Company's common shares are publicly traded, each common share shall have a value equal to the average closing price per common share based on the last twenty days of the fiscal quarter with respect to which the incentive fee is being paid. The incentive compensation fee 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 fee paid in common stock is determined using the amount of stock calculated as noted above and the quoted market price of the stock on the last day of each quarter. At December 31, the Company remeasures the incentive fee expense paid to ACM in shares of the company's common stock in accordance with the guidance provided by 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, expense recorded related to common stock issued as a portion of incentive fee was adjusted to reflect the fair value of the stock on the measurement date when the final calculation of total incentive fee was determined. In the event the calculated incentive compensation for the full year is an amount less than the total of the installment payments made to ACM for the year, ACM will refund to the Company the amount of such overpayment in cash regardless of whether such installments were paid in cash or common stock. In such case, the Company would record a negative incentive fee expense in the quarter when such overpayment is determined. In 2006, 2005 and 2004, the full year incentive fee was greater than the sum of the quarterly installments.

ACM is responsible for all costs incident to the performance of its duties under the management agreement, including compensation of its employees, rent for facilities and other overhead expenses. The Company is required to pay or reimburse ACM for all expenses incurred on behalf of the Company in connection with the raising of capital or the incurrence of debt, interest expenses, taxes and license fees, litigation and extraordinary or non recurring expenses.

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Under the terms of the management agreement, ACM is also required to provide the Company with a right of first refusal with respect to all structured finance transactions identified by ACM or its affiliates. The Company has agreed not to pursue, and to allow ACM to pursue, any real estate opportunities other than structured finance transactions. In addition, ACM's chief executive officer, Ivan Kaufman, has entered into a non-competition agreement with the Company pursuant to which he has agreed not to pursue structured finance investment opportunities, except as approved by the board of directors of the Company.

In 2006, ACM earned incentive compensation installments totaling \$10.2 million, of which \$8.5 million was elected by ACM to be paid in 306,764 shares of common stock. As of December 31, 2006, ACM's fourth quarter installment of \$3.6 million was included in due to related party. As provided for in the management agreement, ACM elected to receive this entire incentive compensation fee in common stock, which was subsequently paid in February 2007 in common shares totaling 121,005. In 2005, ACM earned incentive compensation installments totaling \$9.9 million, of which \$5.5 million was elected by ACM to be paid in 205,069 shares of common stock. As of December 31, 2005, ACM's fourth quarter installment of \$1.5 million was included in due to related party. As provided for in the management agreement, ACM elected to receive this entire incentive compensation fee in common stock, which was subsequently paid in February 2006 in common shares totaling 57,370. In 2004, ACM earned incentive compensation installments totaling \$1.6 million. ACM elected to receive the entire incentive management fee in 66,141 shares of common stock. As of December 31, 2004, ACM's fourth quarter installment of \$1.1 million was included in due to related party, which was subsequently paid in February 2005 in common shares totaling 43,643.

For the years ended December 31, 2006, 2005 and 2004 ACM earned \$2.6 million, \$2.5 million, and \$2.0 million, respectively in base management fees, of which approximately \$0.2 million in 2004, 2005 and 2006 was included in due to related party. These amounts were paid in the quarters subsequent to each year end.

Note 14 Due to Borrowers

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

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Note 15 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. The following table summarizes the carrying values and the estimated fair values of financial instruments as of December 31, 2006 and 2005. Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions.

	December 31, 2006		December 31, 2005	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Loans and investments, net	\$ 1,993,525,064	\$ 1,989,504,880	\$ 1,246,825,906	\$ 1,256,126,306
Related party loans, net	7,752,038	7,752,038	7,749,538	7,749,538
Available-for-sale securities	22,100,176	22,100,176	29,615,420	29,615,420
Derivative financial instruments	2,193,219	2,193,219	1,440,783	1,440,783
Financial liabilities:				
Repurchase agreements	\$ 395,847,359	\$ 395,847,359	\$ 413,624,385	\$ 413,624,385
Collateralized debt obligations	1,091,529,000	1,091,529,000	299,319,000	299,319,000
Junior subordinated notes to subsidiary trust issuing preferred securities	222,962,000	222,962,000	155,948,000	155,948,000
Notes payable	94,574,240	94,574,240	115,400,377	115,400,377
Notes payable - related party			30,000,000	30,000,000
Derivative financial instruments	21,577	21,577	925,525	925,525

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 variable-rate loans and investments with no significant change in credit risk are based on carrying values. Fair values of other 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.

Related Party Loans, Net: Fair values of variable-rate loans and investments with no significant change in credit risk are based on carrying values. Fair values of other 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 on current market quotes received from financial sources that trade such securities.

Derivative financial instruments: Fair values are approximated on current market quotes received from financial sources that trade such securities. These items are included in other assets and other liabilities on the balance sheet.

Financial Liabilities: Financial liabilities bear interest at rates that are similar to those available in the market currently. Therefore, fair values approximate the carrying values reported in the balance sheets.

Note 16 Subsequent Events

In January 2007, the Company entered into three interest rate swap agreements with notional amounts of \$42.5 million, \$25.0 million and \$7.5 million that expire in February 2012, March 2010 and February 2012,

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respectively. These interest rate swap agreements are to hedge the exposure to interest rate risk on its variable rate current and future forecasted LIBOR based debt.

In February 2007, the Company entered into an interest rate swap having a notional value of \$15.3 million that expires in February 2012. This interest rate swap agreement is to hedge the exposure to interest rate risk on its variable rate current and future forecasted LIBOR based debt.

In February 2007, the Company sold its Available-for-Sale Securities at a nominal gain and repaid the related outstanding debt on these securities.

Note 17 Summary Quarterly Consolidated Financial Information -Unaudited

The following tables represent summarized quarterly financial data of the Company which, in the opinion of management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's results of operations:

Net income shown agrees with the Company's quarterly report(s) on Form 10-Q as filed with the Securities and Exchange Commission. However, in 2004, individual line items vary from such report(s) due to participation's interest recorded as an offset to interest income, during subsequent periods being retroactively reclassified to interest expense for the third and fourth quarters of 2004.

For the Year Ended December 31, 2006:	For the Three Months Ended			
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Revenue:				
Interest income	\$ 52,399,216	\$ 40,897,083	\$ 38,848,431	\$ 40,688,671
Interest from swap derivative		696,960		
Other income	8,250	41,550	49,050	71,347
Total revenue	52,407,466	41,635,593	38,897,481	40,760,018
Expenses:				
Interest expense	29,360,656	23,405,789	21,576,662	18,350,312
Employee compensation and benefits	1,218,640	1,120,596	1,154,477	1,154,931
Stock based compensation	536,627	427,609	943,038	422,415
Selling and administrative	1,275,518	1,118,724	1,392,431	837,822
Management fee related party	4,301,079	2,327,012	2,050,927	4,152,773
Total expenses	36,692,520	28,399,730	26,956,059	24,918,253
Income before minority interest and income from equity affiliates	15,714,946	13,236,863	11,941,422	15,841,765

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Income from equity affiliates	1,875,000			2,909,292
Income before minority interest	17,589,946	13,236,863	11,941,422	18,751,057
Income allocated to minority interest	3,182,794	2,379,607	2,145,270	3,396,810
Net Income	\$ 14,407,152	\$ 10,856,256	\$ 9,796,152	\$ 15,354,247
Basic earnings per common share	\$ 0.84	\$ 0.63	\$ 0.57	\$ 0.90
Diluted earnings per common share	\$ 0.84	\$ 0.63	\$ 0.57	\$ 0.90

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For the Year Ended December 31, 2005:	December 31, 2005	For the Three Months Ended		March 31, 2005
		September 30, 2005	June 30, 2005	
Revenue:				
Interest income	\$ 31,619,614	\$ 27,073,076	\$ 39,295,309	\$ 23,121,158
Other income	74,676	35,730	46	387,798
Total revenue	31,694,290	27,108,806	39,295,355	23,508,956
Expenses:				
Interest expense	15,266,253	12,462,458	9,690,559	8,326,154
Employee compensation and benefits	1,215,401	948,312	956,687	1,154,209
Stock based compensation	317,356	808,687	372,828	92,027
Selling and administrative	1,363,703	1,213,889	927,895	845,879
Management fee related party	2,116,638	1,322,643	7,360,947	1,630,318
Total expenses	20,279,351	16,755,989	19,308,916	12,048,587
Income before minority interest and income from equity affiliates	11,414,939	10,352,817	19,986,439	11,460,369
Income from equity affiliates			8,006,443	446,997
Income before minority interest	11,414,939	10,352,817	27,992,882	11,907,366
Income allocated to minority interest	2,071,691	1,881,055	5,126,510	2,201,725
Net Income	\$ 9,343,248	\$ 8,471,762	\$ 22,866,372	\$ 9,705,641
Basic earnings per common share	\$ 0.55	\$ 0.50	\$ 1.36	\$ 0.58
Diluted earnings per common share	\$ 0.55	\$ 0.50	\$ 1.36	\$ 0.58

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For the Year Ended December 31, 2004:	December 31, 2004	For the Three Months Ended		March 31, 2004
		September 30, 2004	June 30, 2004	
Revenue:				
Interest income	\$ 20,674,843	\$ 17,149,646	\$ 11,939,350	\$ 8,163,391
Other income	6,636	9,098	5,427	21,104
Total revenue	20,681,479	17,158,744	11,944,777	8,184,495
Expenses:				
Interest expense	7,539,501	5,898,637	3,310,544	2,623,893
Employee compensation and benefits	646,720	448,564	617,137	613,306
Stock based compensation	67,544	49,792	92,806	114,201
Selling and administrative	752,793	544,575	366,843	244,311
Management fee related party	1,721,928	1,058,845	540,939	293,118
Total expenses	10,728,486	8,000,413	4,928,269	3,888,829
Income before minority interest and income from equity affiliates	9,952,993	9,158,331	7,016,508	4,295,666
Income from equity affiliates	525,000			
Income before minority interest	10,477,993	9,158,331	7,016,508	4,295,666
Income allocated to minority interest	1,923,558	1,524,359	1,236,560	1,191,339
Net Income	\$ 8,554,435	\$ 7,633,972	\$ 5,779,948	\$ 3,104,327
Basic earnings per common share	\$ 0.52	\$ 0.48	\$ 0.39	\$ 0.38
Diluted earnings per common share	\$ 0.52	\$ 0.47	\$ 0.38	\$ 0.38

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	Location	Periodic Payment Terms	Maturity Date	Interest Pay Rate Index(1)	Interest Accrual Rate Index	Prior Liens	Face Amount	Carrying Amount
Loans:								
(3)	New York, NY	Interest Only	Apr-07	12% Fixed	N/A	\$	\$1,300,000	\$1,300,000
(3)(8)	Indiana	Interest Only	Mar-07	LIBOR + 4.25%	N/A		7,749,538	7,749,538
(8)	Evansville, IN	Interest Only	Mar-07	LIBOR + 4.25%	N/A		2,500	2,500
(3)	Brooklyn, NY	Interest Only	Oct-07	LIBOR + 4.75%	N/A		4,663,944	4,663,944
(3)	New York, NY	Interest Only	Apr-07	LIBOR + 4.00%	N/A		37,125,265	37,125,265
(3)				7.07% Fixed				
	Marion, IN	Interest Only	Feb-11	LIBOR + 3.65%	N/A		7,200,000	7,200,000
				Floor 3.09%				
				LIBOR + 4.50%				
	New York, NY	Interest Only	May-07	LIBOR	N/A		44,448,281	44,448,281
	Brooklyn, NY	Interest Only	Aug-07	Floor 3.38%	N/A		27,000,000	27,000,000
	Brooklyn, NY	Interest Only	Aug-10	6.45% Fixed	N/A		25,000,000	25,000,000
				LIBOR + 4.00%				
				LIBOR + 2.50%				
	New York, NY	Interest Only	Nov-07	LIBOR	N/A		20,902,764	20,902,764
				Floor 4.37%				
				LIBOR + 4.35%				
	Columbia, SC	Interest Only	Jan-08	LIBOR	N/A		4,525,300	4,525,300
				Floor 4.57%				
				LIBOR + 5.00%				
	New York, NY	Interest Only	Feb-07	LIBOR	N/A		1,986,158	1,986,158
				Floor 4.53%				
				LIBOR + 6.00%				
	New York, NY	Interest Only	Feb-08	LIBOR	N/A		13,603,239	13,603,239
	St. Louis, MO	Interest Only	Feb-08	Floor 4.42%	N/A		4,776,889	4,776,889
	Homewood, CA	Interest Only	Jun-11	10.3715% Fixed	Fixed 12.742%		53,962,648 (7)	53,962,648
	Moline, IL	Interest Only	Apr-07	LIBOR + 2.75%	N/A		1,200,000	1,200,000
(3)	New York, NY	Interest Only	Jan-08	LIBOR + 4.00%	N/A		50,159,187	50,159,187
	New York, NY	Interest Only	Feb-07	LIBOR + 4.00%	N/A		51,244,378	51,244,378
	New York, NY	Interest Only	Feb-07	12.00% Fixed	N/A		2,943,323	2,943,323
	Fort Wayne, IN	Interest Only	May-07	7.75% Fixed	N/A		8,837,956	8,837,956
	Philadelphia, PA	Interest Only	Jul-08	LIBOR + 3.50%	N/A		20,152,735	20,152,735
	Brooklyn, NY	Interest Only	Aug-07	11.00% Fixed	N/A		1,348,624	1,348,624
	Columbia, SC	Interest Only	Jul-11	8.271% Fixed	N/A		6,813,275 (5)	6,813,275
	Fort Wayne, IN	Interest Only	Aug-11	8.15% Fixed	N/A		4,177,330 (6)	4,177,330
	Clearwater, FL	Interest Only	Dec-08	LIBOR + 3.50%	N/A		67,777,660	67,777,660

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family	Baltimore, MD	Interest Only	Sep-08	LIBOR + 1.75%	N/A	30,690,000	30,
family	Gainesville, GA	Interest Only	Sep-08	LIBOR + 1.75%	N/A	18,810,000	18,
family				LIBOR + 5.00%			
				LIBOR			
	New York, NY	Interest Only	Apr-07	Floor 5.33%	N/A	28,568,564	28,
				LIBOR +			
	Daytona, FL	Interest Only	Jan-09	1.1583%	N/A	60,000,000	59,
	New York, NY	Interest Only	Nov-07	LIBOR + 2.30%	N/A	30,000,000	30,
e	Phoenix ,AZ	Interest Only	Jun-08	LIBOR + 1.50%	N/A	22,400,000	22,
family	Tallahassee, FL	Interest Only	Jun-08	LIBOR + 2.50%	N/A	14,500,000	14,
	Long Beach, CA	Interest Only	Nov-07	LIBOR + 4.75%	N/A	9,160,000	9,
	West Hollywood,						
	CA	Interest Only	Jan-08	8.5228% Fixed	N/A	18,315,000	18,
e	New York, NY	Interest Only	Aug-08	LIBOR + 2.50%	N/A	96,000,000	96,
	Lower Burrell,						
	PA	Interest Only	Jun-08	LIBOR + 4.50%	N/A	2,802,300	2,
family	New York, NY	Interest Only	Dec-16	6.2993% Fixed	N/A	42,806,799	42,
family	New York, NY	Interest Only	Mar-08	LIBOR + 1.50%	N/A	28,000,000	28,
	Jacksonville, FL	Interest Only	Oct-07	12.00% Fixed	N/A	22,840,000	22,
o	New York, NY	Interest Only	Dec-07	LIBOR + 4.15%	N/A	70,921,399 (4)	70,
						\$ 964,715,056	\$96,

(1) References to LIBOR are to one-month LIBOR unless specifically stated otherwise.

(2) The carrying amounts approximate the federal income tax basis.

(3) Reflects loans that have been extended during the period.

(4) The loans are collateralized by the same underlying real estate property.

(5) The loans are collateralized by the same underlying real estate property.

(6) The loans are collateralized by the same underlying real estate property.

(7) The loans are collateralized by the same underlying real estate property.

(8) Related party loans as discussed in Note #11 of the consolidated financial statements.

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Location	Periodic Payment Terms	Maturity Date	Interest Pay Rate Index(1)	Interest Accrual Rate Index	Prior Liens	Face Amount
New York, NY	Interest Only	Dec-07	LIBOR + 7.00%	Fixed 14.00%	\$70,921,399	\$26,496,716 (4)
New York, NY	Interest Only	Dec-07	LIBOR + 6.25%	N/A	82,814,859	35,185,141
			LIBOR			
			Floor 1.75%			
New York, NY	Interest Only	Dec-07	LIBOR +3.00%	N/A	50,000,000	32,814,859
Tampa, FL	Interest Only	Dec-09	LIBOR + 5.50%	N/A	7,581,197	4,000,000
			LIBOR			
			Floor 1.50%			
Washington D.C.	Interest Only	May-07	LIBOR + 7.00%	N/A	120,000,000	25,000,000
New York, NY	Interest Only	Feb-09	LIBOR + 5.00%	N/A	5,942,925	10,957,870
			LIBOR			
			Floor 2.59%			
Kapaa Kauai, HI	Interest Only	Apr-07	LIBOR + 5.00%	N/A		13,800,000
			LIBOR			
			Floor 2.85%			
New York, NY	Interest Only	Mar-15	8.166% Fixed	N/A	265,000,000	45,000,000
Ypsilanti, MI	Interest Only	Jan-08	LIBOR + 6.05%	N/A	34,564,892	8,541,899
New York, NY	Interest Only	Apr-07	9.00% Fixed	N/A	35,926,370	28,000,000
Various	Interest Only	Apr-15	9.39% Fixed	N/A	127,500,000	12,500,000
New York, NY	Interest Only	Apr-08	LIBOR + 10.5%	N/A	344,290,401	28,000,000
			LIBOR			
			Floor 2.50%			
New York, NY	Interest Only	Apr-08	LIBOR + 6.75%	N/A	235,290,401	49,000,000
			LIBOR			
			Floor 2.50%			
Manhasset, NY	Interest Only	Jun-15	10.00% Fixed	N/A	50,595,000	9,000,000
New York, NY	Interest Only	Nov-09	5.3979% Fixed	N/A	246,000,000	9,500,000
New York, NY	Interest Only	Nov-09	5.3979% Fixed	N/A	238,450,000	7,550,000
Richmond, KY	Interest Only	Oct-08	LIBOR + 5.00%	N/A	15,008,954	3,000,000
			LIBOR			
			Floor 3.85%			
St. Louis, MO	Interest Only	Aug-15	5.32% Fixed	N/A	125,500,000	25,500,000
Salt Lake City, UT	Interest Only	Oct-08	LIBOR + 6.25%	N/A	17,996,409	2,182,642
			LIBOR			
			Floor 4.07%			
various	Interest Only	Sep-07	LIBOR + 2.75%	N/A	1,293,695,000	30,653,000
Winter Springs, FL	Interest Only	Dec-10	8.21% Fixed	N/A	30,612,100	5,001,516

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Las Vegas, NV Various	Principal and Interest	Jan-14	6.93% Fixed	N/A	4,688,901	748,485
	Interest Only	Oct-07	LIBOR + 2.75%	N/A	215,000,000	40,000,000
New York, NY	Interest Only	Apr-08	LIBOR Floor 4.375%	N/A	284,290,401	60,000,000
			LIBOR + 6.20%			
New York, NY	Interest Only	Apr-08	LIBOR Floor 2.50%	N/A		30,000,000
			LIBOR + 3.00%			
Philadelphia, PA New York, NY	Interest Only	Mar-16	10.07% Fixed	N/A	122,000,000	10,000,000
	Interest Only	Feb-07	LIBOR + 4.39%	N/A	1,986,159	37,414,989
New York, NY	Interest Only Principal and	Nov-12	LIBOR Floor 4.57%	N/A	545,000,000	20,000,000
			9.3471% Fixed			
Fort Wayne, IN	Interest	Mar-11	7.10% Fixed	N/A	7,540,000	1,913,086
Daytona Beach, FL	Interest Only	Jan-09	LIBOR + 3.735%	N/A	60,000,000	20,000,000
			LIBOR Floor 3.95%			
Daytona Beach, FL	Interest Only	Jan-09	LIBOR + 3.985%	N/A	80,000,000	15,000,000
			LIBOR Floor 3.95%			
New York, NY Various	Interest Only	Jan-08	LIBOR + 3.50%	N/A	450,000,000	40,000,000
	Interest Only	Feb-10	LIBOR + 3.25%	N/A	2,535,000,000	25,000,000
College Park, MD	Interest Only	Sep-10	LIBOR Floor 4.57%	N/A	93,000,000	5,000,000
			8.86% Fixed			
Los Angeles, CA	Interest Only	Jan-09	LIBOR + 6.00%	N/A	18,400,000	3,500,000
			LIBOR Floor 4.437%			

(1) References to LIBOR are to one-month LIBOR unless specifically stated otherwise.

(2) The carrying amounts approximate the federal income tax basis.

(3) Reflects loans that have been extended during the period.

(4) The loans are collateralized by the same underlying real estate property.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
SCHEDULE IV LOANS AND OTHER LENDING INVESTMENTS (Continued)
DECEMBER 31, 2006

Location	Periodic Payment Terms	Maturity Date	Interest Pay Rate Index(1)	Interest Accrual Rate Index	Prior Liens	Face Amount	C A
ans (Continued):							
Groton, CT	Principal and Interest	Nov-10	7.89% Fixed	N/A	21,051,293	3,714,426	
Groton, CT	Interest Only	Nov-10	8.55% Fixed	N/A	24,765,717	9,000,000	
San Jose, CA	Interest Only	Jun-09	9.00% Fixed	Fixed 15.00%		10,745,800	
Los Angeles, CA	Principal and Interest	Jun-16	7.65% Fixed	N/A	11,012,056	1,815,380	
Moline, IL	Interest Only	May-16	7.94% Fixed	N/A	7,735,000	886,200	
Washington, DC	Interest Only	Jul-08	LIBOR + 4.50%	N/A	105,038,686	20,000,000	
Homewood, CA	Interest Only	Jun-11		N/A	53,962,648	10,000,000(7)	
Cincinnati, OH	Interest Only	May-16	10.50% Fixed	N/A	83,500,000	6,500,000	
Dallas, TX	Interest Only	Jun-16	9.333% Fixed	N/A	81,000,000	7,000,000	
Chicago, IL	Interest Only	Jun-08	LIBOR + 6.00%	N/A	55,900,000	20,000,000	
Providence, RI	Interest Only	Aug-11	12.80% Fixed	N/A	16,000,000	2,800,000	
Various	Interest Only	Oct-08	LIBOR + 5.625%	N/A	3,006,500,000	112,600,000	
Various	Interest Only	May-08	LIBOR + 1.70%	N/A	115,000,000	50,000,000	
Chesapeake, VA	Interest Only	Dec-16	LIBOR + 4.25%	N/A	63,000,000	4,000,000	
MD	Interest Only	Dec-11	5.00% Fixed	Fixed 11.246%	135,280,000	33,100,000	
					\$ 11,594,340,768	\$ 1,012,422,010	\$ 1
ty Loans:							
New York, NY	Interest Only	Apr-07	9.00% Fixed	N/A	\$ 63,926,370	\$ 2,000,000	\$
New York, NY	Interest Only	Oct-08	LIBOR + 5.50%	N/A			
			LIBOR Floor 4.037%		12,578,809	11,000,000	
Brooklyn, NY	Interest Only	Jan-16	LIBOR + 5.00%	N/A			
			LIBOR Floor 4.48%		16,000,000	1,900,000	
Houston, TX	Interest Only	Jul-16	LIBOR + 4.50%	N/A	38,600,000	2,000,000	
Columbia, SC	Interest Only	Jul-11	11.13% Fixed	N/A	6,813,275	250,000(5)	
Tuscaloosa, Al	Interest Only	Aug-16	LIBOR + 4.50%	N/A	25,000,000	2,000,000	
Fort Wayne, IN	Interest Only	Aug-11	11.40% Fixed	N/A	4,177,330	286,955(6)	
Charlotte, NC	Interest Only	Oct-16	LIBOR + 4.50%	N/A	32,940,000	2,400,000	
Columbia, SC	Interest Only	Oct-16	LIBOR + 4.50%	N/A	24,560,000	1,600,000	
					\$ 224,595,784	\$ 23,436,955	\$

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Miami, FL	Interest Only	Sep-23	7.39% Fixed	N/A	\$ 8,833,602	\$ 1,845,865	\$
New York, NY	Interest Only	Apr-08	5.00% Fixed	Fixed 10.00%		9,000,000	
New York, NY	Interest Only	Apr-08	LIBOR + 4.00%	N/A		1,500,000	
					\$ 8,833,602	\$ 12,345,865	\$
					\$ 11,827,770,154	\$ 2,012,919,886	\$ 2

(1) References to LIBOR are to one-month LIBOR unless specifically stated otherwise.

(2) The carrying amounts approximate the federal income tax basis.

(3) Reflects loans that have been extended during the period.

(4) The loans are collateralized by the same underlying real estate property.

(5) The loans are collateralized by the same underlying real estate property.

(6) The loans are collateralized by the same underlying real estate property.

(7) The loans are collateralized by the same underlying real estate property.

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ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
SCHEDULE IV LOANS AND OTHER LENDING INVESTMENTS (Continued)
DECEMBER 31, 2006

The following table reconciles the Company's loans and investments carrying amounts from January 1, 2006 to December 31, 2006:

Balance January 1, 2006	\$ 1,254,575,444
Additions during period:	
New loan originations	1,458,153,387
Funding of unfunded loan commitments(1)	99,403,188
Accretion of unearned revenue	4,536,713
Deductions during period:	
Loan payoffs	(694,679,234)
Loan partial payoffs	(9,787,780)
Unfunded loan commitments(1)	(107,821,883)
Unearned revenue	(3,102,733)
Balance December 31, 2006	\$ 2,001,277,102

- (1) In accordance with certain loans and investments, the Company has outstanding unfunded commitments 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.

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ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

Not applicable.

ITEM 9A. *CONTROLS AND PROCEDURES*

Under the direction of our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2006. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2006.

No change in internal control over financial reporting occurred during the quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of Arbor Realty Trust, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with the authorization of management and directors of the Company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on this assessment, management concluded that, as of December 31, 2006, the Company's internal control over financial reporting is effective.

The Company's independent registered public accounting firm has issued a report on management's assessment of the Company's internal control over financial reporting. This report appears on the following page of this annual report on Form 10-K.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Arbor Realty Trust, Inc. and Subsidiaries

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Arbor Realty Trust, Inc. and Subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respect. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006, and our report dated February 28, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 28, 2007

ITEM 9B. *OTHER INFORMATION*

Not applicable.

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PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

The information regarding our directors and executive officers set forth under the captions *Board of Directors* and *Executive Officers* of the 2007 Proxy Statement is incorporated herein by reference.

The information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 set forth under the caption *Security Ownership of Certain Beneficial Owners and Management* in the 2007 Proxy Statement is incorporated herein by reference.

The information regarding our code of ethics for our chief executive and other senior financial officers under the caption *Senior Officer Code of Ethics and Code of Business Conduct and Ethics* in the 2007 Proxy Statement is incorporated herein by reference.

ITEM 11 *EXECUTIVE COMPENSATION*

The information contained in the section captioned *Executive Compensation* of the 2007 Proxy Statement is incorporated herein by reference.

ITEM 12 *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT*

The information contained in the section captioned *Security Ownership of Certain Beneficial Owners & Management* of the 2007 proxy Statement is incorporated herein by reference.

ITEM 13 *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE*

The information contained in the section captioned *Certain Relationships and Related Transactions and Director Independence* of the 2007 proxy Statement is incorporated herein by reference.

ITEM 14 *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

The information regarding our independent accountant's fees and services in the sections captioned *Independent Accountants Fees* and *Audit Committee Pre-Approval Policy* of the 2007 proxy Statement is incorporated herein by reference.

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PART IV

ITEM 15 *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K*

(a) and (c) Financial Statements and Schedules.

See the Index to the Consolidated Financial Statements of Arbor Realty Trust, Inc. and Subsidiaries and the Index to the Consolidated Financial Statements of the Structured Finance Business of Arbor Commercial Mortgage, LLC and Subsidiaries, each included in Item 8 of this report.

(b) Exhibits.

See the Index to Exhibits on the following page.

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Exhibit Number	Description
2.1	Contribution Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC and Arbor Realty Limited Partnership*
2.2	Guaranty, dated July 1, 2003, made by Arbor Commercial Mortgage, LLC and certain wholly-owned subsidiaries of Arbor Commercial Mortgage, LLC in favor of Arbor Realty Limited Partnership, ANMB Holdings, LLC and ANMB Holdings II, LLC*
2.3	Indemnity Agreement, dated July 1, 2003 by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC, Ivan Kaufman and Arbor Realty Limited Partnership*
3.1	Articles of Incorporation of the Registrant*
3.2	Articles of Amendment to Articles of Incorporation of the Registrant.
3.3	Articles Supplementary of the Registrant*
3.4	Bylaws of the Registrant*
4.1	Form of Certificate for Common Stock*
4.2	Registration Rights Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and JMP Securities, LLC*
10.1	Amended and Restated Management Agreement, dated January 19, 2005, 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 19, 2005, by and among Arbor Commercial Mortgage, LLC, Arbor Realty Limited Partnership, Arbor Realty LPOP, Inc. and Arbor Realty GPOP, Inc.
10.5	Warrant Agreement, dated July 1, 2003, between Arbor Realty Limited Partnership, Arbor Realty Trust, Inc. and Arbor Commercial Mortgage Commercial Mortgage, LLC*
10.6	Registration Rights Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor Commercial Mortgage, LLC*
10.7	Pairing Agreement, dated July 1, 2003, by and among Arbor Realty Trust, Inc., Arbor Commercial Mortgage, LLC Arbor Realty Limited Partnership, Arbor Realty LPOP, Inc. and Arbor Realty GPOP, Inc.*
10.8	2003 Omnibus Stock Incentive Plan, (as amended and restated on July 29, 2004)*
10.9	Amendment No. 1 to the 2003 Omnibus Stock Incentive Plan (as amended and restated)
10.10	Form of Restricted Stock Agreement*
10.11	Benefits Participation Agreement, dated July 1, 2003, between Arbor Realty Trust, Inc. and Arbor Management, LLC*
10.12	Form of Indemnification Agreement*
10.13	Structured Facility Warehousing Credit and Security Agreement, dated July 1, 2003, between Arbor Realty Limited Partnership and Residential Funding Corporation*
10.14	Amended and Restated Loan Purchase and Repurchase Agreement, dated July 12, 2004, by and among Arbor Realty Funding LLC, as seller, Wachovia Bank, National Association, as purchaser, and Arbor Realty Trust, Inc., as guarantor.**
10.15	Master Repurchase Agreement, dated as of November 18, 2002, by and between Nomura Credit and Capital, Inc. and Arbor Commercial Mortgage, LLC*
10.16	

Assignment and Assumption Agreement, dated as of July 1, 2003, by and between Arbor Commercial Mortgage, LLC and Arbor Realty Limited Partnership*

10.17 Subscription Agreement between Arbor Realty Trust, Inc. and Kojaian Ventures, L.L.C.*

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Exhibit Number	Description
10.18	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.
10.19	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.
10.20	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.
10.21	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.
10.22	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.
10.23	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***
10.24	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.
10.25	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.
10.26	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.
21.1	Subsidiaries of the registrant
23.1	Consent of Ernst & Young LLP
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.

* 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 on Form 10-Q for the quarter ended June 30, 2004.

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

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.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 on February 28, 2007.

ARBOR REALTY TRUST, INC.

By: /s/ Ivan Kaufman

Name: Ivan Kaufman

Title: Chief Executive Officer

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Ivan Kaufman Ivan Kaufman	Chairman of the Board of Directors, Chief Executive Officer and President (Principal Executive Officer)	February 28, 2007
/s/ Paul Elenio Paul Elenio	Chief Financial Officer (Principal Financial Officer)	February 28, 2007
/s/ William Helmreich William Helmreich	Director	February 28, 2007
/s/ C. Michael Kojaian C. Michael Kojaian	Director	February 28, 2007
/s/ Melvin F. Lazar Melvin F. Lazar	Director	February 28, 2007
/s/ Walter K. Horn Walter K. Horn	Director	February 28, 2007
/s/ Joseph Martello Joseph Martello	Director	February 28, 2007
/s/ Karen Edwards Karen Edwards	Director	February 28, 2007

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/s/ Kyle Permut

Director

February 28, 2007

Kyle Permut

/s/ Archie R. Dykes

Director

February 28, 2007

Archie R. Dykes