

AMERICAN RESIDENTIAL INVESTMENT TRUST INC  
Form 10-Q  
May 15, 2002

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

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

**For the quarterly period ended: March 31, 2002**

**OR**

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

**Commission File Number: 1-13485**

## **AMERICAN RESIDENTIAL INVESTMENT TRUST, INC.**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of  
incorporation or organization)

**33-0741174**

(I.R.S. Employer Identification No.)

**10421 Wateridge Circle, Suite 250**

**San Diego, California**

(Address of principal executive offices)

**92121**

(Zip Code)

**(858) 909-1200**

(Registrant's telephone number, including area code)

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

## Edgar Filing: AMERICAN RESIDENTIAL INVESTMENT TRUST INC - Form 10-Q

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

Common Stock (\$0.01)

7,880,090 as of April 20, 2002

---

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Consolidated Balance Sheets at March 31, 2002 and December 31, 2001

Consolidated Statements of Operations and Comprehensive Loss for the three months ended March 31, 2002 and March 31, 2001.

Consolidated Statements of Cash Flows for the three months ended March 31, 2002 and March 31, 2001.

Notes to Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures about Market Risk

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

**American Residential Investment Trust, Inc. and Subsidiaries**

## Consolidated Balance Sheets, Unaudited

(in thousands, except share and per share data)

	ASSETS	
	March 31, 2002	December 31, 2001
Cash and cash equivalents	\$ 8,647	\$ 10,945
Mortgage loans held for sale, net, pledged	120,991	38,095
Bond collateral, mortgage loans, net	397,061	452,152
Bond collateral, real estate owned	9,795	9,226
Retained interests in securitization	1,495	1,582
Derivative financial instruments	5,459	926
Accrued interest receivable	2,609	3,048
Due from affiliate		159
Investment in American Residential Holdings, Inc.	1,863	1,789
Other assets	2,375	1,802
	\$ 550,295	\$ 519,724
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Short-term debt	\$ 120,544	\$ 35,265
Long-term debt, net	369,101	422,349
Accrued interest payable	93	85
Due to affiliate	1,871	1,786
Accrued expenses and other liabilities	2,167	1,612
Total liabilities	493,776	461,097
Stockholders' Equity:		
Preferred stock, par value \$.01 per share; 1,000 shares authorized; no shares issued and outstanding		
Common stock, par value \$.01 per share; 25,000,000 shares authorized; 7,880,090 shares issued and outstanding at March 31, 2002 and 7,959,900 shares issued and outstanding at December 31, 2001	79	80
Additional paid-in-capital	108,797	108,995
Accumulated other comprehensive income	446	448
Accumulated deficit	(52,803)	(50,896)
Total stockholders' equity	56,519	58,627

\$	550,295	\$	519,724
----	---------	----	---------

See accompanying notes to consolidated financial statements.

**American Residential Investment Trust, Inc. and Subsidiaries**

## Consolidated Statements of Operations and Comprehensive Loss, unaudited

(in thousands, except per share data)

	For the Three Months Ended March 31, 2002	For the Three Months Ended March 31, 2001
Interest income:		
Mortgage assets	\$ 10,021	\$ 18,077
Cash and investments	30	188
Total interest income	10,051	18,265
Interest expense	3,828	14,249
Net interest spread	6,223	4,016
Premium amortization	3,100	2,476
Net interest income	3,123	1,540
Provision for loan losses	2,103	1,641
Net interest income after provision for loan losses	1,020	(101)
Other operating income:		
Gain on sale of mortgage loans	1,552	
Management fee income	28	51
Equity in income of American Residential Holdings, Inc.	74	111
Prepayment penalty income	340	821
Unrealized losses on interest rate cap agreements		(9)
Total other operating income	1,994	974
Net operating income	3,014	873
Other expenses:		
Loss on sale of real estate owned, net	85	252
(Gain) on derivative financial instruments	(304)	
Underwriting costs on loan originations	44	
Management fees		766
Professional fees	764	258
General and administrative expenses	4,332	191
Total other expenses	4,921	1,467
Loss before cumulative effect of a change in accounting principle	(1,907)	(594)
Adoption of SFAS 133 Accounting Change:		
Reduce cap agreement cost to market		(1,106)
Net loss	(1,907)	(1,700)
Other comprehensive (loss) income		
Unrealized (losses) gains on retained interests in securitization	(2)	33
	\$ (1,909)	\$ (1,667)
Loss per share before cumulative effect of accounting change	\$ (0.24)	\$ (0.07)
Loss per share of common stock-basic and diluted	(0.24)	(0.21)

See accompanying notes to consolidated financial statements.

## American Residential Investment Trust, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows, unaudited

(in thousands)

	For the Three Months Ended March 31, 2002	For the Three Months Ended March 31, 2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (1,907)	\$ (1,700)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of mortgage assets premiums	3,100	2,481
Amortization of CMO capitalized costs	158	225
Cumulative effect of change in accounting principle		1,106
Amortization of interest rate cap agreements		9
Amortization of CMO premium		(39)
Provision for loan losses	2,103	1,641
Equity in undistributed income of American Residential Holdings, Inc.	(74)	(111)
Decrease in deposits to retained interest in securitization		8
Decrease on retained interest in securitization	85	4
Loss on sale of real estate owned	851	252
Mortgage loans held for sale, market adjustment	449	
Proceeds from sale of mortgage loans held for sale	287,204	
Mortgage loan originations	(370,549)	
Decrease (increase) in accrued interest receivable	439	1,258
Decrease (increase) in other assets	(573)	(121)
Decrease (increase) in due from affiliate	159	(180)
Increase (decrease) in accrued interest payable	8	(52)
Increase (decrease) in accrued expenses and other liabilities	555	404
Increase (decrease) in due to affiliate	85	146
Derivative financial instruments	(4,533)	
Net cash (used in) provided by operating activities	(82,440)	5,331
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Principal payments on bond collateral, mortgage loans, net	45,258	65,368
Proceeds from sale of real estate owned	3,210	3,180
Net cash provided by investing activities	48,468	68,548
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (decrease) in net borrowings from short-term debt	85,279	(1,095)
Dividends paid		(1,606)
Payments on long-term debt	(53,406)	(72,538)
Purchase of treasury stock	(199)	(196)
Net cash provided by (used in) financing activities	31,674	(75,435)
Net (decrease) increase in cash and cash equivalents	(2,298)	(1,556)
Cash and cash equivalents at beginning of period	10,945	14,688



Edgar Filing: AMERICAN RESIDENTIAL INVESTMENT TRUST INC - Form 10-Q

Cash and cash equivalents at end of period	\$	8,647	\$	13,132
Supplemental information interest paid	\$	3,820	\$	14,012
Non-cash transactions:				
Transfers from bond collateral to real estate owned	\$	856	\$	2,074

See accompanying notes to consolidated financial statements.

AMERICAN RESIDENTIAL INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1. Summary of Significant Accounting Policies and Practices**

*Basis of Financial Statement Presentation*

The interim financial statements included herein have been prepared by American Residential Investment Trust, Inc., ( AmRIT or the Company ) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ), have been condensed or omitted pursuant to such SEC rules and regulations. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's latest Annual Report. In the opinion of management, all adjustments, including normal recurring adjustments necessary to present fairly the consolidated financial position of the Company with respect to the interim financial statements and the results of the operations for the interim period ended March 31, 2002, have been included. Certain reclassifications may have been made to prior interim period amounts to conform to the current presentation. The results of operations for interim periods are not necessarily indicative of results for the full year.

The Company reports segments in accordance with SFAS 131, Disclosures about Segments of an Enterprise and Related Information. SFAS 131 establishes standards for the way companies report information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Effective January 1, 2002, the Company was reorganized into two segments: the Mortgage Asset Portfolio Investments Spread Lending Business and the Mortgage Banking Business.

*New Accounting Standards*

SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment. As permitted by SFAS 142, the Company adopted the new standard in the first quarter of the fiscal year 2002. Intangible assets are less than \$1,000 and therefore adoption of SAS 142 has no material affect on the consolidated financial statements.

SFAS 144 provides guidance on how a long-lived asset that is used as a part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. The Company adopted SFAS 144 beginning January 1, 2002. The Company does not expect the adoption of SFAS 144 for long-lived assets held for use to have a material impact on the Company's consolidated financial statements.

**Note 2. Loss Per Share**

The following table illustrates the computation of basic and diluted loss per share (in thousands, except share and per share data):

	Quarter ended March 31, 2002	Quarter ended March 31, 2001
	(in thousands, except per share data)	
	(unaudited)	
Numerator:		
Numerator for loss per share before cumulative effect of accounting change	\$ (1,907)	\$ (594)
Numerator for basic loss per share net earnings	(1,907)	(1,700)
Denominator:		
Denominator for basic income per share weighted average number of common shares outstanding during the period	7,918,805	7,970,133
Incremental common shares attributable to exercise of outstanding options		
Denominator for diluted income per share	7,918,805	7,970,133
Loss per share before cumulative effect of accounting change	\$ (0.24)	\$ (0.07)
Basic and diluted loss per share	(0.24)	(0.21)

For the three months ended March 31, 2002 and 2001 there were 1,134,475 and 1,218,100 options, respectively, that were antidilutive and, therefore, not included in the calculations above.

### Note 3. Mortgage loans held for sale, net pledged

The AmRIT subsidiary, American Mortgage Network, Inc. ( AmNet ) has pledged loans held for sale to secure credit lines (warehouse facilities) from two financial institutions. See Note 7 Short-Term Debt.

### Note 4. Bond Collateral, Mortgage Loans, net

AmRIT has pledged mortgage loans and real estate owned, net, as collateral in order to secure long-term-debt. Bond collateral consists primarily of adjustable-rate, conventional, 30-year mortgage loans secured by first liens on one to four-family residential properties. All bond collateral is pledged to secure repayment of the related long-term-debt obligation. All principal and interest (less servicing and related fees) on the bond collateral is remitted to a trustee and is available for payment on the long-term-debt obligation. The obligations under the long-term-debt are payable solely from the bond collateral and are otherwise non-recourse to AmRIT. The components of the bond collateral at March 31, 2002 and December 31, 2001 are summarized as follows (dollars in thousands)(unaudited):

	CMO/REMIC 2000-2 Securitization	CMO/REMIC 1999-A Securitization	CMO 1999-2 Securitization	CMO 1999-1 Securitization	CMO/FASIT 1998-1 Securitization	TOTAL Bond Collateral
<b>At March 31, 2002</b>						
Mortgage loans	\$	24,762	\$			