

Resource Capital Corp.
Form 10-Q
August 09, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from _____ to _____

Commission file number: 1-32733

RESOURCE CAPITAL CORP.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction
of incorporation or organization)

20-228713487

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

712 5th Avenue, 10th Floor
New York, NY

(Address of principal executive offices)

10019

(Zip Code)

212-506-3870

(Registrant's telephone number, including area code)

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. x Yes " No

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

Large accelerated filer "

Accelerated filer o

Non-accelerated filer x

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

The number of outstanding shares of the registrant's common stock on August 6, 2007 was 25,117,235 shares.

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ON FORM 10-Q

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

| | June 30, 2007 (unaudited) | December 31, 2006 |
|--|--|------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,729 | \$ 5,354 |
| Restricted cash | 102,509 | 30,721 |
| Due from broker | - | 2,010 |
| Securities available-for-sale, at fair value | 414,474 | 420,997 |
| Loans held for investment | 1,759,686 | 1,240,288 |
| Direct financing leases and notes | 83,074 | 88,970 |
| Investments in unconsolidated entities | 1,548 | 1,548 |
| Derivatives, at fair value | 72 | - |
| Accrued interest receivable | 12,538 | 8,839 |
| Principal paydown receivables | 4,595 | 503 |
| Other assets | 4,600 | 3,599 |
| Total assets | \$ 2,385,825 | \$ 1,802,829 |
| LIABILITIES | | |
| Borrowings | \$ 2,072,786 | \$ 1,463,853 |
| Distribution payable | 10,298 | 7,663 |
| Accrued interest expense | 8,155 | 6,523 |
| Derivatives, at fair value | - | 2,904 |
| Accounts payable and other liabilities | 3,988 | 4,335 |
| Total liabilities | 2,095,227 | 1,485,278 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, par value \$0.001: 100,000,000 shares authorized; no shares issued and outstanding | - | - |
| Common stock, par value \$0.001: 500,000,000 shares authorized; 25,116,217 and 23,821,434 shares issued and outstanding (including 363,945 and 234,224 unvested restricted shares) | 25 | 24 |
| Additional paid-in capital | 356,774 | 341,400 |
| Deferred equity compensation | - | (1,072) |
| Accumulated other comprehensive loss | (51,908) | (9,279) |
| Distributions in excess of earnings | (14,293) | (13,522) |
| Total stockholders' equity | 290,598 | 317,551 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 2,385,825 | \$ 1,802,829 |

See accompanying notes to consolidated financial statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-------------------|------------------------------|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| REVENUES | | | | |
| Securities | \$ 7,908 | \$ 16,053 | \$ 15,304 | \$ 32,425 |
| Loans | 32,711 | 15,700 | 62,992 | 26,720 |
| Leases | 1,901 | 1,297 | 3,811 | 1,803 |
| Interest income – other | 910 | 1,846 | 1,311 | 3,382 |
| Interest income | 43,430 | 34,896 | 83,418 | 64,330 |
| Interest expense | 30,222 | 26,519 | 56,989 | 47,721 |
| Net interest income | 13,208 | 8,377 | 26,429 | 16,609 |
| OTHER REVENUE | | | | |
| Net realized (losses) gains on investments | (636) | 161 | (566) | (538) |
| Other income | 433 | 7 | 469 | 7 |
| Total revenues | 13,005 | 8,545 | 26,332 | 16,078 |
| EXPENSES | | | | |
| Management fees – related party | 2,027 | 1,237 | 4,059 | 2,230 |
| Equity compensation – related party | 137 | 240 | 623 | 822 |
| Professional services | 541 | 469 | 1,233 | 785 |
| Insurance | 114 | 125 | 235 | 246 |
| General and administrative | 350 | 408 | 907 | 778 |
| Total expenses | 3,169 | 2,479 | 7,057 | 4,861 |
| NET INCOME | \$ 9,836 | \$ 6,066 | \$ 19,275 | \$ 11,217 |
| NET INCOME PER SHARE – BASIC | \$ 0.40 | \$ 0.35 | \$ 0.78 | \$ 0.66 |
| NET INCOME PER SHARE – DILUTED | \$ 0.39 | \$ 0.34 | \$ 0.77 | \$ 0.65 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC | 24,704,471 | 17,580,293 | 24,569,694 | 17,099,051 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – DILUTED | 24,944,162 | 17,692,586 | 24,891,686 | 17,222,553 |
| DIVIDENDS DECLARED PER SHARE | \$ 0.41 | \$ 0.36 | \$ 0.80 | \$ 0.69 |

See accompanying notes to consolidated financial statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE
LOSS
SIX MONTHS ENDED JUNE 30, 2007
(in thousands, except share data)
(Unaudited)

| | Common Stock | | Additional Paid-In Capital | Deferred Equity Compensation | Accumulated Other Comprehensive Loss | Retained Earnings | Distributions in Excess of Earnings | Total Stockholder Equity | Comprehensive Loss |
|--|--------------|--------|----------------------------------|------------------------------------|---|----------------------|--|--------------------------------|-----------------------|
| | Shares | Amount | | | | | | | |
| Balance, January 1, 2007 | 23,821,434 | \$ 24 | \$ 341,400 | \$ (1,072) | \$ (9,279) | \$ - | \$ (13,522) | \$ 317,551 | |
| Net proceeds from common stock offerings | 650,000 | 1 | 10,134 | - | - | - | - | 10,135 | |
| Offering costs | - | - | (287) | - | - | - | - | (287) | |
| Reclassification of deferred equity compensation | - | - | (1,072) | 1,072 | - | - | - | - | |
| Stock based compensation | 270,254 | - | 358 | - | - | - | - | 358 | |
| Exercise of common stock warrant | 374,529 | - | 5,618 | - | - | - | - | 5,618 | |
| Amortization of stock based compensation | - | - | 623 | - | - | - | - | 623 | |
| Net income | - | - | - | - | - | 19,275 | - | 19,275 | \$ 19,275 |
| Securities available-for- sale, fair value adjustment | - | - | - | - | (48,173) | - | - | (48,173) | (48,173) |
| Designated derivatives, fair value adjustment | - | - | - | - | 5,544 | - | - | 5,544 | 5,544 |
| Distributions - Common Stock | - | - | - | - | - | (19,275) | (771) | (20,046) | - |
| Comprehensive loss | - | - | - | - | - | - | - | - | \$ (23,354) |
| Balance, June 30, 2007 | 25,116,217 | \$ 25 | \$ 356,774 | \$ - | \$ (51,908) | \$ - | \$ (14,293) | \$ 290,598 | |

See accompanying notes to consolidated financial statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|-----------|
| | 2007 | 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 19,275 | \$ 11,217 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 364 | 140 |
| Amortization of discount on investments, net | (334) | (154) |
| Amortization of debt issuance costs | 1,091 | 627 |
| Amortization of stock based compensation | 623 | 822 |
| Non-cash incentive compensation to the manager | 551 | 108 |
| Net realized gain on derivative instruments | (13) | (881) |
| Net realized loss on investments | 566 | 538 |
| Changes in operating assets and liabilities: | | |
| Increase in restricted cash | (71,788) | (9,943) |
| Increase in accrued interest receivable, net of purchased interest | (2,350) | (647) |
| Decrease in due from broker | 2,010 | 525 |
| (Increase) decrease in principal paydowns receivable | (4,092) | 2,010 |
| Increase in management and incentive fee payable | 8 | 41 |
| (Decrease) increase in security deposits | (14) | 1,191 |
| (Decrease) increase in accounts payable and accrued liabilities | (789) | 218 |
| Increase (decrease) in accrued interest expense | 1,372 | (1,467) |
| Increase in other assets | (1,110) | (1,517) |
| Net cash (used in) provided by operating activities | (54,630) | 2,828 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of securities available-for-sale | (69,488) | (7,724) |
| Principal payments on securities available-for-sale | 6,970 | 79,099 |
| Proceeds from sale of securities available-for-sale | 29,867 | 131,577 |
| Purchase of loans | (1,069,897) | (541,523) |
| Principal payments received on loans | 390,500 | 86,979 |
| Proceeds from sales of loans | 149,346 | 63,769 |
| Purchase of direct financing leases and notes | (9,715) | (62,506) |
| Principal payments received on direct financing leases and notes | 12,351 | 8,408 |
| Proceeds from sale of direct financing leases and notes | 3,320 | - |
| Purchase of property and equipment | - | (5) |
| Net cash used in investing activities | (556,746) | (241,926) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from issuance of common stock (net of offering costs of \$287 and \$2,384) | 15,466 | 27,281 |
| Proceeds from borrowings: | | |
| Repurchase agreements | 388,827 | 4,853,067 |
| Collateralized debt obligations | 660,565 | 262,500 |
| Secured term facility | 9,158 | 75,645 |
| Unsecured revolving credit facility | 5,000 | - |

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| | | | |
|---|-----------------|-----------|-----------------|
| Payments on borrowings: | | | |
| Repurchase agreements | (425,933) | | (4,986,522) |
| Secured term facility | (12,896) | | (2,303) |
| Unsecured revolving credit facility | (5,000) | | (15,000) |
| Proceeds from issuance of unsecured junior subordinated debenture to subsidiary | | | |
| trust issuing preferred securities | – | | 25,000 |
| Settlement of derivative instruments | 2,581 | | 881 |
| Payment of debt issuance costs | (11,606) | | (4,008) |
| Distributions paid on common stock | (17,411) | | (11,524) |
| Net cash provided by financing activities | 608,751 | | 225,017 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (2,625) | | (14,081) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 5,354 | | 17,729 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 2,729 | \$ | 3,648 |

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
(in thousands)
(Unaudited)

| | Six Months Ended | |
|---|-------------------------|--------------|
| | June 30, | |
| | 2007 | 2006 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Distributions on common stock declared but not paid | \$ 10,298 | \$ 6,413 |
| Unsettled security purchases – Due to broker | \$ – | \$ 771 |
| Issuance of restricted stock | \$ 4,051 | \$ – |
| Purchase of loans on warehouse line | \$ (311,069) | \$ (222,577) |
| Proceeds from warehouse line | \$ 311,069 | \$ 222,577 |
| SUPPLEMENTAL DISCLOSURE: | | |
| Interest expense paid in cash | \$ 58,672 | \$ 66,258 |

See accompanying notes to consolidated financial statements

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007
(Unaudited)

NOTE 1 – ORGANIZATION AND BASIS OF QUARTERLY PRESENTATION

Resource Capital Corp. and subsidiaries (the “Company”) principal business activity is to purchase and manage a diversified portfolio of commercial real estate-related assets and commercial finance assets. The Company’s investment activities are managed by Resource Capital Manager, Inc. (“Manager”) pursuant to a management agreement (“Management Agreement”). The Manager is a wholly-owned indirect subsidiary of Resource America, Inc. (“RAI”) (Nasdaq: REXI).

The Company has three direct wholly-owned subsidiaries: RCC Real Estate, Inc. (“RCC Real Estate”), RCC Commercial, Inc. (“RCC Commercial”) and Resource TRS, Inc. (“Resource TRS”). RCC Real Estate holds real estate investments, including commercial real estate loans. RCC Commercial holds bank loan investments and real estate investments, including commercial and residential real estate-related securities. Resource TRS holds all the Company’s equipment leases and notes. RCC Real Estate owns 100% of the equity interest in Resource Real Estate Funding CDO 2006-1 (“RREF 2006-1”), a Cayman Islands limited liability company and qualified real estate investment trust (“REIT”) subsidiary (“QRS”). RREF 2006-1 was established to complete a collateralized debt obligation (“CDO”) issuance secured by a portfolio of commercial real estate loans and commercial mortgage-backed securities. RCC Real Estate also owns 100% of the equity interest in Resource Real Estate Fundings CDO 2007-1 (“RREF 2007-1”), a Cayman Islands limited liability company and QRS. RREF 2007-1 was established to complete a CDO issuance secured by a portfolio of commercial real estate loans and commercial mortgage-backed securities. RCC Commercial owns 100% of the equity interest in Apidos CDO I, Ltd. (“Apidos CDO I”), a Cayman Islands limited liability company and taxable REIT subsidiary (“TRS”). Apidos CDO I was established to complete a CDO secured by a portfolio of bank loans. RCC Commercial also owns 100% of the equity interest in Apidos CDO III, Ltd. (“Apidos CDO III”), a Cayman Islands limited liability company and TRS. Apidos CDO III was established to complete a CDO secured by a portfolio of bank loans. RCC Commercial also owns 100% of the equity interest in Apidos Cinco CDO, Ltd. (“Apidos Cinco CDO”), a Cayman Islands limited liability company and TRS. Apidos Cinco CDO was established to complete a CDO secured by a portfolio of bank loans. Additionally, RCC Commercial owns 100% of the equity interest in Ischus CDO II, Ltd. (“Ischus CDO II”), a Cayman Islands limited liability company and QRS. Ischus CDO II was established to complete a CDO issuance secured by a portfolio of mortgage-backed and other asset-backed securities.

The consolidated financial statements and the information and tables contained in the notes to the consolidated financial statements are unaudited. However, in the opinion of management, these interim financial statements include all adjustments necessary to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the period ended December 31, 2006. The results of operations for the three and six months ended June 30, 2007 may not necessarily be indicative of the results of operations for the full fiscal year ending December 31, 2007.

Certain reclassifications have been made to the 2006 consolidated financial statements to conform to the 2007 presentation.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2007
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates affecting the accompanying consolidated financial statements include the fair values of the Company's investments and derivatives and the estimated life used to calculate amortization and accretion of premiums and discounts, respectively, on investments.

Income Taxes

For financial reporting purposes, current and deferred taxes are provided for on the portion of earnings recognized by the Company with respect to its interest in Resource TRS, a domestic TRS, because it is taxed as a regular subchapter C corporation under the provisions of the Internal Revenue Code of 1986, as amended. As of June 30, 2007 and December 31, 2006, Resource TRS recognized a \$171,000 and \$67,000, respectively, provision for income taxes.

Apidos CDO I, Apidos CDO III and Apidos Cinco CDO, the Company's foreign TRSs are organized as exempted companies incorporated with limited liability under the laws of the Cayman Islands, and are generally exempt from federal and state income tax at the corporate level because their activities in the United States are limited to trading in stock and securities for their own account. Therefore, despite their status as TRSs, they generally will not be subject to corporate tax on their earnings and no provision for income taxes is required; however, because they are "controlled foreign corporations," the Company will generally be required to include Apidos CDO I's, Apidos CDO III's and Apidos Cinco CDO's current taxable income in its calculation of REIT taxable income.

Allowance for Loan and Lease Losses

At June 30, 2007, all of the Company's loans were current with respect to the scheduled payments of principal and interest. In reviewing the portfolio of loans and the observable secondary market prices, the Company did not identify any loans that exhibit characteristics indicating that permanent impairment has occurred. Accordingly, as of June 30, 2007, the Company had not recorded an allowance for loan losses.

Stock Based Compensation

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share Based Payment." Issuances of restricted stock and options are accounted for using the fair value based methodology prescribed by SFAS No. 123(R) whereby the fair value of the award is measured on the grant date and expensed monthly in stockholders' equity through an increase to additional paid-in capital and an offsetting entry to equity compensation expense – related party on the consolidated statements of income. For issuances to the Company's Manager and to non-employees, the unvested stock and options are adjusted quarterly to reflect changes in fair value as performance under the agreement is completed. For issuance to the Company's five non-employee directors, the amount is not remeasured under the fair value-based method. The compensation for each of these issuances is amortized over the service period and included in equity compensation expense.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2007
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Variable Interest Entities

During July 2005, the Company entered into warehouse and master participation agreements with an affiliate of Citigroup Global Markets Inc. (“Citigroup”) providing that Citigroup would fund the purchase of loans by Apidos CDO III. On May 9, 2006, the Company terminated its Apidos CDO III warehouse agreement with Citigroup upon the closing of the CDO. The warehouse funding liability was replaced with the issuance of long-term debt by Apidos CDO III. The Company owns 100% of the equity issued by Apidos CDO III and is deemed to be the primary beneficiary. As a result, the Company consolidated Apidos CDO III at June 30, 2007.

During January 2007, the Company entered into warehouse agreement with an affiliate of Credit Suisse Securities (USA) LLC, (“CS”) providing that CS would fund the purchase of bank loans by Apidos Cinco CDO. On May 30, 2007, the Company terminated its Apidos Cinco CDO warehouse agreement with CS upon the closing of the CDO. The warehouse facility liability was replaced with the issuance of long-term debt by Apidos Cinco CDO. The Company owns 100% of the equity issued by Apidos Cinco CDO and is deemed to be the primary beneficiary. As a result, the Company consolidated Apidos Cinco CDO at June 30, 2007.

Accounting for Certain Mortgage-Backed Securities and Related Repurchase Agreements

In certain circumstances, the Company has purchased debt investments from a counterparty and subsequently financed the acquisition of those debt investments through repurchase agreements with the same counterparty. The Company’s policy is to currently record the acquisition of the debt investments as assets and the related repurchase agreements as financing liabilities gross on the consolidated balance sheets. Interest income earned on the debt investments and interest expense incurred on the repurchase obligations are reported gross on the consolidated statements of income. However, under a certain technical interpretation of SFAS 140, “Accounting for Transfers and Servicing of Financial Assets,” such transactions may not qualify as a purchase. Management of the Company believes, based upon its determination that the method it has adopted is industry practice, that it is accounting for these transactions in an appropriate manner. However, the result of this technical interpretation would prevent the Company from presenting the debt investments and repurchase agreements and the related interest income and interest expense on a gross basis on the Company’s consolidated financial statements. Instead, the Company would present the net investment in these transactions with the counterparty as a derivative with the corresponding change in fair value of the derivative being recorded through earnings. The value of the derivative would reflect changes in the value of the underlying debt investments and changes in the value of the underlying credit provided by the counterparty. As of June 30, 2007, the Company had no transactions in mortgage-backed securities where debt instruments were financed with the same counterparty. As of December 31, 2006, the Company had one transaction where debt instruments were financed with the same counterparty.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115, (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for fiscal years beginning after November 15, 2007. The Company is currently

evaluating the impact that SFAS 159 will have on its consolidated financial statements.

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RESOURCE CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
JUNE 30, 2007
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**Recent Accounting Pronouncements – (Continued)**

In September 2006, the FASB issued SFAS No. 157 “Fair Value Measurements” (“SFAS 157”). SFAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value in GAAP and expands the disclosure of fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently determining the effect, if any, the adoption of SFAS 157 will have on its financial statements.

In July 2006, the FASB issued Interpretation No. 48, or FIN 48, “Accounting for Uncertainty in Income Taxes-An Interpretation of SFAS 109.” FIN 48 clarifies the accounting for uncertainty in income taxes by creating a framework for how companies should recognize, measure, present and disclose in their financial statements uncertain tax positions that they have taken or expect to take in a tax return. The Company adopted FIN 48 on January 1, 2007. The adoption had no material effect on the Company’s financial statements.

NOTE 3 – RESTRICTED CASH

Restricted cash consists of \$91.9 million of uninvested proceeds, an interest reserve and principal and interest payments collected on investments held in six consolidated CDO trusts, a \$6.7 million credit facility reserve used to fund future investments that will be acquired by the Company’s three closed bank loan CDO trusts and three expense reserves totaling \$200,000 used to cover CDO operating expenses. The remaining \$3.7 million consists of interest reserves and security deposits held in connection with the Company’s equipment lease and loan portfolio.

NOTE 4 – SECURITIES AVAILABLE-FOR-SALE

The following tables summarize the Company's mortgage-backed securities and other asset-backed securities, including those pledged as collateral and classified as available-for-sale, which are carried at fair value (in thousands):

| | Amortized Cost ⁽¹⁾ | Unrealized Gains | Unrealized Losses | Fair Value ⁽¹⁾ |
|--|----------------------------------|---------------------|----------------------|---------------------------|
| <u>June 30, 2007:</u> | | | | |
| ABS-RMBS | \$ 343,983 | \$ 168 | \$ (49,955) | \$ 294,196 |
| Commercial mortgage-backed | 27,943 | 2 | (1,902) | 26,043 |
| Commercial mortgage-backed private placement | 71,675 | 24 | (1,572) | 70,127 |
| REIT-TRUPS | 5,644 | – | (30) | 5,614 |
| Other asset-backed | 19,434 | – | (940) | 18,494 |
| Total | \$ 468,679 | \$ 194 | \$ (54,399) | \$ 414,474 |
| <u>December 31, 2006:</u> | | | | |
| ABS-RMBS | \$ 348,496 | | | |