ANTHRACITE CAPITAL INC
Form 10-Q
August 11, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2008

OR

o 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 001-13937

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

Maryland (State or other jurisdiction of incorporation or organization)	13-3978906 (I.R.S. Employer Identification No.)
40 East 52nd Street, New York, New York (Address of principal executive offices)	10022 (Zip Code)

(Registrant's telephone number including area code): (212) 810-3333

NOT APPLICABLE
(Former name, former address, and for new 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 x No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

At August 1, 2008, 73,918,326 shares of common stock ($0.001 par value per share) were outstanding.

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Cautionary Statement Regarding Forward-Looking Statements

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as “trend,” “opportunity,” “pipeline,” “believe,” “comfortable,” “expect,” “anticipate,” “current,” “intention,” “estimate,” “position,” “assume,” “pote “continue,” “remain,” “maintain,” “sustain,” “seek,” “achieve” and similar expressions, or future or conditional verbs such as “would,” “should,” “could,” “may” or similar expressions. Anthracite Capital, Inc. (the “Company”) cautions th forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and the Company assumes no duty to and does not undertake to update forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to factors previously disclosed in the Company’s SEC reports and those identified elsewhere in this report, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

(1) the introduction, withdrawal, success and timing of business initiatives and strategies;
(2) changes in political, economic or industry conditions, the interest rate environment or financial and capital markets, which could result in changes in the value of the Company’s assets;
(3) the relative and absolute investment performance and operations of BlackRock Financial Management, Inc. (“BlackRock”), the Company’s Manager;
(4) the impact of increased competition;
(5) the impact of future acquisitions or divestitures;
(6) the unfavorable resolution of legal proceedings;
(7) the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to the Company or BlackRock;
(8) terrorist activities and international hostilities, which may adversely affect the general economy, domestic and global financial and capital markets, specific industries, and the Company;
(9) the ability of BlackRock to attract and retain highly talented professionals;
(10) fluctuations in foreign currency exchange rates; and
(11) the impact of changes to tax legislation and, generally, the tax position of the Company.

The Company’s Annual Report on Form 10-K for the year ended December 31, 2007 and the Company’s subsequent reports filed with the SEC, accessible on the SEC's website at www.sec.gov, identify additional factors that can affect forward-looking statements.

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Anthracite Capital, Inc. and Subsidiaries
Consolidated Statements of Financial Condition (Unaudited)
(in thousands, except share data)

	June 30, 2008		December 31, 2007	
ASSETS				
Cash and cash equivalents		$ 38,684		$ 91,547
Restricted cash equivalents		15,807		32,105
Securities held-for-trading, at estimated fair value:				
Subordinated commercial mortgage-backed securities (“CMBS”)	$ 797,327		$ 1,380	
Investment grade CMBS	1,104,751		15,923	
Residential mortgage-backed securities (“RMBS”)	973		901	
Total securities held-for-trading		1,903,051		18,204
Securities available-for-sale, at estimated fair value:				
Subordinated CMBS	$ -		1,026,773	
Investment grade CMBS	-		1,230,075	
RMBS	-		9,282	
Total securities available-for-sale		-		2,266,130
Commercial mortgage loans (net of loan loss reserve of $25,000 in 2008)		993,382		983,387
Commercial mortgage loan pools, at amortized cost		1,229,442		1,240,793
Equity investments		138,310		108,748
Derivative instruments, at estimated fair value		406,202		404,910
Other assets (includes $2,210 at estimated fair value in 2008)		71,948		101,886
Total Assets		$ 4,796,826		$ 5,247,710
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Borrowings:				
Secured by pledge of subordinated CMBS	$ 233,251		$ 293,287	
Secured by pledge of investment grade CMBS	146,495		207,829	
Secured by pledge of commercial mortgage loans	225,813		244,476	
Collateralized debt obligations ("CDOs") (at estimated fair value in 2008)	1,252,224		1,823,328	
Senior unsecured notes (at estimated fair value in 2008)	85,204		162,500	
Senior convertible notes (at estimated fair value in 2008)	71,160		80,000	
Junior unsecured notes (at estimated fair value in 2008)	35,611		73,103	

Junior subordinated notes to subsidiary trusts issuing preferred securities (at estimated fair value in 2008)	72,829		180,477	
Secured by pledge of commercial mortgage loan pools	1,211,909		1,225,223	
Total borrowings		3,334,496		4,290,223
Payable for investments purchased		-		4,693
Distributions payable		26,135		21,064
Derivative instruments, at estimated fair value		433,850		442,114
Other liabilities		39,936		38,245
Total Liabilities		3,834,417		4,796,339
12% Series E-1 Cumulative Convertible Redeemable Preferred Stock, liquidation preference $23,375		23,289		-
12% Series E-2 Cumulative Convertible Redeemable Preferred Stock, liquidation preference $23,375		23,289		-
Stockholders' Equity:				
Preferred stock, 100,000,000 shares authorized;				
9.375% Series C Preferred Stock, liquidation preference $57,500		55,435		55,435
8.25% Series D Preferred Stock, liquidation preference $86,250		83,259		83,259
Common Stock, par value $0.001 per share; 400,000,000 shares authorized; 73,309,064 shares issued and outstanding in 2008; 63,263,998 shares issued and outstanding in 2007		73		63
Additional paid-in capital		762,843		691,071
Retained earnings (distributions in excess of earnings)		11,654		(122,738)
Accumulated other comprehensive income (loss) ("OCI")		2,567		(255,719)
Total Stockholders' Equity		915,831		451,371
Total Liabilities, Mezzanine and Stockholders' Equity		$ 4,796,826		$ 5,247,710

The accompanying notes are an integral part of these consolidated financial statements.

Anthracite Capital, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)
(in thousands, except share and per share data)

	For the Three Months Ended June 30, 2008	For the Three Months Ended June 30, 2007	For the Six Months Ended June 30, 2008	For the Six Months Ended June 30, 2007
Income:				
Interest from securities	$ 50,604	$ 49,457	$ 102,874	$ 97,636
Interest from commercial mortgage loans	23,100	18,282	46,831	29,449
Interest from commercial mortgage loan pools	12,801	13,002	25,666	26,133
Earnings (loss) from equity investments	(2,566)	12,413	(557)	22,369
Interest from cash and cash equivalents	918	939	1,982	1,863
Total income	84,857	94,093	176,796	177,450
Expenses:				
Interest	50,683	60,085	107,536	115,924
Management and incentive fees	4,940	7,729	19,159	14,682
General and administrative expense	1,866	1,519	3,682	2,824
Total expenses	57,489	69,333	130,377	133,430
Other gains (losses):				
Realized gain (loss) on securities and swaps held-for-trading, net	(4,860)	388	(9,835)	371
Unrealized gain (loss) on securities held-for-trading	44,453	-	(325,327)	-
Unrealized gain on swaps classified as held-for-trading	37,572	-	5,048	-
Unrealized gain (loss) on liabilities	(72,061)		406,257	
Gain on sale of securities available-for-sale, net	-	158	-	6,908
Provision for loan loss	-	-	(25,190)	-
Foreign currency gain (loss)	(2,145)	1,371	(10,186)	2,855
Loss on impairment of assets	-	(2,900)	-	(4,098)
Total other gains (losses)	2,959	(983)	40,767	6,036
Net income	30,327	23,777	87,186	50,056
Dividends on preferred stock	5,083	3,127	8,209	5,403
Net income available to common stockholders	25,244	$ 20,650	78,977	$ 44,653
Net income per common share, basic:	$ 0.36	$ 0.35	$ 1.19	$ 0.76
Net income per common share, diluted:	$ 0.34	$ 0.34	$ 1.09	$ 0.76
Weighted average number of shares outstanding:				
Basic	69,458,370	59,568,356	66,437,973	58,715,762
Diluted	85,846,376	59,891,468	78,340,316	58,878,837

Dividend declared per share of common stock	$	0.31	$	0.30	$	0.61	$	0.59

The accompanying notes are an integral part of these consolidated financial statements.

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Anthracite Capital, Inc. and Subsidiaries
Consolidated Statement of Changes in Stockholders' Equity (Unaudited)
For the Six Months Ended June 30, 2008
(in thousands)

	Common Stock, Par Value	Series C Preferred Stock	Series D Preferred Stock	Additional Paid-In Capital	Retained Earnings (Distributions in Excess of Earnings)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Sto
Balance at January 1, 2008	$ 63	$ 55,435	$ 83,259	$ 691,071	$ (122,738)	$ (255,719)		$
Cumulative effect of adjustment from adoption of SFAS No. 159					97,578	253,045		
Net income					87,186		$ 87,186	
Unrealized loss on cash flow hedges						(5,208)	(5,208)	
Reclassification adjustments from cash flow hedges included in net income						1,124	1,124	
Foreign currency translation						9,325	9,325	
Other comprehensive income							5,241	
Comprehensive income							92,427	
Dividends declared-common stock					(42,163)			
Dividends on preferred stock					(8,209)			
Issuance of common stock	10			71,772				
Balance at June 30, 2008	$ 73	$ 55,435	$ 83,259	$ 762,843	$ 11,654	$ 2,567		$

The accompanying notes are an integral part of these consolidated financial statements.

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Anthracite Capital, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	For the Six Months Ended June 30, 2008	For the Six Months Ended June 30, 2007
Cash flows from operating activities:		
Net income	$ 87,186	$ 50,056
Adjustments to reconcile net income to net cash provided by operating activities:		
Net decrease in trading securities	3,450	132,870
Purchase of securities held-for-trading	(53,515)	
Unrealized loss on securities held-for-trading	321,885	-
Unrealized gain on swaps classified as held-for-trading	(5,048)	-
Realized loss on securities and swaps held-for-trading, net	3,103	(7,279)
Unrealized gain on liabilities	(406,257)	-
Earnings from subsidiary trust	(210)	(209)
Distributions from subsidiary trust	209	209
Loss (earnings) from equity investments	557	(22,369)
Distributions of earnings from equity investments	1,904	8,878
Provision for loan loss	25,190	-
Discount accretion, net	(7,470)	(3,545)
Loss on impairment of assets	-	4,098
Unrealized net foreign currency gain	(8,850)	(10,323)
Non-cash management and incentive fees	8,502	2,893
(Disbursements) proceeds from termination of interest rate swap agreements	(17,101)	7,412
Amortization of terminated interest rate swaps from OCI	1,124	763
Increase in other assets	(7,530)	(8,911)
(Decrease) increase in other liabilities	(1,473)	5,065
Net cash (used in) provided by operating activities	(54,344)	159,608
Cash flows from investing activities:		
Purchase of securities	-	(215,210)
Proceeds from sale of securities	74,272	50,335
Principal payments received on securities	54,425	42,659
Funding of commercial mortgage loans	(2,286)	(574,980)
Repayments received from commercial mortgage loans	14,140	155,173
Repayments received from commercial mortgage loan pools	5,088	12,436
Decrease in restricted cash equivalents	16,298	40,548
Investment in equity investments	(35,323)	(25,209)
Net cash provided by (used in) investing activities	126,614	(514,248)
Cash flows from financing activities:		
(Decrease) increase in borrowings under reverse repurchase agreements and credit facilities:		
Secured by pledge of subordinated CMBS	(61,907)	98,677
Secured by pledge of investment grade CMBS	(62,175)	(39,753)
Secured by pledge of commercial mortgage loans	(21,570)	218,940
Secured by pledge of securities held-for-trading	-	(127,249)
Repayments of borrowings secured by commercial mortgage loan pools	(6,458)	(12,849)
Repayments of collateralized debt obligations	(43,603)	(29,447)

Issuance of collateralized debt obligations	-		23,875
Issuance costs for collateralized debt obligations	-		(1,518)
Issuance of senior unsecured notes	-		87,500
Issuance costs of senior unsecured notes	-		(2,456)
Issuance of junior unsecured notes	-		67,528
Issuance costs of junior unsecured notes	-		(2,113)
Dividends paid on preferred stock	(6,885)		(4,217)
Proceeds from issuance of preferred stock, net of offering costs	69,866		83,267
Proceeds from issuance of common stock, net of offering costs	43,213		66,297
Dividends paid on common stock	(38,416)		(33,685)
Net cash (used in) provided by financing activities	(127,935)		392,797
Effect of exchange rate changes on cash and cash equivalents	2,802		3,171
Net increase, (decrease) in cash and cash equivalents	(52,863)		41,328
Cash and cash equivalents, beginning of period	91,547		66,388
Cash and cash equivalents, end of period	38,684	$	107,716

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	For the Six Months Ended June 30, 2008	For the Six Months Ended June 30, 2007
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 108,769	$ 109,355
Series E-3 preferred stock conversion	$ 23,289	-
Incentive fees paid by the issuance of common stock	$ 5,280	$ 5,250
Investments purchased not settled	-	$ 66,211
Commercial mortgage loans purchased not settled	-	$ 25,000

The accompanying notes are an integral part of these consolidated financial statements.

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Anthracite Capital, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
(Dollar amounts in thousands, except share and per share data)

Note 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Anthracite Capital, Inc., a Maryland corporation (collectively with its subsidiaries, the "Company"), was incorporated in Maryland in November 1997, commenced operations on March 24, 1998 and is organized as a real estate investment trust ("REIT"). The Company seeks to generate income from the spread between the interest income, gains and net operating income on its commercial real estate assets and the interest expense from borrowings to finance its investments. The Company's primary activities are investing in high yield commercial real estate debt and equity. The Company combines traditional real estate underwriting and capital markets expertise to maximize the opportunities arising from the continuing integration of these two disciplines. The Company focuses on acquiring pools of performing loans in the form of commercial mortgage-backed securities ("CMBS"), issuing secured debt backed by CMBS and providing strategic capital for the commercial real estate industry in the form of mezzanine loan financing and equity.

The Company's ongoing investment activities primarily encompass three core investment activities:

1) Commercial Real Estate Securities
2) Commercial Real Estate Loans
3) Commercial Real Estate Equity

The accompanying June 30, 2008 unaudited consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. These consolidated financial statements should be read in conjunction with the annual audited financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission (the "SEC").

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the statements of financial condition and revenues and expenses for the periods covered. Actual results could differ from those estimates and assumptions. Significant estimates in the financial statements include the valuation of the Company's assets and long-term liabilities, credit analysis related to certain of the Company's securities, and estimates pertaining to credit performance related to CMBS and commercial real estate loans.

Recent Accounting Developments

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. FAS 157 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy (i.e., levels 1, 2, and 3, as defined). Additionally, companies are required to provide enhanced disclosure regarding instruments in the level 3 category (which have inputs to the valuation techniques that are unobservable and require significant management judgment), including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and all interim periods within those fiscal years. The Company adopted FAS 157 as of January 1, 2008. FAS 157 did not materially affect how the Company determines fair value, but resulted in certain additional disclosures.

Fair Value Accounting

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("FAS 159"). FAS 159 permits entities to elect to measure eligible financial instruments at fair value. The unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The decision to elect the fair value option is determined on an instrument-by-instrument basis, is applied to an entire instrument and is irrevocable. Assets and liabilities measured at fair value pursuant to the fair value option will be reported separately on the consolidated statement of financial condition from those instruments measured using another measurement attribute. FAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Company adopted FAS 159 as of January 1, 2008 and elected to apply the fair value option to the following financial assets and liabilities existing at the time of adoption:

(1) all securities which were previously accounted for as available-for-sale;
(2) investments in equity of subsidiary trusts;
(3) all unsecured long-term liabilities, consisting of all senior unsecured notes, senior convertible notes, junior unsecured notes and junior subordinated notes; and
(4) all CDO liabilities and related interest rate swaps.

Upon adoption, with an adjustment to opening retained earnings, total stockholders' equity increased by $350,623, substantially all of which relates to applying the fair value option to the Company's long-term liabilities. The Company recorded all unamortized debt issuance costs relating to debt for which the Company elected the fair value option on January 1, 2008 as an adjustment to opening retained earnings. Subsequent to January 1, 2008, all changes in the estimated fair value of the Company's available-for-sale securities, CDO liabilities and related interest rate swaps, senior unsecured notes, senior convertible notes, junior unsecured notes and junior subordinated notes are recorded in earnings.

Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (“FAS 161”). This statement amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“FAS 133”). This statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. FAS 161 will be effective for the Company on January 1, 2009. Management is currently evaluating the effects that FAS 161 will have on the disclosures included in the Company’s consolidated financial statements.

Reverse Repurchase Agreements

In February 2008, the FASB issued FASB Staff Position ("FSP") FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* ("FSP 140-3"). This FSP addresses the accounting for the transfer of financial assets and a subsequent repurchase financing and shall be effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those years. The FSP focuses on the circumstances that would permit a transferor and a transferee to separately evaluate the accounting for a transfer of a financial asset and a repurchase financing under SFAS No. 140, *Accounting for Transfers and Securing of Financial Assets and Extinguishment of Liabilities* ("FAS 140").

This FSP states that a transfer of a financial asset and a repurchase agreement involving the transferred financial asset should be considered part of the same arrangement when the counterparties to the two transactions are the same unless certain criteria are met. The criteria in the FSP are intended to identify whether (1) there is a valid and distinct business or economic purpose for entering separately into the two transactions and (2) the repurchase financing does not result in the initial transferor regaining control over the previously transferred financial assets. The FASB has stated that this FSP's purpose is to limit diversity of practice in accounting for these situations, resulting in more consistent financial reporting. This FSP shall be applied prospectively to initial transfers and repurchase financings for which the initial transfer is executed on or after the beginning of the fiscal year in which this FSP is initially applied.

Currently, the Company records such assets and the related financing gross on its consolidated statement of financial condition, and the corresponding interest income and interest expense gross on its consolidated statement of operations. However, in a transaction in which securities are acquired from and financed under a repurchase agreement with the same counterparty, the acquisition may not qualify as a sale under the provisions of FAS 140. In such cases, the seller may be required to continue to consolidate the assets sold to the Company, based on their continuing involvement with such investments. The Company has not completed its evaluation of the impact of this FSP, but the Company may be precluded from presenting the assets gross on the Company's consolidated statement of financial condition and may be instead required to treat the Company's net investment in such assets as a derivative. If it is determined that these transactions should be treated as derivatives, the derivative instruments entered into by the Company to hedge the Company's interest rate exposure with respect to the borrowings under the associated repurchase agreements may no longer qualify for hedge accounting, and would then, as with the underlying asset transactions, also be marked to market through the consolidated statement of operations. This potential change in accounting treatment does not affect the economics of the transactions but does affect how the transactions would be reported on the Company's consolidated financial statements. The Company's cash flows, liquidity and ability to pay a dividend would be unchanged, and the Company does not believe its REIT taxable income or REIT status would be affected. The Company believes stockholders' equity would not be materially affected. At June 30, 2008, the Company has identified securities held-for-trading with a fair value of approximately $126,005 which had been purchased from and financed with reverse repurchase agreements totaling approximately $116,642 with the same counterparty since their purchase. If the Company were required to change the current accounting treatment for these transactions at June 30, 2008 to that required by this FSP, total assets and total liabilities would be reduced by approximately $116,642.

Investment Companies

In June 2007, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*. This SOP provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide- Investment Companies (the "Guide"). Entities that are within the scope of the Guide are required, among other things, to carry their investments at fair value, with changes in fair value included in earnings. On February 14, 2008, the FASB decided to indefinitely defer the effective date of this SOP.

Variable Interest Entities

The consolidated financial statements include the financial statements of the Company and its subsidiaries, which are wholly owned or controlled by the Company or entities which are variable interest entities (“VIE”) in which the Company is the primary beneficiary under FASB Interpretation No. 46 (revised), *Consolidation of Variable Interest Entities* (“FIN 46R”). FIN 46R requires a VIE to be consolidated by its primary beneficiary. The primary beneficiary is the party that absorbs the majority of the VIE's anticipated losses and/or the majority of the expected returns. All intercompany balances and transactions have been eliminated in consolidation.

The Company considers the CMBS where it maintains the right to control the foreclosure/workout process on the underlying loans as controlling class CMBS ("Controlling Class"). The Company has analyzed the governing pooling and servicing agreements for each of its Controlling Class CMBS and believes that the terms are industry standard and are consistent with the qualifying special-purpose entity ("QSPE") criteria. As a result, the Company does not consolidate these entities.

In April 2008, the FASB voted to eliminate QSPEs from the guidance in SFAS 140 and to remove the scope exception for QSPEs from FIN 46R. This will require that VIEs previously accounted for as QSPEs to be analyzed for consolidation according to FIN 46R. The FASB also proposed that an entity review VIEs at each reporting period to reconsider whether an entity is a VIE and to determine the primary beneficiary. While the revised standards have not been finalized and the Board’s proposals will be subject to a public comment period, this change may affect the Company’s consolidated financial statements as the Company may be required to consolidate entities that had previously been determined to qualify as QSPEs. The FASB proposed that the amendments to SFAS 140 and FIN 46R be effective for new and existing transactions for fiscal years and interim periods beginning after November 15, 2009. The Company will continue to evaluate the impact of these changes on its consolidated financial statements once these changes to current GAAP become finalized.

Convertible Debt Instruments

In May 2008, FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (“FSP APB 14-1”) was issued. FSP APB 14-1 applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement of the conversion option. FSP APB 14-1 requires bifurcation of the instrument into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity. The liability component of the debt instrument is accreted to par using the effective yield method; accretion is reported as a component of interest expense. The equity component is not subsequently re-valued as long as it continues to qualify for equity treatment under EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock*. FSP APB 14-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is not permitted. The FSP is to be applied retrospectively to all past periods presented — even if the instrument has matured, converted, or otherwise been extinguished as of the FSP's effective date. The Company is currently evaluating the impact of adopting FSP APB 14-1 on the consolidated financial statements.

Note 2 **NET INCOME PER SHARE**

Net income per share is computed in accordance with SFAS No. 128, *Earnings Per Share*. Basic income per share is calculated by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted income per share is calculated using the weighted average number of shares of common stock outstanding during the period plus the additional dilutive effect of common stock equivalents. The dilutive effect of outstanding stock options is calculated using the treasury stock method, and the dilutive effect of convertible senior notes and cumulative convertible redeemable preferred stock is calculated using the "if converted" method.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Numerator:				
Numerator for basic earnings per share	$ 25,244	$ 20,650	$ 78,977	$ 44,653
Interest expense on convertible senior notes	2,370	-	4,683	-
Dividends on Series E convertible stock	1,929	-	1,929	-
Numerator for diluted earnings per share	$ 29,543	$ 20,650	$ 85,589	$ 44,653
Denominator:				
Denominator for basic earnings per share—weighted average common shares outstanding	69,458,370	59,568,356	66,437,973	58,715,762
Dilutive effect of stock options	-	2,480	-	2,760
Assumed conversion of convertible senior notes	7,416,680	-	7,416,680	-
Assumed conversion of Series E convertible preferred stock	8,604,781	-	4,302,390	-
Dilutive effect of stock based incentive fee	366,545	320,632	183,273	160,315
Denominator for diluted earnings per share—weighted average common shares outstanding and common stock equivalents outstanding	85,846,376	59,891,468	78,340,316	58,878,837
Basic net income per weighted average common share:	$ 0.36	$ 0.35	$ 1.19	$ 0.76
Diluted net income per weighted average common share and common share equivalents:	$ 0.34	$ 0.34	$ 1.09	$ 0.76

Total anti-dilutive stock options excluded from the calculation of net income per share were 10,000 for the three and six months ended June 30, 2008. Total anti-dilutive stock options excluded from the calculation of net income per share were 1,380,151 for the three and six months ended June 30, 2007.

Note 3 **FAIR VALUE DISCLOSURES**

The Company adopted FAS 157 as of January 1, 2008, which requires, among other things, enhanced disclosures about financial instruments that are measured and reported at fair value. Financial instruments include the Company's securities classified as held-for-trading, long-term liabilities as well as derivatives accounted for at fair value.

The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment utilized in measuring fair value.

FAS 157 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. Instruments are categorized based on the lowest level input that is significant to the valuation. The three broad levels defined by the FAS 157 hierarchy are as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities at the reporting date. Level 1 assets include highly liquid cash instruments with quoted prices such as agency securities, listed equities and money market securities, as well as listed derivative instruments.

Level 2 - Pricing inputs other than quoted prices included within Level 1 that are observable for substantially the full term of the asset or liability, either directly or indirectly. Level 2 assets include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies. Instruments which are generally included in this category are corporate bonds and loans, mortgage whole loans, municipal bonds and OTC derivatives. The Company has determined that the following instruments are Level 2: interest rate swaps, currency swaps and foreign currency forward commitments.

Level 3 - Instruments that have little to no pricing observability as of the reported date. These financial instruments do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. Instruments in this category generally include assets and liabilities for which there is little, if any, current market activity. The Company's investments in this category include investment grade CMBS, subordinated CMBS and all of the Company's long-term liabilities. The fair values of certain assets are determined by references to index pricing. However, for certain assets, index prices for identical or similar assets are not available. In these cases, management uses broker quotes as being indicative of fair values. Management also uses broker quotes for CDO liabilities. Broker quotes are only indicative of fair value, and do not necessarily represent what the Company would receive in an actual trade for the applicable instrument. The Company has classified these assets and liabilities as Level 3 as of June 30, 2008 due to the lack of current market activity. The Company believes that it may be appropriate to transfer these assets and liabilities to Level 2 in subsequent periods if market activity returns to normalized levels and observable inputs become available.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following table summarizes the valuation of our financial instruments by the above FAS 157 pricing observability levels as of June 30, 2008. Assets and liabilities measured at fair value on a recurring basis are categorized below based upon the lowest level of significant input to the valuations.

	Assets at Fair Value as of June 30, 2008			
	Level 1	Level 2	Level 3	Total
Subordinated CMBS	$ -	$ -	$ 797,327	$ 797,327
Investment grade CMBS	-	-	1,104,751	1,104,751
RMBS	-	-	973	973
Derivative instruments	-	406,202	-	406,202
Investments in equity of subsidiary trusts*	-	-	2,210	2,210
Total	$ -	$ 406,202	$ 1,905,261	$ 2,311,463

* Included as a component of other assets on the consolidated statements of financial condition.

	Liabilities at Fair Value as of June 30, 2008			
	Level 1	Level 2	Level 3	Total
Senior unsecured notes	$ -	$ -	$ 85,204	$ 85,204
Senior convertible notes	-	-	71,160	71,160
Junior unsecured notes	-	-	35,611	35,611
Junior subordinated notes	-	-	72,829	72,829
CDOs	-	-	1,252,224	1,252,224
Derivative instruments	-	433,850	-	433,850
Total	$ -	$ 433,850	$ 1,517,028	$ 1,950,878

The following table presents the changes in Level 3 assets for the three months ended June 30, 2008:

	Subordinated CMBS	Investment grade CMBS	RMBS	Junior Subordinated Notes
Balance at April 1, 2008	$ 808,510	$ 1,072,749	$ 1,009	$ 2,093
Net purchases (sales)	(1,870)	(14,480)	(59)	-
Net transfers in (out)	-	-	-	-
Gains (losses) included in earnings	(8,573)	45,885	23	117
Gains included in OCI [(1)]	(740)	597	-	-
Balance at June 30, 2008	$ 797,327	$ 1,104,751	$ 973	$ 2,210
Amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2008 [(2)]	$ (7,376)	$ 47,519	$ 23	$ 117
Amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2008 [(3)]	$ (1,197)	$ (1,634)	$ -	$ -

[(1)] The Company has a foreign subsidiary that has the Euro as its functional currency. Gains (losses) in OCI represent the currency translation adjustments for this subsidiary.

(2) Recorded in “unrealized loss on securities-held-for trading” in the consolidated statement of operations.

(3) Recorded in “foreign currency gain (loss)” in the consolidated statement of operations.

The following table presents the changes in Level 3 assets for the six months ended June 30, 2008:

	Subordinated CMBS	Investment grade CMBS	RMBS	Junior Subordinated Notes
Balance at January 1, 2008	$ 1,028,153	$ 1,245,998	$ 10,183	$ 3,135
Net purchases (sales)	954	(68,321)	(9,282)	-
Net transfers in (out)	-	-	-	-
Gains (losses) included in earnings	(239,508)	(76,253)	72	(925)
Gains included in OCI [1]	7,728	3,327	-	-
Balance at June 30, 2008	$ 797,327	$ 1,104,751	$ 973	$ 2,210
Amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2008 [2]	$ (245,381)	$ (79,549)	$ 72	$ (925)
Amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2008 [3]	$ 5,873	$ 3,296	$ -	$ -

(1) The Company has a foreign subsidiary that has the Euro as its functional currency. Gains (losses) in OCI represent the currency translation adjustments for this subsidiary.

(2) Recorded in “unrealized loss on securities-held-for trading” in the consolidated statement of operations.

(3) Recorded in “foreign currency gain (loss)” in the consolidated statement of operations.

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The following table presents the changes in Level 3 liabilities for the three months ended June 30, 2008:

	CDOs	Senior unsecured notes	Senior convertible notes	Junior unsecured notes	Trust preferred
Balance at April 1, 2008	$ 1,216,289	$ 80,864	$ 67,696	$ 34,122	$ 68,986
Paydowns	(20,168)	-	-	-	-
Net transfers in (out)	-	-	-	-	-
Gains included in earnings	58,475	4,340	3,464	1,489	3,843
Losses included in OCI (1)	(2,372)	-	-	-	-
Balance at June 30, 2008	1,252,224	85,204	71,160	35,611	72,829
Amount of total gains for the period included in earnings attributable to the change in unrealized gains relating to liabilities still held at June 30, 2008 (2)	58,475	4,340	3,464	1,939	3,843
Amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to liabilities still held at June 30, 2008 (3)	$ -	$ -	$ -	$ (450)	$ -

(1) The Company has a foreign subsidiary that has the Euro as its functional currency. Gains (losses) in OCI represent the currency translation adjustments for this subsidiary.

(2) Recorded in "unrealized gain on liabilities" in the consolidated statement of operations.

(3) Recorded in "foreign currency gain (loss)" in the consolidated statement of operations.

The following table presents the changes in Level 3 liabilities for the six months ended June 30, 2008:

	CDOs	Senior unsecured notes	Senior convertible notes	Junior unsecured notes	Trust preferred
Balance at January 1, 2008	$ 1,598,502	$ 114,473	$ 70,186	$ 44,833	$ 103,312
Paydowns	(43,603)	-	-	-	-
Net transfers in (out)	-	-	-	-	-
Gains included in earnings	(332,582)	(29,269)	974	(9,222)	(30,483)
Losses included in OCI (1)	29,907	-	-	-	-
Balance at June 30, 2008	1,252,224	85,204	71,160	35,611	72,829
Amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to liabilities still held at June 30, 2008 (2)	(332,582)	(29,269)	974	(14,897)	(30,483)
Amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to liabilities still held at June 30, 2008 (3)	$ -	$ -	$ -	$ 5,675	$ -

(1) The Company has a foreign subsidiary that has the Euro as its functional currency. Gains (losses) in OCI represent the currency translation adjustments for this subsidiary.

(2) Recorded in "unrealized gain on liabilities" in the consolidated statement of operations.

(3) Recorded in "foreign currency gain (loss)" in the consolidated statement of operations.

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Assets measured at fair value on a nonrecurring basis

Certain assets are measured at fair value on a nonrecurring basis, meaning that the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The following table presents the asset carried on the consolidated statement of financial condition by caption and by level within the FAS 157 valuation hierarchy as of June 30, 2008, for which a nonrecurring change in fair value has been recorded during the six months ended June 30, 2008:

	Level 1	Level 2	Level 3	Carrying Value
Commercial mortgage loan(1)	$ -	$ -	$ -	$ -
Total assets at fair value on a nonrecurring basis	-	-	-	-

(1) The Company recorded a provision for loan loss in the amount of $25,190 for the six months ended June 30, 2008. This provision relates to one loan with a principal balance of $25,000 and accrued interest of $190. This charge resulted in one loan that was identified as impaired and for which the fair value was zero at June 30, 2008.

Fair Value Option

On January 1, 2008, the Company adopted FAS 159 which provides an option to elect fair value as an alternative measurement for selected financial assets or liabilities not previously recorded at fair value. The fair value option was elected for these assets and liabilities to align the measurement attributes of both the assets and liabilities while mitigating volatility in earnings from using different measurement attributes.

The following table presents information about the eligible instruments for which the Company elected the fair value option and for which a transition adjustment was recorded as of January 1, 2008:

	Carrying Value at January 1, 2008	Transition Adjustment to Retained Earnings (Distributions in Excess of Earnings)	Carrying Value at January 1, 2008 (After Adoption of FAS 159)
Securities held-for-trading (1)	$ 2,284,334	$ (227,635)	$ 2,284,334
CDO interest rate swaps (1)	(25,410)	(25,410)	(25,410)
Liability issuance costs	35,137	(35,137)	-
Senior unsecured notes	(162,500)	48,027	(114,473)
Senior convertible notes	(80,000)	9,814	(70,186)
Junior unsecured notes	(73,103)	28,269	(44,834)
Investments in equity of subsidiary trusts	5,477	(2,342)	3,135
Junior subordinated notes	(180,477)	77,165	(103,312)
CDOs	(1,823,328)	224,827	(1,598,501)
Cumulative effect of the adoption of the fair value option		$ 97,578	

(1) Prior to January 1, 2008, the Company's CDO interest rate swaps and the majority of the Company's securities were classified as available-for-sale and carried at fair value. Accordingly, the election of the fair value option for these swaps and securities did not change their carrying value and resulted in a reclassification from OCI to opening distributions in excess of earnings.

Valuation

Provided below is a summary of the valuation techniques employed with respect to financial instruments measured at fair value utilizing methodologies other than quoted prices in active markets:

Investments in mortgage backed securities and derivative instruments - The fair value of these assets is determined by reference to index pricing and market prices provided by certain dealers who make a market in these financial instruments, although such markets may not be active. Broker quotes are only indicative of fair value, and do not necessarily represent what the Company would receive in an actual trade for the applicable instrument. The Company performs additional analysis on prices received based on broker quotes. This process includes analyzing the securities based on vintage year, rating and asset type and converting the price received to a spread. The calculated spread is then compared to market information available for securities of similar type, vintage year and rating. The Company utilizes this process to validate the prices received from brokers and adjustments are made as deemed necessary by management to capture current market information.

Collateralized debt obligations - The fair value of these liabilities are based on market prices provided by certain dealers who make a market in this sector, although such markets may be inactive. The dealers use models that considered, among other things, (i) anticipated cash flows (ii) current market credit spreads, (iii) known and anticipated credit issues of underlying collateral (iv) term and reinvestment period and (v) market transactions of similar bonds. The Company performs additional analysis on prices received from the brokers. This process includes analyzing the securities based on vintage year, rating and asset type and converting the price received to a spread. The calculated spread is then compared to market information available for securities of similar type, vintage year and rating and adjustments are made as deemed necessary by management to capture current market information.

Senior convertible notes - The Company used the mid-point of a bid/ask price obtained from a dealer in this market. The bid/ask price represented the price the counterparty was willing to transact at on the measurement date of June 30, 2008 understanding that it is an over the counter market that requires direct communication with the counterparty to execute the transaction. The counterparty utilizes a model to publish such price and consideration into such model include, among other things (i) anticipated cash flows, (ii) current market credit spreads and (iii) market transactions of similar bonds.

Senior and junior unsecured notes and trust preferred securities - The estimated fair values of these liabilities were developed based on the price obtained by the Company for the senior convertible notes. The senior convertible notes are senior to the unsecured and trust preferred securities. The Company priced the senior convertible bond without the conversion option to obtain a straight bond price, converted that price to a spread to swaps and then applied an additional spread to account for the fact that these liabilities were junior to those notes. The Company was able to compare the change in implied spreads for these bonds to published spreads for CMBS securities which was deemed to be a reasonable comparison for these liabilities.

Note 4 SECURITIES HELD-FOR TRADING

Upon adoption of FAS 159 as of January 1, 2008, the Company elected the fair value option for all of its securities that were previously classified as available-for-sale. As a result, all securities are now classified as held-for-trading. This reclassification adjustment did not result in a change to the Company's intent as it relates to these securities. For the three and six months ended June 30, 2008, respectively, $44,453 and $(325,327) were recorded as unrealized gain (loss) on the securities and is included in gain (loss) on securities held-for-trading on the consolidated statement of operations. The estimated fair value of securities held-for-trading at June 30, 2008 is summarized as follows:

Security Description		Estimated Fair Value
U.S. Dollar Denominated:		
CMBS:		
Investment grade CMBS	$	694,844
Non-investment grade rated subordinated CMBS		456,261
Non-rated subordinated CMBS		85,804
CMBS interest only securities ("IOs")		4,427
Credit tenant leases		23,030
Investment grade REIT debt		205,846
Multifamily agency securities		357
CDO investments - investment grade		2,840
CDO investments - non-investment grade		32,733
Total CMBS		1,506,142
RMBS:		
Residential CMOs		555
Hybrid adjustable rate mortgages ("ARMs")		418
Total RMBS		973
Total U.S. dollar denominated		1,507,115
Non-U.S. Dollar Denominated:		
Investment grade CMBS		173,407
Non-investment grade rated subordinated CMBS		193,271
Non-rated subordinated CMBS		29,258
Total non-U.S. dollar denominated		395,936
Total securities held-for-trading	$	1,903,051

At June 30, 2008, an aggregate of $1,847,589 in estimated fair value of the Company's securities held-for-trading was pledged to secure its collateralized borrowings.

The CMBS held by the Company consist of subordinated securities collateralized by adjustable and fixed rate commercial and multifamily mortgage loans. The CMBS provide credit support to the more senior classes of the related commercial securitization. The Company generally does not own the senior classes of its below investment grade CMBS. Cash flows from the mortgages underlying the CMBS generally are allocated first to the senior classes, with the most senior class having a priority entitlement to cash flow. Then, any remaining cash flow is allocated generally among the other CMBS classes in order of their relative seniority. To the extent there are defaults and unrecoverable losses on the underlying mortgages, resulting in reduced cash flows, the most subordinated CMBS class will bear this loss first. To the extent there are losses in excess of the most subordinated class' stated entitlement to principal and interest, the remaining CMBS classes will bear such losses in order of their relative subordination.

At June 30, 2008, the anticipated reported yield based upon the adjusted cost of the Company's entire subordinated CMBS portfolio was 10.00% per annum. The anticipated reported yield of the Company's investment grade securities was 6.9%. The Company's anticipated yields to maturity on its subordinated CMBS and other securities are based upon a number of assumptions that are subject to certain business and economic uncertainties and contingencies. Examples of these uncertainties include, among other things, the rate and timing of principal payments (including prepayments, repurchases, defaults, liquidations, and related expenses), the pass-through or coupon rate, and interest rate fluctuations. Additional factors that may affect the Company's anticipated yields to maturity on its Controlling Class CMBS include interest payment shortfalls due to delinquencies on the underlying mortgage loans, and the timing and magnitude of credit losses on the mortgage loans underlying the Controlling Class CMBS that are a result of the general condition of the real estate market (including competition for tenants and their related credit quality), and changes in market rental rates. As these uncertainties and contingencies are difficult to predict and are subject to future events that may alter these assumptions, no assurance can be given that the anticipated yields to maturity, discussed above and elsewhere in this report, will be achieved.

Note 5 COMMERCIAL MORTGAGE LOANS

The following table summarizes the Company’s commercial real estate loan portfolio by property type at June 30, 2008 and December 31, 2007:

	Loan Outstanding				Weighted	
	June 30, 2008		December 31, 2007		Average Yield	
Property Type	Amount	%	Amount	%	2008	2007
U.S.						
Retail	$ 52,437	5.30%	$ 52,209	5.3%	9.6%	9.6%
Office	45,549	4.6	45,640	4.6	10.3	10.3
Multifamily	175,301	17.6	174,873	17.8	9.9	9.7
Storage	32,159	3.2	32,307	3.3	9.1	9.1
Land(1)	-	-	25,000	2.5	-	9.6
Hotel	12,302	1.2	12,208	1.2	10.4	10.9
Other Mixed Use	3,994	0.4	3,983	0.5	8.5	8.5
Total U.S.	321,742	32.4	346,220	35.2	9.8	9.7
Non-U.S.						
Retail	293,915	29.6	278,669	28.3	8.7	8.9
Office	255,904	25.8	238,691	24.3	8.4	8.8
Multifamily	44,139	4.4	41,403	4.2	8.5	8.6

Storage	51,352	5.2	51,272	5.2	9.2	9.5
Industrial	17,202	1.7	17,274	1.8	10.3	10.6
Hotel	4,175	0.4	5,016	0.5	10.0	10.1
Other Mixed Use	4,953	0.5	4,842	0.5	9.0	9.0
Total Non-U.S.	671,640	67.6	637,167	64.8	8.7	8.9
Total	$ 993,382	100.00%	$ 983,387	100.00%	9.00%	9.20%

(1) Net of a loan loss reserve of $25,000 at June 30, 2008.

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As of June 30, 2008, the Company’s loans had the following maturity characteristics:

Year of maturity	Number of loans maturing	Current carrying value	% of total
2008	1	35,921	3.6%
2009	-	-	0.0%
2010	3	24,783	2.5%
2011	15	304,444	30.6%
2012	18	264,058	26.6%
Thereafter	23	364,176	36.7%
Total	60	993,382	100.0%

Activity for the six months ended June 30, 2008 was as follows:

		Book Value
Balance at December 31, 2007	$	983,387
Investments in commercial mortgage loans		2,286
Proceeds from repayment of mortgage loans		(14,140)
Provision for loan loss		(25,000)
Foreign currency		42,863
Discount accretion, net		3,986
Balance at June 30, 2008	$	993,382

The Company recorded a provision for loan losses of $25,190 for the six months ended June 30, 2008. This provision relates to one loan with a principal balance of $25,000 and accrued interest of $190. The loan is in default and due to the reduction in value of the underlying collateral below the principal balance of the loan, the Company believes the collectibility of the loan is not probable.

Changes in the reserve for possible loan losses were as follows:

Provision for possible loan losses, December 31, 2007	$	-
Provision for loan losses		25,190
Reserve for possible loan losses, June 30, 2008	$	25,190

Subsequent to June 30, 2008, one of the Company's mezzanine loans with a carrying value of $35,921 defaulted. The borrower executed a standstill agreement which is being extended to allow time to conclude an extension agreement. As of June 30, 2008, the Company concluded that a loan loss reserve is not necessary.

Note 6 COMMERCIAL MORTGAGE LOAN POOLS

During the second quarter of 2004, the Company acquired subordinated CMBS in a trust representing a Controlling Class interest. The Company obtained a greater degree of influence over the disposition of the commercial mortgage loans than is typically granted to the special servicer. As a result of this expanded influence, the trust was not a QSPE and FIN 46R required the Company to consolidate the assets, liabilities and results of operations of the trust.

Approximately 45% of the par amount of the commercial mortgage loan pool is comprised of investment grade loans and the remaining 55% are unrated. For income recognition purposes, the Company considers investment grade and unrated commercial mortgage loans in the pool as single assets reflecting the credit assumptions made in establishing loss adjusted yields for Controlling Class securities. The Company has taken into account the credit quality of the underlying loans in formulating its loss assumptions.

Over the life of the commercial mortgage loan pools, the Company reviews and updates its loss assumptions to determine the impact on expected cash flows to be collected. A decrease in estimated cash flows will reduce the amount of interest income recognized in future periods and would result in an impairment charge recorded on the consolidated statement of operations. An increase in estimated cash flows will increase the amount of interest income recorded in future periods.

Note 7 IMPAIRMENTS - CMBS

The Company updates its estimated cash flows for securities subject to Emerging Issues Task Force Issue 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets* ("EITF 99-20"), on a quarterly basis. Prior to the adoption of FAS 159, an impairment charge was required under EITF 99-20 if the updated yield was lower than the current accrual yield and the security had a market value less than its adjusted purchase price. The Company carries these securities at their estimated fair value on its consolidated statements of financial condition.

For the six months ended June 30, 2007, changes in timing of assumed credit loss and prepayments on three CMBS required an impairment charge totaling $2,777. Also, the Company increased its underlying loss expectations for one below investment grade European CMBS during the six months ended June 30, 2007, resulting in an additional impairment charge of $1,321.

As a result of the adoption of FAS 159 on January 1, 2008, the Company will no longer assess securities elected under the fair value option for other-than-temporary impairment because the changes in fair value are recorded in the statement of operations rather than as an adjustment to OCI in stockholders' equity.

Note 8 **EQUITY INVESTMENTS**

The following table is a summary of the Company's equity investments for the six months ended June 30, 2008:

	Carbon I	Carbon II	Dynamic India Fund IV *	AHR JV	AHR Int'l JV	Total
Balance at December 31, 2007	$ 1,636	$ 97,762	$ 9,350	$ -	$ -	$ 108,748
Contributions to investments	-	-	-	1,137	30,886	32,023
Equity earnings	75	(600)	-	(48)	16	(557)
Distributions of earnings	-	(1,904)	-	-	-	(1,904)
Balance at June 30, 2008	$ 1,711	$ 95,258	$ 9,350	$ 1,089	$ 30,902	$ 138,310

* The Company neither controls nor has significant influence over the Dynamic India Fund IV and accounts for this investment using the cost method of accounting. The Company invested $3,300 in the Dynamic India Fund IV in the fourth quarter of 2007 that did not settle until the first quarter of 2008.

At June 30, 2008, the Company owned approximately 20% of Carbon Capital, Inc. ("Carbon I"). The Company also owned approximately 26% of Carbon Capital II, Inc. ("Carbon II", and collectively with Carbon I, the "Carbon Capital Funds"). The Carbon Capital Funds are private commercial real estate income opportunity funds managed by the Manager (see Note 12 of the consolidated financial statements).

The Company entered into a $50,000 commitment on July 20, 2001 to acquire shares of Carbon I. On July 12, 2005, the investment period expired and Carbon I is in liquidation.

The Company entered into an aggregate commitment of $100,000 to acquire shares of Carbon II. The final obligation to fund capital of $13,346 was called on July 13, 2007.

As of June 30, 2008 Carbon II has three assets located in Florida that are in various stages of resolution. The properties consist of one hotel and two multifamily properties. Carbon II took title to one of the multifamily properties during 2007. During the six months ended June 30, 2008, Carbon II increased its loan loss reserves for two loans by $911. At June 30, 2008 the total loan loss reserve for these loans is $4,242. For the property owned, Carbon II recognized an impairment charge of $5,181 during 2007.

During the first quarter of 2008, a $17,700 loan secured by four Class-A office buildings in Manhattan totaling three million square feet of space defaulted at maturity in February 2008. The loan has been restructured, modified and extended. However, Carbon II established a loan loss reserve of $17,700 during the second quarter of 2008 based upon management's assessment of the probability of recovery.

During the second quarter of 2008, a $30,000 first leasehold mortgage on a 43.9 acre tract of land in Las Vegas, zoned for commercial use, went into default. Carbon II is engaged in workout discussions, and other alternatives are being explored. Carbon II believes a loan loss reserve is not necessary at June 30, 2008. All other commercial real estate loans in Carbon II are performing as expected.

On December 22, 2005, the Company entered into an $11,000 commitment to indirectly acquire shares of Dynamic India Fund IV. At June 30, 2008, the Company’s capital committed was $11,000, of which $9,350 had been drawn.

The Company will invest up to $5,000, for up to a 10% interest, in Anthracite JV LLC (“AHR JV”). AHR JV will invest in U.S. CMBS rated higher than BB. As of June 30, 2008, the Company had invested $1,137 in AHR JV. The other member in AHR JV is managed by or otherwise associated with an affiliate of Credit Suisse.

On June 26, 2008, the Company invested $30,886 in RECP Anthracite International JV Limited (“AHR International JV”). AHR International JV will invest in investments backed by non-U.S. real estate assets. The Company will invest on a deal-by-deal basis and has no committed capital obligation. The Company is utilizing the joint venture structure to increase its capacity to invest in larger and more diverse transactions given the current market’s elevated level of risk. The other shareholder in AHR International JV is managed by or otherwise associated with an affiliate of Credit Suisse.

Note 9 BORROWINGS

The Company's borrowings consist of reverse repurchase agreements, credit facilities, CDOs, senior unsecured notes, senior convertible debt, junior unsecured notes, trust preferred securities, and commercial mortgage loan pools.

Certain information with respect to the Company's borrowings at June 30, 2008 is summarized as follows:

Borrowing Type	Market Value	Adjusted Issuance Price	Weighted Average Borrowing Rate	Weighted Average Remaining Maturity	Estimated Fair Value of Assets Pledged
Credit facilities (1)	$ 610,317	$ 610,317	4.92%	323 days	$ 858,382
Commercial mortgage loan pools	1,207,151	1,207,151			