

Ares Commercial Real Estate Corp
Form 10-Q
August 07, 2013
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period to

Commission File No. 001-35517

ARES COMMERCIAL REAL ESTATE CORPORATION

(Exact name of Registrant as specified in its charter)

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Maryland
(State or other jurisdiction of
incorporation or organization)

45-3148087
(I.R.S. Employer
Identification Number)

One North Wacker Drive, 48th Floor, Chicago, IL 60606

(Address of principal executive office) (Zip Code)

(312) 252-7500

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

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

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Class
Common stock, \$0.01 par value

Outstanding at August 6, 2013
27,888,359

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ARES COMMERCIAL REAL ESTATE CORPORATION

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(in thousands, except share and per share data)

	June 30, 2013	As of	December 31, 2012
	(unaudited)		
ASSETS			
Cash and cash equivalents	\$ 40,235	\$	23,390
Restricted cash	4,670		3,210
Loans held for investment	525,994		353,500
Accrued interest receivable	3,312		1,746
Deferred financing costs, net	4,546		5,168
Other assets	2,302		845
Total assets	\$ 581,059	\$	387,859
LIABILITIES AND STOCKHOLDERS EQUITY			
LIABILITIES			
Secured financing agreements	\$ 101,285	\$	144,256
Convertible notes	67,535		67,289
Derivative liability	-		1,825
Accounts payable and accrued expenses	3,346		1,788
Due to affiliate	1,563		1,320
Dividends payable	6,822		2,316
Other liabilities	5,632		3,627
Total liabilities	186,183		222,421
Commitments and contingencies (Note 5)			
STOCKHOLDERS EQUITY			
Preferred stock, par value \$0.01 per share, 50,000,000 shares authorized at June 30, 2013 and December 31, 2012, no shares issued and outstanding at June 30, 2013 and December 31, 2012	-		-
Common stock, par value \$0.01 per share, 450,000,000 shares authorized at June 30, 2013 and December 31, 2012, 27,286,769 and 9,267,162 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	272		92
Additional paid in capital	404,005		169,200
Accumulated deficit	(9,401)		(3,854)
Total stockholders equity	394,876		165,438
Total liabilities and stockholders equity	\$ 581,059	\$	387,859

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See accompanying notes to consolidated financial statements.

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ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net interest margin:				
Interest income	\$ 8,086	\$ 1,559	\$ 14,798	\$ 2,508
Interest expense (from secured funding facilities)	(1,879)	(353)	(3,265)	(692)
Net interest margin	6,207	1,206	11,533	1,816
Expenses:				
Other interest expense	1,499	-	3,050	-
Management fees to affiliate	643	419	1,256	419
Professional fees	500	331	1,067	414
Acquisition and investment pursuit costs	1,121	-	1,761	-
General and administrative expenses	453	323	936	331
General and administrative expenses reimbursed to affiliate	863	308	1,610	319
Total expenses	5,079	1,381	9,680	1,483
Unrealized gain on derivative	2,137	-	1,739	-
Net income	3,265	(175)	3,592	333
Less income (loss) attributable to Series A Convertible Preferred Stock:				
Preferred dividends	-	(50)	-	(102)
Accretion of redemption premium	-	-	-	(572)
Net income (loss) attributable to common stockholders	\$ 3,265	\$ (225)	\$ 3,592	\$ (341)
Net income (loss) per common share:				
Basic and diluted earnings (loss) per common share	\$ 0.32	\$ (0.03)	\$ 0.37	\$ (0.09)
Weighted average number of common shares outstanding:				
Basic weighted average shares of common stock outstanding	10,215,782	6,576,923	9,720,477	3,787,747
Diluted weighted average shares of common stock outstanding	10,257,250	6,576,923	9,764,941	3,787,747
Dividends declared per share of common stock	\$ 0.25	\$ 0.06	\$ 0.50	\$ 0.11

See accompanying notes to consolidated financial statements.

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ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(in thousands, except share and per share data)

(unaudited)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders Equity
Balance at December 31, 2012	9,267,162	\$ 92	\$ 169,200	\$ (3,854)	\$ 165,438
Issuance of common stock	18,000,000	180	242,820	-	243,000
Stock-based compensation	19,607	-	235	-	235
Net income attributable to common stockholders	-	-	-	3,592	3,592
Offering costs	-	-	(8,336)	-	(8,336)
2015 Convertible Notes (1)	-	-	86	-	86
Dividends declared	-	-	-	(9,139)	(9,139)
Balance at June 30, 2013	27,286,769	\$ 272	\$ 404,005	\$ (9,401)	\$ 394,876

(1) See Note 4 to the Company's consolidated financial statements for the three and six months ended June 30, 2013 for more information regarding the 2015 Convertible Notes.

See accompanying notes to consolidated financial statements.

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	For the six months ended June 30, 2013 (unaudited)	For the six months ended June 30, 2012 (unaudited)
Operating activities:		
Net income	\$ 3,592	\$ 333
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Amortization of deferred financing costs	453	265
Amortization of convertible notes issuance costs	372	-
Accretion of deferred loan origination fees and costs	(1,268)	(138)
Stock based compensation	235	67
Unrealized gain on derivative	(1,739)	-
Changes in operating assets and liabilities:		
Interest receivable	(1,566)	(577)
Other assets	(166)	(1,434)
Due to affiliate	243	573
Refundable deposits	490	(200)
Accounts payable and accrued expenses	1,374	405
Net cash provided by (used in) operating activities	2,020	(706)
Investing activities:		
Issuance of and fundings on loans held for investment	(186,402)	(73,164)
Principal repayment of loans held for investment	13,512	74
Receipt of origination fees	1,664	-
Payment of furniture, fixtures and equipment	-	(62)
Payment of acquisition deposit	(1,000)	-
Net cash used in investing activities	(172,226)	(73,152)
Financing activities:		
Proceeds from secured funding arrangements	95,165	47,277
Repayments of secured funding arrangements	(138,137)	(47,277)
Secured funding costs	(202)	(1,637)
Proceeds from issuance of Series A Convertible Preferred Stock	-	5,723
Proceeds from issuance of common stock	243,000	165,850
Redemption of Series A convertible preferred stock	-	(6,295)
Payment of offering costs	(8,141)	(3,016)
Common dividend payment	(4,634)	-
Pre-IPO common dividend payment	-	(450)