

CAPITAL LEASE FUNDING INC
Form 8-K/A
March 06, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 21, 2005

CAPITAL LEASE FUNDING, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation)

1-32039
(Commission
File Number)

52-2414533
(I.R.S. Employer
Identification No.)

110 Maiden Lane, New York, NY
(Address of principal executive offices)

10005
(Zip Code)

Registrant's telephone number, including area code:(212) 217-6300

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Explanatory Note: On December 28, 2005, Capital Lease Funding, Inc. (the “Company”) filed a Form 8-K with the Securities and Exchange Commission (the “SEC”) reporting the closing of the acquisition of a portfolio of three real properties leased to Allstate Insurance Company for an aggregate purchase price of \$59.0 million (the “Properties”). The Company is filing this Form 8-K/A to amend the above Form 8-K filing to add pro forma financial information.

Item 9.01. Financial Statements and Exhibits.

The following pro forma financial information is filed as part of this report.

(b) Pro forma financial information

The unaudited pro forma financial statements set forth:

- the Pro Forma Condensed Consolidated Balance Sheet (unaudited) as of September 30, 2005;
- the Pro Forma Condensed Consolidated Statement of Operations (unaudited) for the year ended December 31, 2004;
- the Pro Forma Condensed Consolidated Statement of Operations (unaudited) for the nine months ended September 30, 2005; and
- the notes to Pro Forma Condensed Consolidated Financial Statements (unaudited).

The unaudited pro forma condensed consolidated balance sheet of the Company as of September 30, 2005 assumes the Company’s acquisition of the Properties was consummated on September 30, 2005. The unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2004, and the nine months ended September 30, 2005 assume the Company’s acquisition of the Properties occurred on January 1, 2004. The pro forma condensed consolidated financial statements do not purport to represent what our financial position or results of operations would have been if the acquisition had been consummated as of the dates indicated, nor do they purport to project our financial position or results of operations at any future date or for any future period. These pro forma condensed consolidated financial statements should be read in conjunction with our 2004 historical financial statements as included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2004, and its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005.

The pro forma financial statements are based upon assumptions contained in the notes thereto and should be read in conjunction with such notes.

Capital Lease Funding, Inc. and Subsidiaries
Pro Forma Condensed Consolidated Balance Sheet
September 30, 2005
(Unaudited, in thousands)

| | Capital Lease Funding, Inc. Historical | Pro Forma Adjustments | | Capital Lease Funding, Inc. Pro Forma |
|--|--|--------------------------|-----|---|
| Assets | | | | |
| Cash and cash equivalents | \$ 11,537 | \$ (3,537) | (a) | \$ 8,000 |
| Mortgage and other real estate loans held for investment | 260,691 | - | | 260,691 |
| Real estate investments, net | 672,411 | 56,170 | (a) | 728,581 |
| Assets held for sale | - | 2,942 | (b) | 2,942 |
| Securities available for sale | 118,755 | | | 118,755 |
| Structuring fees receivable | 4,007 | | | 4,007 |
| Prepaid expenses and other assets | 37,726 | 85 | (c) | 37,811 |
| Amounts due from affiliates and members | 104 | | | 104 |
| Accrued rental income | 4,094 | | | 4,094 |
| Derivative assets | 629 | | | 629 |
| Furniture, fixtures and equipment, net | 336 | | | 336 |
| Total Assets | \$ 1,110,290 | \$ 55,661 | | \$ 1,165,951 |
| Liabilities and Stockholders' Equity: | | | | |
| Accounts payable and accrued expenses | \$ 11,109 | | | \$ 11,109 |
| Deposits and escrows | 3,758 | | | 3,758 |
| Repurchase agreement obligations | 84,455 | 13,936 | (c) | 98,391 |
| Mortgages on real estate investments | 480,567 | 41,725 | (c) | 522,292 |
| Collateralized debt obligations | 268,148 | | | 268,148 |
| Derivative liabilities | 474 | | | 474 |
| Deferred rental revenue | 735 | | | 735 |
| Intangible liabilities on real estate investments | 15,216 | | | 15,216 |
| Dividends payable | 5,016 | | | 5,016 |
| Total Liabilities | 869,478 | 55,661 | | 925,139 |
| Commitments and contingencies | | | | |
| Stockholders' equity: | | | | |
| Preferred stock, \$.01 par value, 100,000,000 shares authorized, no shares issued and outstanding | - | | | - |
| Common stock, \$.01 par value, 500,000,000 shares authorized, 27,868,480 shares issued and outstanding | 279 | | | 279 |
| Additional paid in capital | 241,803 | | | 241,803 |
| Accumulated other comprehensive income (loss) | (1,270) | | | (1,270) |
| Total Stockholders' Equity | 240,812 | - | | 240,812 |
| | \$ 1,110,290 | \$ 55,661 | | \$ 1,165,951 |

Total Liabilities and Stockholders'
Equity

See notes to the pro forma condensed consolidated financial statements.

Capital Lease Funding, Inc. and Subsidiaries
Pro Forma Condensed Consolidated Statement of Operations
Year Ended December 31, 2004
(Unaudited, in thousands, except per share data)

| | Capital Lease Funding, Inc. Historical | Pro Forma Adjustments | | Capital Lease Funding, Inc. Pro Forma |
|---|--|--------------------------|-----|---|
| Revenues: | | | | |
| Interest income from mortgage loans and securities | \$ 13,589 | | | \$ 13,589 |
| Gain on sales of mortgage loans and securities | 794 | | | 794 |
| Rental revenue | 4,287 | 4,322 | (d) | 8,609 |
| Property expense recoveries | 1,608 | | | 1,608 |
| Other revenue | 726 | | | 726 |
| Total revenues | 21,004 | 4,322 | | 25,326 |
| Expenses: | | | | |
| Interest expense | 2,768 | 2,864 | (c) | 5,632 |
| Property expenses | 1,761 | | | 1,761 |
| Net loss on derivatives and short sales of securities | 724 | | | 724 |
| Loss on securities | 247 | | | 247 |
| General and administrative expenses | 8,833 | | | 8,833 |
| General and administrative expenses-stock based compensation | 3,825 | | | 3,825 |
| Depreciation and amortization expense on real property | 1,281 | 1,147 | (e) | 2,428 |
| Loan processing expenses | 196 | | | 196 |
| Total expenses | 19,635 | 4,011 | | 23,646 |
| Income before provision for income taxes | 1,369 | 312 | | 1,681 |
| Provision for income taxes | 9 | | | 9 |
| Income from continuing operations | 1,360 | 312 | | 1,672 |
| Income from discontinued operations | - | 195 | (d) | 195 |
| Net income | \$ 1,360 | \$ 507 | | \$ 1,867 |
| Earnings per share | | | | |
| Net income per share, basic and diluted | \$ 0.06 | | | \$ 0.08 |
| Weighted average number of common shares outstanding, basic and diluted | 22,125 | | | 22,125 |

See notes to the pro forma condensed consolidated financial statements.

Capital Lease Funding, Inc. and Subsidiaries
Pro Forma Condensed Consolidated Statement of Operations
Nine Months Ended September 30, 2005
(Unaudited, in thousands, except per share data)

| | Capital Lease Funding, Inc. Historical | Pro Forma Adjustments | | Capital Lease Funding, Inc. Pro Forma |
|--|--|--------------------------|-----|---|
| Revenues: | | | | |
| Interest income from mortgage and other real estate loans and securities | \$ 20,123 | | | \$ 20,123 |
| Gain on sales of mortgage and other real estate loans and securities | 447 | | | 447 |
| Rental revenue | 23,438 | 3,242 | (d) | 26,680 |
| Property expense recoveries | 4,193 | | | 4,193 |
| Other revenue | 279 | | | 279 |
| Total revenues | 48,480 | 3,242 | | 51,722 |
| Expenses: | | | | |
| Interest expense | 19,554 | 2,230 | (c) | 21,784 |
| Property expenses | 7,068 | | | 7,068 |
| Loss on securities | 2,372 | | | 2,372 |
| General and administrative expenses | 7,504 | | | 7,504 |
| General and administrative expenses-stock based compensation | 1,569 | | | 1,569 |
| Depreciation and amortization expense on real property | 6,785 | 860 | (e) | 7,645 |
| Loan processing expenses | 181 | | | 181 |
| Total expenses | 45,033 | 3,090 | | 48,123 |
| Income before minority interest | 3,447 | 152 | | 3,599 |
| Minority interest in consolidated entities | 55 | | | 55 |
| Income from continuing operations | 3,502 | 152 | | 3,654 |
| Income from discontinued operations | - | 150 | (d) | 150 |
| Net income | \$ 3,502 | \$ 302 | | \$ 3,804 |
| Earnings per share | | | | |
| Net income per share, basic and diluted | \$ 0.13 | | | \$ 0.14 |
| Weighted average number of common shares outstanding, basic and diluted | 27,755 | | | 27,755 |

See notes to the pro forma condensed consolidated financial statements.

Capital Lease Funding, Inc. and Subsidiaries
Notes to Pro Forma Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying unaudited pro forma condensed consolidated financial statements are presented to reflect the acquisition of the Properties by Capital Lease Funding, Inc. The Company has classified two of the three Properties as held for investment (the "Investment Properties"). The smallest of the three Properties is an approximately 19,500 square foot office building located in Pittsburgh, Pennsylvania (the "Held for Sale Property"). Because of the small size of the Held for Sale Property, management concluded, prior to completing the acquisition, to resell this Property promptly following its acquisition. Therefore, the Company has classified the carrying value of the Held for Sale Property as assets held for sale on the pro forma condensed consolidated balance sheet at September 30, 2005, and the revenue from this property as income from discontinued operations on the pro forma condensed consolidated statements of operations for the year ended December 31, 2004, and the nine months ended September 30, 2005. Based on initial pricing expectations, the Company expects to recognize a gain on the sale of the Held for Sale Property and, therefore, no impairment loss on this property has been recognized in these pro forma financial statements.

The accompanying unaudited pro forma condensed consolidated balance sheet presents the historical financial information of the Company as of September 30, 2005, as adjusted for the acquisition of the Properties as if the transaction had occurred on September 30, 2005.

The accompanying unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2004, and the nine months ended September 30, 2005, combines the historical operations of the Company with the expected operations of the Properties as if the transaction had occurred on January 1, 2004.

2. Pro Forma Adjustments

The unaudited pro forma condensed consolidated financial statements reflect the following significant pro forma adjustments:

- (a) Adjustment to reflect the Company's purchase of the Investment Properties, for approximately \$56.2 million, inclusive of acquisition and closing costs. The Company has allocated the purchase price of the Investment Properties to land, buildings and improvements in the accompanying pro forma consolidated balance sheet. The Company is in the process of determining if any intangible assets were acquired which may result in future adjustments to the allocation of the purchase price. See Note 2(d).
- (b) Adjustment to reflect the Company's purchase of the Held for Sale Property, for approximately \$2.9 million, inclusive of acquisition and closing costs. As described in Note 1 above, the Company has classified this Property as held for sale. The Company does not intend to make any future allocation of the purchase price on this Property to intangible assets, and no depreciation expense on this Property has been recognized. The Company has not financed and does not plan to finance the Held for Sale Property.
- (c) Adjustment to reflect the Company's long-term financing on the Investment Properties and the increase in additional repurchase agreement obligations. On the acquisition date, the Company obtained long-term mortgage financing on the Investment Properties with LaSalle Bank National Association ("LaSalle"), in the principal amount of approximately \$41.7 million at an interest rate of 5.68%. Inclusive of costs incurred related to the financing, the Company's effective interest rate on the financing is 5.71%. The mortgage loan with LaSalle requires monthly payment of interest only during the first thirty-six (36) months of the loan term and interest and principal during the

remaining term, with a maturity date of January 2016. Interest expense on our repurchase agreement obligations was computed using our average interest rate for the applicable periods.

- (d) Adjustment required for the estimated rental revenues for the Properties. Rental income on the Investment Properties is recognized on a straight-line basis. The Properties are subject to triple net leases and therefore no operating expenses are estimated to be incurred by the Company. The Company intends to account for the acquisition in accordance with Statements of Financial Accounting Standards No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangibles", and is currently in the process of analyzing the fair value of in-place leases on the Investment Properties. No value has yet been assigned to the leases and, therefore, the purchase price allocation is preliminary and subject to change.
- (e) Adjustment required to reflect depreciation on the Investment Properties, based on the total allocated cost of the acquisition to depreciable assets. For GAAP purposes, the Company depreciates the Investment Properties using the straight-line method with an estimated useful life of 40 years. As discussed in Notes 2(a) and 2(d), the Company has not finalized the allocation of the purchase price on the Investment Properties. Any change to the allocation may result in changes to depreciation.

SIGNATURES

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

CAPITAL LEASE FUNDING, INC.

By: /s/ SHAWN P. SEALE

Shawn P. Seale
Senior Vice President, Chief Financial
Officer and Treasurer

DATE: March 6, 2006
