NEW YORK MORTGAGE TRUST INC
Form 10-Q
August 04, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2010

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 001-32216

NEW YORK MORTGAGE TRUST, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland	47-0934168
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

52 Vanderbilt Avenue, Suite 403, New York, New York 10017
(Address of Principal Executive Office) (Zip Code)

(212) 792-0107
(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.
Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o 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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one.):

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company x

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

The number of shares of the registrant’s common stock, par value $.01 per share, outstanding on August 3, 2010 was 9,419,094.

NEW YORK MORTGAGE TRUST, INC.

FORM 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited)

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share and per share amounts)

ASSETS	June 30, 2010 (unaudited)	December 31, 2009
Investment securities - available for sale, at fair value (including pledged securities of $64,277 and $91,071, respectively)	$115,978	$176,691
Mortgage loans held in securitization trusts (net)	250,092	276,176
Cash and cash equivalents	34,039	24,522
Restricted cash	2,358	3,049
Receivable for securities sold	28,013	-
Receivables and other assets	8,429	8,376
Total Assets	$438,909	$488,814
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Financing arrangements, portfolio investments	$60,315	$85,106
Collateralized debt obligations	241,084	266,754
Derivative liabilities	1,955	2,511
Accounts payable, accrued expenses and other liabilities	5,696	6,713
Convertible preferred debentures (net)	19,925	19,851
Subordinated debentures (net)	44,981	44,892
Total liabilities	373,956	425,827
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, $0.01 par value, 400,000,000 authorized, 9,419,094 and 9,415,094, shares issued and outstanding, respectively	94	94
Additional paid-in capital	138,564	142,519
Accumulated other comprehensive income	13,529	11,818
Accumulated deficit	(87,234)	(91,444)
Total stockholders' equity	64,953	62,987
Total Liabilities and Stockholders' Equity	$438,909	$488,814

See notes to condensed consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share amounts)
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
INTEREST INCOME:				
Investment securities and loans held in securitization trusts	$5,185	$7,621	$11,406	$16,206
INTEREST EXPENSE:				
Investment securities and loans held in securitization trusts	1,284	2,047	2,676	5,177
Subordinated debentures	673	808	1,432	1,632
Convertible preferred debentures	538	608	1,200	1,145
Total interest expense	2,495	3,463	5,308	7,954
NET INTEREST INCOME	2,690	4,158	6,098	8,252
OTHER INCOME (EXPENSE):				
Provision for loan losses	(600)	(259)	(602)	(888)
Impairment loss on investment securities	-	-	-	(119)
Realized gain on investment securities and related hedges	1,291	141	2,098	264
Total other income (expense)	691	(118)	1,496	(743)
General, administrative and other expenses	2,107	1,602	3,963	3,172
INCOME FROM CONTINUING OPERATIONS	1,274	2,438	3,631	4,337
Income from discontinued operation - net of tax	268	109	579	264
NET INCOME	$1,542	$2,547	$4,210	$4,601
Basic income per common share	$0.16	$0.27	$0.45	$0.49
Diluted income per common share	$0.16	$0.27	$0.45	$0.49
Dividends declared per common share	$0.18	$0.23	$0.43	$0.41
Weighted average shares outstanding-basic	9,419	9,320	9,419	9,320
Weighted average shares outstanding-diluted	11,919	11,820	11,919	11,820

See notes to condensed consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the six months ended June 30, 2010
(dollar amounts in thousands)
(unaudited)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Comprehensive Income	Total
Balance, December 31, 2009	$ 94	$ 142,519	$ (91,444)	$ 11,818	$ -	$ 62,987
Net income	-	-	4,210	-	4,210	4,210
Restricted Stock issuance	-	95	-	-	-	95
Dividends declared	-	(4,050)	-	-	-	(4,050)
Reclassification adjustment for net gain included in net income	-	-	-	(2,016)	(2,016)	(2,016)
Increase in net unrealized gain on available for sale securities	-	-	-	2,866	2,866	2,866
Increase in fair value of derivative instruments utilized for cash flow hedges	-	-	-	861	861	861
Comprehensive income	-	-	-	-	$ 5,921	-
Balance, June 30, 2010	$ 94	$ 138,564	$ (87,234)	$ 13,529		$ 64,953

See notes to condensed consolidated financial statements.

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollar amounts in thousands)

(unaudited)

	For the Six Months Ended June 30, 2010	2009
Cash Flows from Operating Activities:		
Net income	$4,210	$4,601
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	485	710
Amortization of (discount) premium on investment securities and mortgage loans held in securitization trusts	(1,372)	193
Realized gain on securities and related hedges	(2,098)	(264)
Impairment loss on investment securities	-	119
Provision for loan losses	602	888
Lower of cost or market adjustment mortgage loans held for sale	-	306
Restricted stock issuance	95	-
Changes in operating assets and liabilities:		-
Receivables and other assets	(260)	(641)
Accounts payable, accrued expenses and other liabilities	(358)	(1,433)
Payments received on loans held for sale	16	969
Net cash provided by operating activities	1,320	5,448
Cash Flows from Investing Activities:		
Restricted cash	690	4,690
Purchases of investment securities	-	(20,669)
Proceeds from sales of investment securities	4,961	196,252
Principal repayments received on mortgage loans held in securitization trusts	25,491	33,130
Principal paydowns on investment securities - available for sale	32,328	37,806
Net cash provided by investing activities	63,470	251,209
Cash Flows from Financing Activities:		
Decrease in financing arrangements	(24,791)	(214,178)
Dividends paid	(4,710)	(2,610)
Payments made on collateralized debt obligations	(25,772)	(33,459)
Cash used in financing activities	(55,273)	(250,247)
Net Increase in Cash and Cash Equivalents	9,517	6,410
Cash and Cash Equivalents - Beginning of Period	24,522	9,387
Cash and Cash Equivalents - End of Period	$34,039	$15,797
Supplemental Disclosure:		
Cash paid for interest	$4,823	$8,537
Non-Cash Investment Activities:		
Purchase of investment securities not yet settled	$-	$683
Sale of investment securities not yet settled	$28,013	$-

Non-Cash Financing Activities:		
Dividends declared to be paid in subsequent period	$1,695	$2,143

See notes to condensed consolidated financial statements.

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010
(unaudited)

1. Summary of Significant Accounting Policies

Organization - New York Mortgage Trust, Inc., together with its consolidated subsidiaries (“NYMT”, the “Company”, “we”, “our”, and “us”), is a self-advised real estate investment trust, or REIT, in the business of acquiring and managing primarily residential adjustable-rate, hybrid adjustable-rate and fixed-rate mortgage-backed securities (“RMBS”), for which the principal and interest payments are guaranteed by a U.S. Government agency, such as the Government National Mortgage Association (“Ginnie Mae”) or a U.S. Government-sponsored entity (“GSE” or “Agency”), such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), which we refer to collectively as “Agency RMBS,” RMBS backed by prime jumbo and Alternative A-paper (“Alt-A”) (“non-Agency RMBS”), and prime credit quality residential adjustable-rate mortgage (“ARM”) loans held in securitization trusts, or prime ARM loans. The remainder of our current investment portfolio is primarily comprised of notes issued by a collateralized loan obligation (“CLO”). We also may opportunistically acquire and manage various other types of real estate-related and financial assets, including, among other things, certain non-rated residential mortgage assets, commercial mortgage-backed securities (“CMBS”), commercial real estate loans and other similar investments. Subject to maintaining our qualification as a REIT, we also may invest in debt or equity securities, which may or may not be related to real estate. We seek attractive long-term investment returns by investing our equity capital and borrowed funds in such securities. Our principal business objective is to generate net income for distribution to our stockholders resulting from the spread between the interest and other income we earn on our interest-earning assets and the interest expense we pay on the borrowings that we use to finance these assets and our operating costs, which we refer to as our net interest income.

The Company conducts its business through the parent company, NYMT, and several subsidiaries, including special purpose subsidiaries established for loan securitization purposes, a taxable REIT subsidiary ("TRS") and a qualified REIT subsidiary ("QRS"). The Company conducts certain of its portfolio investment operations through its wholly-owned TRS, Hypotheca Capital, LLC (“HC”), in order to utilize, to the extent permitted by law, some or all of a net operating loss carry-forward held in HC that resulted from the Company's exit from the mortgage lending business. Prior to June 30, 2007, the Company conducted substantially all of its mortgage lending business through HC. The Company's wholly-owned QRS, New York Mortgage Funding, LLC (“NYMF”), currently holds certain mortgage-related assets for regulatory compliance purposes. The Company also may conduct certain other portfolio investment operations through NYMF. The Company consolidates all of its subsidiaries under generally accepted accounting principles in the United States of America (“GAAP”).

The Company is organized and conducts its operations to qualify as a REIT for federal income tax purposes. As such, the Company will generally not be subject to federal income tax on that portion of its income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by the due date of its federal income tax return and complies with various other requirements.

Basis of Presentation - The condensed consolidated balance sheet as of December 31, 2009, has been derived from audited financial statements. The condensed consolidated balance sheet at June 30, 2010, the condensed consolidated statements of operations for the three and six months ended June 30, 2010 and 2009, the condensed consolidated statement of stockholders’ equity for the six months ended June 30, 2010 and the condensed consolidated statements of cash flows for the six months ended June 30, 2010 and 2009 are unaudited. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company’s financial position, results of operations and cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with Article 10 of Regulation S-X and the instructions to Form 10-Q. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission ("SEC"). The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the operating results for the full year.

The accompanying condensed consolidated financial statements include our accounts and those of our consolidated subsidiaries. All significant intercompany amounts have been eliminated. The preparation of financial statements in conformity with GAAP requires us 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 periods. Actual results could differ from those estimates.

Prior period amounts have been reclassified to conform to current period classifications, including the reclassification of assets and liabilities related to discontinued operations on the balance sheet from a separate line item to receivables and other assets and accounts payable, accrued expenses and other liabilities.

The Company has evaluated all events or transactions through the date of this filing. During this period, the Company did not have any material subsequent events that impacted its condensed consolidated financial statements.

Investment Securities Available for Sale - The Company's investment securities include RMBS comprised of Fannie Mae, non-Agency RMBS, initially rated AAA securities and CLOs. Investment securities are classified as available for sale securities and are reported at fair value with unrealized gains and losses reported in other comprehensive income (“OCI”). Realized gains and losses recorded on the sale of investment securities available for sale are based on the specific identification method and included in realized gain (loss) on sale of securities and related hedges in the condensed consolidated statements of operations. Purchase premiums or discounts on investment securities are amortized or accreted to interest income over the estimated life of the investment securities using the interest method. Adjustments to amortization are made for actual prepayment activity.

When the fair value of an investment security is less than its amortized cost at the balance sheet date, the security is considered impaired. The Company assesses its impaired securities on at least a quarterly basis, and designates such impairments as either “temporary” or “other-than-temporary.” If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the impaired security before its anticipated recovery, then it must recognize an other-than-temporary impairment through earnings equal to the entire difference between the investment’s amortized cost and its fair value at the balance sheet date. If the Company does not expect to sell an other-than-temporarily impaired security, only the portion of the other-than-temporary impairment related to credit losses is recognized through earnings with the remainder recognized as a component of other comprehensive income (loss) on the condensed consolidated balance sheet. Impairments recognized through other comprehensive income (loss) do not impact earnings. Following the recognition of an other-than-temporary impairment through earnings, a new cost basis is established for the security and may not be adjusted for subsequent recoveries in fair value through earnings. However, other-than-temporary impairments recognized through earnings may be accreted back to the amortized cost basis of the security on a prospective basis through interest income. The determination as to whether an other-than-temporary impairment exists and, if so, the amount considered other-than-temporarily impaired is subjective, as such determinations are based on both factual and subjective information available at the time of assessment. As a result, the timing and amount of other-than-temporary impairments constitute material estimates that are susceptible to significant change.

Mortgage Loans Held in Securitization Trusts - Mortgage loans held in securitization trusts consist of certain adjustable rate mortgage loans transferred to New York Mortgage Trust 2005-1, New York Mortgage Trust 2005-2 and New York Mortgage Trust 2005-3 that have been securitized into sequentially rated classes of beneficial interests. Mortgage loans held in securitization trusts are carried at their unpaid principal balances, net of unamortized premium or discount, unamortized loan origination costs and allowance for loan losses.

Interest income is accrued and recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management’s opinion, the interest is not collectible in the normal course of business, but in no case when payment becomes greater than 90 days delinquent. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

Allowance for Loan Losses on Mortgage Loans Held in Securitization Trusts - We establish an allowance for loan losses based on management's judgment and estimate of credit losses inherent in our portfolio of mortgage loans held in securitization trusts.

Estimation involves the consideration of various credit-related factors including but not limited to, macro-economic conditions, the current housing market conditions, loan-to-value ratios, delinquency status, historical credit loss severity rates, purchased mortgage insurance, the borrower's current economic condition and other factors deemed to warrant consideration. Additionally, we look at the balance of any delinquent loan and compare that to the current value of the collateralizing property. We utilize various home valuation methodologies including appraisals, broker pricing opinions (“BPOs”), internet-based property data services to review comparable properties in the same area or consult with a realtor in the property's area.

Comparing the current loan balance to the property value determines the current loan-to-value ("LTV") ratio of the loan. Generally, we estimate that a first lien loan on a property that goes into a foreclosure process and becomes real estate owned ("REO"), results in the property being disposed of at approximately 84% of the current appraised value. This estimate is based on management's experience as well as our realized severity rates since issuance of our securitizations. During 2008, as a result of the significant deterioration in the housing market, we revised our policy to estimate recovery values based on current home valuations less expected costs to dispose. These costs typically approximate 16% of the current home value. It is possible given today's deteriorating market conditions, we may realize less than that return in certain cases. Thus, for a first lien loan that is delinquent, we will adjust the property value down to approximately 84% of the current property value and compare that to the current balance of the loan. The difference determines the base provision for the loan loss taken for that loan. This base provision for a particular loan may be adjusted if we are aware of specific circumstances that may affect the outcome of the loss mitigation process for that loan. Predominately, however, we use the base reserve number for our reserve.

The allowance for loan losses will be maintained through ongoing provisions charged to operating income and will be reduced by loans that are charged off.

Derivative Financial Instruments - The Company has developed risk management programs and processes, which include investments in derivative financial instruments designed to manage market risk associated with its securities investment activities.

Derivative instruments contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. The Company minimizes its risk exposure by limiting the counterparties with which it enters into contracts to banks and investment banks who meet established credit and capital guidelines. Management does not currently expect any counterparty to default on its obligations and, therefore, does not expect to incur any loss due to counterparty default. In addition, all outstanding interest rate swap agreements have bi-lateral margin call capabilities, meaning the Company will require margin for interest rate swaps that are in the Company’s favor, minimizing any amounts at risk.

Interest Rate Risk - The Company hedges the aggregate risk of interest rate fluctuations with respect to its borrowings, regardless of the form of such borrowings, which require payments based on a variable interest rate index. The Company generally intends to hedge only the risk related to changes in the benchmark interest rate (London Interbank Offered Rate, or “LIBOR”). The Company applies hedge accounting utilizing the cash flow hedge criteria.

In order to reduce such risks, the Company enters into swap agreements whereby the Company receives floating rate payments in exchange for fixed rate payments, effectively converting the borrowing to a fixed rate. The Company also enters into cap agreements whereby, in exchange for a premium, the Company is reimbursed for interest paid in excess of a certain capped rate.

To qualify for cash flow hedge accounting, interest rate swaps and caps must meet certain criteria, including:

- the items to be hedged expose the Company to interest rate risk; and
- the interest rate swaps or caps are expected to be and continue to be highly effective in reducing the Company's exposure to interest rate risk.

The fair values of the Company's interest rate swap agreements and interest rate cap agreements are based on values provided by dealers who are familiar with the terms of these instruments. Correlation and effectiveness are periodically assessed at least quarterly based upon a comparison of the relative changes in the fair values or cash flows of the interest rate swaps and caps and the items being hedged.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instruments are reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instruments in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change.

With respect to interest rate swaps and caps that have not been designated as hedges, any net payments under, or fluctuations in the fair value of, such swaps and caps, will be recognized in current earnings.

Termination of Hedging Relationships - The Company employs a number of risk management monitoring procedures to ensure that the designated hedging relationships demonstrate, and are expected to continue to demonstrate, a high level of effectiveness. Hedge accounting is discontinued on a prospective basis if it is determined that the hedging relationship is no longer highly effective or expected to be highly effective in offsetting changes in fair value of the hedged item.

Additionally, the Company may elect to un-designate a hedge relationship during an interim period and re-designate upon the rebalancing of a hedge profile and the corresponding hedge relationship. When hedge accounting is discontinued, the Company continues to carry the derivative instruments at fair value with changes recorded in current earnings.

Revenue Recognition. Interest income on our residential mortgage loans and mortgage-backed securities is a combination of the interest earned based on the outstanding principal balance of the underlying loan/security, the contractual terms of the assets and the amortization of yield adjustments, principally premiums and discounts, using generally accepted interest methods. The net GAAP cost over the par balance of self-originated loans held for investment and premium and discount associated with the purchase of mortgage-backed securities and loans are amortized into interest income over the lives of the underlying assets using the effective yield method as adjusted for the effects of estimated prepayments. Estimating prepayments and the remaining term of our interest yield investments require management judgment, which involves, among other things, consideration of possible future interest rate environments and an estimate of how borrowers will react to those environments, historical trends and performance. The actual prepayment speed and actual lives could be more or less than the amount estimated by management at the time of origination or purchase of the assets or at each financial reporting period.

With respect to interest rate swaps and caps that have not been designated as hedges, any net payments under, or fluctuations in the fair value of, such swaps and caps will be recognized in current earnings.

Income Taxes - The Company operates so as to qualify as a REIT under the requirements of the Internal Revenue Code. Requirements for qualification as a REIT include various restrictions on ownership of the Company's stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders, of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. The remaining balance of taxable income required to be distributed may extend until timely filing of the Company's tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income.

HC is a taxable REIT subsidiary and therefore subject to corporate federal income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base upon the change in tax status. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Management has reviewed the Company's income tax positions for the tax years of 2006 through 2009 by major jurisdictions and has concluded that no provision for taxes is required in the Company's financial statements.

Earnings Per Share - Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

A Summary of Recent Accounting Pronouncements Follows:

Fair Value Measurements and Disclosures (ASC 820)

In January 2010, the FASB issued No. ASU 2010-06, Improving Disclosures about Fair Value Measurement, to enhance the usefulness of fair value measurements. The amended guidance requires both the disaggregation of information in certain existing disclosures, as well as the inclusion of more robust disclosures about valuation techniques and inputs to recurring and nonrecurring fair value measurements. This ASU amends ASC 820 to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. This ASU also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. Further, this ASU amends guidance on employers' disclosures about postretirement benefit plan assets under ASC 715 to require that disclosures be provided by classes of assets instead of by major categories of assets. This ASU is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard may require additional disclosures, but the Company does not expect the adoption to have a material effect on our condensed consolidated financial statements.

Consolidation (ASC 810)

In June 2009, the FASB amended the guidance for determining whether an entity is a variable interest entity, or VIE. The guidance requires an entity to consolidate a VIE if (i) it has the power to direct the activities that most significantly impact the VIE's economic performance and (ii) the obligation to absorb the losses of the VIE or the right to receive the benefits from the VIE, which could be significant to the VIE. The pronouncement is effective for fiscal years beginning after November 15, 2009. On January 1, 2010, the Company adopted the FASB guidance for determining whether an entity is a variable interest entity; such adoption did not have a material effect on the Company’s condensed consolidated financial statements.

Receivables (ASC 310)

In July 2010, the FASB issued ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The ASU amends FASB Accounting Standards Codification Topic 310, Receivables, to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate, by portfolio segment or class of financing receivables, certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. This ASU is effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of this standard may require additional disclosures, but the Company does not expect the adoption to have a material effect on our condensed consolidated financial statements.

2. Investment Securities - Available for Sale

Investment securities available for sale consist of the following as of June 30, 2010 (dollar amounts in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Agency RMBS	$ 57,761	$ 2,290	$ —	$ 60,051
Non-Agency RMBS	32,503	4,117	(2,317)	34,303
Collateralized Loan Obligations	10,142	11,482	—	21,624
Total	$ 100,406	$ 17,889	$ (2,317)	$ 115,978

Investment securities available for sale consist of the following as of December 31, 2009 (dollar amounts in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Agency RMBS	$112,525	$3,701	$—	$116,226
Non-Agency RMBS	40,257	4,764	(2,155)	42,866
Collateralized Loan Obligations	9,187	8,412	—	17,599
Total	$161,969	$16,877	$(2,155)	$176,691

The following table sets forth the stated reset periods and weighted average yields of our investment securities at June 30, 2010 (dollar amounts in thousands):

	Less than 6 Months		More than 6 Months to 24 Months		More than 24 Months to 60 Months		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Agency RMBS	$ —	—	$ 32,922	2.18%	$ 27,129	2.43%	$ 60,051	2.29%
Non-Agency RMBS	16,766	13.73%	5,573	6.54%	11,964	9.12%	34,303	10.95%
CLO	21,624	20.63%	—	—	—	—	21,624	20.63%
Total/Weighted Average	$ 38,390	17.62%	$ 38,495	2.81%	$ 39,093	4.48%	$ 115,978	8.27%

The following table sets forth the stated reset periods and weighted average yields of our investment securities at December 31, 2009 (dollar amounts in thousands):

	Less than 6 Months		More than 6 Months to 24 Months		More than 24 Months to 60 Months		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Agency RMBS	$ —	—	$ 42,893	2.07%	$ 73,333	2.54%	$ 116,226	2.37%
Non-Agency RMBS	22,065	10.15%	4,865	7.23%	15,936	9.57%	42,866	9.61%
CLO	17,599	23.48%	—	—	—	—	17,599	23.48%
Total/Weighted Average	$ 39,664	16.07%	$ 47,758	2.60%	$ 89,269	3.80%	$ 176,691	6.23%

The following tables present the Company's investment securities available for sale in an unrealized loss position, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2010 and December 31, 2009, respectively (dollar amounts in thousands):

June 30, 2010	Less than 12 Months		Greater than 12 Months		Total	
	Carrying Value	Unrealized Losses	Carrying Value	Unrealized Losses	Carrying Value	Unrealized Losses
Non-Agency RMBS	$ —	$ —	$ 9,659	$ 2,317	$ 9,659	$ 2,317
Total	$ —	$ —	$ 9,659	$ 2,317	$ 9,659	$ 2,317

December 31, 2009	Less than 12 Months		Greater than 12 Months		Total	
	Carrying Value	Unrealized Losses	Carrying Value	Unrealized Losses	Carrying Value	Unrealized Losses
Non-Agency RMBS	$ —	$ —	$ 14,693	$ 2,155	$ 14,693	$ 2,155
Total	$ —	$ —	$ 14,693	$ 2,155	$ 14,693	$ 2,155

As of June 30, 2010 and December 31, 2009, the Company did not have unrealized losses in investment securities that were deemed other-than-temporary.

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3. Mortgage Loans Held in Securitization Trusts (net)

Mortgage loans held in securitization trusts (net) consist of the following as of June 30, 2010 and December 31, 2009 (dollar amounts in thousands):

	June 30, 2010	December 31, 2009
Mortgage loans principal amount	$250,982	$277,007
Deferred origination costs – net	1,583	1,750
Reserve for loan losses	(2,473)	(2,581)
Total	$250,092	$276,176

Allowance for Loan losses - The following table presents the activity in the Company's allowance for loan losses on mortgage loans held in securitization trusts for the six months ended June 30, 2010 and 2009, respectively (dollar amounts in thousands):

	Six Months Ended June 30,	
	2010	2009
Balance at beginning of period	$2,581	$844
Provision for loan losses	493	802
Transfer to real estate owned	(383)	(92)
Charge-offs	(218)	—
Balance at the end of period	$2,473	$1,554

On an ongoing basis, the Company evaluates the adequacy of its allowance for loan losses. The Company's allowance for loan losses at June 30, 2010 was $2.5 million, representing 99 basis points of the outstanding principal balance of loans held in securitization trusts as compared to 93 basis points as of December 31, 2009. As part of the Company's allowance for loan losses adequacy analysis, management will assess an overall level of allowances while also assessing credit losses inherent in each non-performing mortgage loan held in securitization trusts. These estimates involve the consideration of various credit related factors, including but not limited to, current housing market conditions, current loan to value ratios, collateral value, delinquency status, the borrower's current economic and credit status and other relevant factors.

Real Estate Owned – The following table presents the activity in the Company's real estate owned held in securitization trusts for the six months ended June 30, 2010 and year ended December 31, 2009 (dollar amounts in thousands):

	June 30, 2010	December 31, 2009
Balance at beginning of period	$546	$1,366
Write downs	(109)	(70)
Transfer from mortgage loans held in securitization trusts	551	826
Disposal	(618)	(1,576)
Balance at the end of period	$370	$546

Real estate owned held in securitization trusts are included in receivables and other assets on the balance sheet and write downs are included in provision for loan losses in the statement of operations for reporting purposes.

All of the Company's mortgage loans and real estate owned held in securitization trusts are pledged as collateral for the collateralized debt obligations ("CDOs") issued by the Company. As of June 30, 2010 and December 31, 2009, the

Company's net investment in the securitization trusts, which is the maximum amount of the Company's investment that is at risk to loss and represents the difference between the carrying amount of the loans and real estate owned held in securitization trusts and the amount of CDO's outstanding, was $9.4 million and $10.0 million, respectively.

The following tables set forth delinquent mortgage loans held in our securitization trusts as of June 30, 2010 and December 31, 2009 (dollar amounts in thousands):

June 30, 2010

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	2	$ 673	0.27%
61-90	3	1,133	0.45%
90+	38	17,743	7.05%
Real estate owned through foreclosure	2	676	0.28%

December 31, 2009

Days Late	Number of Delinquent Loans	Total Dollar Amount	% of Loan Portfolio
30-60	5	$ 2,816	1.01%
61-90	4	1,150	0.41%
90+	32	15,915	5.73%
Real estate owned through foreclosure	2	739	0.27%

4. Derivative Instruments and Hedging Activities

The following table presents the fair value of derivative instruments designated as cash flow hedges used to manage the Company's interest rate risk and their location in the Company's condensed consolidated balance sheets at June 30, 2010 and December 31, 2009, respectively (amounts in thousands):

Derivative Designated as Hedging Instruments	Balance Sheet Location	June 30, 2010	December 31, 2009
Interest Rate Caps	Other Assets	$ —	$ 4
Interest Rate Swaps	Derivative Liabilities	1,955	2,511

The following table presents the impact of the Company's derivative instruments on the Company's accumulated other comprehensive income (loss) for the six months ended June 30, 2010 and 2009 (amounts in thousands):

Derivative Designated as Hedging Instruments	Six Months Ended June 30, 2010	2009
Accumulated other comprehensive income (loss) for derivative instruments:		
Balance at beginning of the period	$ (2,905)	$ (5,560)
Unrealized gain on interest rate caps	306	485
Unrealized gain on interest rate swaps	555	1,141
Reclassification adjustment for net gains (losses) included in net income for hedges	—	—
Balance at the end of the period	$ (2,044)	$ (3,934)

The Company estimates that over the next 12 months, approximately $1.5 million of the net unrealized losses on the interest rate swaps will be reclassified from accumulated other comprehensive income (loss) into earnings.

The following table details the impact of the Company's interest rate swaps and interest rate caps included in interest expense for the three and six months ended June 30, 2010 and 2009 (amounts in thousands):

	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Interest Rate Caps:				
Interest expense-investment securities and loans held in securitization trusts	$94	$168	$217	$328
Interest expense-subordinated debentures	—	81	92	161
Interest Rate Swaps:				
Interest expense-investment securities and loans held in securitization trusts	662	812	1,387	1,665

Interest Rate Swaps - The Company is required to pledge assets under a bi-lateral margin arrangement, including either cash or Agency RMBS, as collateral for its interest rate swaps, whose collateral requirements vary by counterparty and change over time based on the market value, notional amount, and remaining term of the interest rate swap ("Swap"). In the event the Company is unable to meet a margin call under one of its Swap agreements, thereby causing an event of default or triggering an early termination event under one of its Swap agreements, the counterparty to such agreement may have the option to terminate all of such counterparty's outstanding Swap transactions with the Company. In addition, under this scenario, any close-out amount due to the counterparty upon termination of the counterparty's transactions would be immediately payable by the Company pursuant to the applicable agreement. The Company believes it was in compliance with all margin requirements under its Swap agreements as of June 30, 2010 and December 31, 2009. The Company had $2.2 million and $2.9 million of restricted cash related to margin posted for Swaps as of June 30, 2010 and December 31, 2009, respectively.

The use of interest rate swaps exposes the Company to counterparty credit risks in the event of a default by a Swap counterparty. If a counterparty defaults under the applicable Swap agreement the Company may be unable to collect payments to which it is entitled under its Swap agreements, and may have difficulty collecting the assets it pledged as collateral against such Swaps. The Company currently has in place with all outstanding Swap counterparties bi-lateral margin agreements thereby requiring a party to post collateral to the Company for any valuation deficit. This arrangement is intended to limit the Company’s exposure to losses in the event of a counterparty default.

The following table presents information about the Company's interest rate swaps as of June 30, 2010 and December 31, 2009 (amounts in thousands):

	June 30, 2010		December 31, 2009	
Maturity (1)	Notional Amount	Weighted Average Fixed Pay Interest Rate	Notional Amount	Weighted Average Fixed Pay Interest Rate
Within 30 Days	$ 2,910	2.99%	$ 2,070	2.99%
Over 30 days to 3 months	7,860	2.98	3,700	2.99
Over 3 months to 6 months	23,770	2.98	8,330	2.99
Over 6 months to 12 months	28,470	3.00	34,540	2.98
Over 12 months to 24 months	21,170	3.02	34,070	3.00
Over 24 months to 36 months	9,190	2.93	16,380	3.01
Over 36 months to 48 months	—	—	8,380	2.93
Total	$ 93,370	2.99%	$ 107,470	2.99%

(1) The Company enters into scheduled amortizing interest rate swap transactions whereby the Company pays a fixed rate of interest and receives one month LIBOR.

Interest Rate Caps – Interest rate caps are designated by the Company as cash flow hedges against interest rate risk associated with the Company's CDO's and the subordinated debentures. The interest rate caps associated with the CDO's are amortizing contractual schedules determined at origination. The Company had $162.8 million and $182.2 million of notional interest rate caps outstanding as of June 30, 2010 and December 31, 2009, respectively. These interest rate caps are utilized to cap the interest rate on the CDO's at a fixed-rate when one month LIBOR exceeds a predetermined rate.

5. Financing Arrangements, Portfolio Investments

The Company has entered into repurchase agreements with third party financial institutions to finance its agency RMBS portfolio. The repurchase agreements are short-term borrowings that bear interest rates typically based on a spread to LIBOR, and are secured by the securities which they finance. At June 30, 2010, the Company had repurchase agreements with an outstanding balance of $60.3 million and a weighted average interest rate of 0.31%. As of December 31, 2009, the Company had repurchase agreements with an outstanding balance of $85.1 million and a weighted average interest rate of 0.27%. At June 30, 2010 and December 31, 2009, securities pledged by the Company as collateral for repurchase agreements had estimated fair values of $64.3 million and $91.1 million, respectively. All outstanding borrowings under our repurchase agreements mature within 30 days. As of June 30, 2010, the average days to maturity for all repurchase agreements are 21 days.

As of June 30, 2010, the outstanding balance under our repurchase agreements was funded at an advance rate of 94.3% that implies an average haircut of 5.7%. As of June 30, 2010, the Company had $34.0 million in cash and $79.7 million in unencumbered investment securities to meet additional haircut or market valuation requirements, including $58.1 million of RMBS, of which $23.8 million are Agency RMBS.

6. Collateralized Debt Obligations

The Company's CDOs, which are recorded as liabilities on the Company's balance sheet, are secured by ARM loans pledged as collateral, which are recorded as assets of the Company. As of June 30, 2010 and December 31, 2009, the Company had CDOs outstanding of $241.1 million and $266.8 million, respectively. As of June 30, 2010 and December 31, 2009, the current weighted average interest rate on these CDOs was 0.73% and 0.61%, respectively. The CDOs are collateralized by ARM loans with a principal balance of $251.0 million and $277.0 million at June 30, 2010 and December 31, 2009, respectively. The Company retained the owner trust certificates, or residual interest, for three securitizations and, as of June 30, 2010 and December 31, 2009, had a net investment in the securitization trusts, after loan loss reserves and including real estate owned, of $9.4 million and $10.0 million, respectively.

The CDO transactions include amortizing interest rate cap contracts with an aggregate notional amount of $162.8 million as of June 30, 2010 and an aggregate notional amount of $182.2 million as of December 31, 2009, which are recorded as derivative assets of the Company. The interest rate caps are carried at fair value and totaled $0 as of June 30, 2010 and $4,476 as of December 31, 2009, respectively. The interest rate cap reduces interest rate risk exposure on these transactions.

7. Discontinued Operation

In connection with the sale of our mortgage origination platform assets during the quarter ended June 30, 2007, we classified our mortgage lending segment as a discontinued operation. As a result, we have reported revenues and expenses related to the segment as a discontinued operation for all periods presented in the accompanying condensed consolidated financial statements. Certain assets, such as the deferred tax asset, and certain liabilities, such as the subordinated debentures and liabilities related to lease facilities not sold, are part of our ongoing operations and accordingly, we have not included these items as part of the discontinued operation. Assets and liabilities related to the discontinued operation are $4.2 million and $1.5 million at June 30, 2010, respectively, and $4.2 million and $1.8 million at December 31, 2009, respectively, and are included in receivables and other assets and accounts payable, accrued expenses and other liabilities in the condensed consolidated balance sheets.

Statements of Operations Data

The statements of operations of the discontinued operation for the three and six months ended June 30, 2010 and 2009 are as follows (dollar amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$388	$220	$747	$510
Expenses	120	111	168	246
Income from discontinued operation-net of tax	$268	$109	$579	$264

8. Commitments and Contingencies

Loans Sold to Third Parties- For loans originated and sold by our discontinued mortgage lending business, the Company is not exposed to long term credit risk. In the normal course of business, however, the Company is obligated to repurchase loans based on violations of representations and warranties in the sale agreement, or for early payment defaults. The Company did not repurchase any loans during the six months ended June 30, 2010.

The Company periodically receives repurchase requests based on alleged violations of representations and warranties, each of which management reviews to determine, based on management's experience, whether such requests may reasonably be deemed to have merit. As of June 30, 2010, we had a total of $2.0 million of unresolved repurchase requests that management concluded may reasonably be deemed to have merit and against which the Company has a reserve of approximately $0.3 million. The reserve is based on one or more of the following factors; historical settlement rates, property value securing the loan in question and specific settlement discussions with third parties.

Outstanding Litigation - The Company is at times subject to various legal proceedings arising in the ordinary course of business. As of June 30, 2010, the Company does not believe that any of its current legal proceedings, individually or in the aggregate, will have a material adverse effect on its operations, financial condition or cash flows.

9. Concentrations of Credit Risk

At June 30, 2010 and December 31, 2009, there were geographic concentrations of credit risk exceeding 5% of the total loan balances within mortgage loans held in the securitization trusts as follows:

	June 30, 2010	December 31, 2009
New York	37.6%	38.9%
Massachusetts	25.6%	24.3%
New Jersey	8.3%	8.5%
Florida	5.9%	5.7%

10. Fair Value of Financial Instruments

The Company has established and documented processes for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, then fair value is based upon internally developed models that primarily use inputs that are market-based or independently-sourced market parameters, including interest rate yield curves.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following describes the valuation methodologies used for the Company's financial instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

a. Investment Securities Available for Sale (RMBS) - Fair value for the RMBS in our portfolio is based on quoted prices provided by dealers who make markets in similar financial instruments. The dealers will incorporate common market pricing methods, including a spread measurement to the Treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security. If quoted prices for a security are not reasonably available from a dealer, the security will be re-classified as a Level 3 security and, as a result, management will determine the fair value based on characteristics of the security that the Company receives from the issuer and based on available market information. Management reviews all prices used in determining valuation to ensure they represent current market conditions. This review includes surveying similar market transactions, comparisons to interest pricing models as well as offerings of like securities by dealers. The Company's investment securities that are comprised of RMBS are valued based upon readily observable market parameters and are classified as Level 2 fair values.

b. Investment Securities Available for Sale (CLO) - The fair value of the CLO notes, as of June 30, 2010, was based on management's valuation determined by using a discounted future cash flows model that management believes would be used by market participants to value similar financial instruments. If a reliable market for these assets develops in the future, management will consider quoted prices provided by dealers who make markets in similar financial instruments in determining the fair value of the CLO notes. The CLO notes are classified as Level 3 fair values.

c. Interest Rate Swaps and Caps - The fair value of interest rate swaps and caps are based on using market accepted financial models as well as dealer quotes. The model utilizes readily observable market parameters, including treasury rates, interest rate swap spreads and swaption volatility curves. The Company’s interest rate caps and swaps are classified as Level 2 fair values.

The following table presents the Company's financial instruments measured at fair value on a recurring basis as of June 30, 2010 and December 31, 2009 on the Company's condensed consolidated balance sheets (dollar amounts in thousands):

	Measured at Fair Value on a Recurring Basis at June 30, 2010			
	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Agency RMBS	$ —	$ 60,051	$ —	$ 60,051
Non-Agency RMBS	—	34,303	—	34,303
CLO	—	—	21,624	21,624
Total	$ —	$ 94,354	$ 21,624	$ 115,978
Liabilities carried at fair value:				
Derivative liabilities (interest rate swaps)	$ —	$ 1,955	$ —	$ 1,955
Total	$ —	$ 1,955	$ —	$ 1,955

	Measured at Fair Value on a Recurring Basis at December 31, 2009			
	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Agency RMBS	$ —	$ 116,226	$ —	$ 116,226
Non-Agency RMBS	—	42,866	—	42,866
CLO	—	—	17,599	17,599
Derivative assets (interest rate caps)	—	4	—	4
Total	$ —	$ 159,096	$ 17,599	$ 176,695
Liabilities carried at fair value:				
Derivative liabilities (interest rate swaps)	$ —	$ 2,511	$ —	$ 2,511
Total	$ —	$ 2,511	$ —	$ 2,511

The following table details changes in valuation for the Level 3 assets for the six months ended June 30, 2010 and 2009, respectively (amounts in thousands):

Investment securities available for sale

	Six Months Ended June 30,	
	2010	2009
Balance at beginning of period	$ 17,599	$ —
Total gains (realized/unrealized)		
Included in earnings (1)	954	105
Included in other comprehensive income/(loss)	3,071	155
Purchases	—	8,728
Balance at the end of period	$ 21,624	$ 8,988

(1) - Amounts included in interest income-investment securities and loans held in securitizations trusts.

The following table presents assets measured at fair value on a non-recurring basis as of June 30, 2010 and December 31, 2009 on the Company's condensed consolidated balance sheet (dollar amounts in thousands):

	Assets Measured at Fair Value on a Non-Recurring Basis at June 30, 2010			
	Level 1	Level 2	Level 3	Total
Mortgage loans held for sale (net)	$—	$—	$3,825	$3,825
Mortgage loans held in securitization trusts (net) – impaired loans	—	—	8,335	8,335
Real estate owned held in securitization trusts	—	—	370	370

	Assets Measured at Fair Value on a Non-Recurring Basis at December 31, 2009			
	Level 1	Level 2	Level 3	Total
Mortgage loans held for sale (net)	$—	$—	$3,841	$3,841
Mortgage loans held in securitization trusts (net) – impaired loans	—	—	7,090	7,090
Real estate owned held in securitization trusts	—	—	546	546

The following table presents losses incurred for assets measured at fair value on a non-recurring basis for the three and six months ended June 30, 2010 and June 30, 2009 on the Company's condensed consolidated statements of operations (dollar amounts in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Mortgage loans held for sale (net)	$—	$143	$—	$246
Mortgage loans held in securitization trusts (net) – impaired loans	491	266	493	802

The following table presents the carrying value and estimated fair value of the Company's financial instruments, at June 30, 2010 and December 31, 2009 (dollar amounts in thousands):

	June 30, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 34,039	$ 34,039	$ 24,522	$ 24,522
Restricted cash	2,358	2,358	3,049	3,049
Investment securities – available for sale	115,978	115,978	176,691	176,691
Mortgage loans held in securitization trusts (net)	250,092	211,274	276,176	253,833
Derivative assets	—	—	4	4
Financial Liabilities:				
Financing arrangements, portfolio investments	$ 60,315	$ 60,315	$ 85,106	$ 85,106
Collateralized debt obligations	241,084	203,309	266,754	211,032
Derivative liabilities	1,955	1,955	2,511	2,511
Subordinated debentures (net)	44,981	28,761	44,892	26,563
Convertible preferred debentures (net)	19,925	19,778	19,851	19,363

11. Capital Stock and Earnings per Share

The Company had 400,000,000 shares of common stock, par value $0.01 per share, authorized, with 9,419,094 and 9,415,094 shares issued and outstanding as of June 30, 2010 and December 31, 2009, respectively. As of June 30, 2010 and December 31, 2009, the Company had 200,000,000 shares of preferred stock, par value $0.01 per share, authorized, including 2,000,000 shares of Series A Cumulative Convertible Redeemable Preferred Stock ("Series A Preferred Stock"). As of June 30, 2010 and December 31, 2009, the Company had issued and outstanding 1,000,000 shares of Series A Preferred Stock. Of the common stock authorized at June 30, 2010, 1,190,000 shares were reserved for under the Company's 2010 Stock Incentive Plan.

The following table presents cash dividends declared by the Company on its common stock from January 1, 2009 through June 30, 2010.

Period	Declaration Date	Record Date	Payment Date	Cash Dividend Per Share
Second Quarter 2010	June 16, 2010	July 6, 2010	July 26, 2010	$ 0.18
First Quarter 2010	March 16, 2010	April 1, 2010	April 26, 2010	0.25
Fourth Quarter 2009	December 21,2009	January 7, 2010	January 26, 2010	0.25
Third Quarter 2009	September 29, 2009	October 13, 2009	October 26, 2009	0.25
Second Quarter 2009	June 15, 2009	June 26, 2009	July 27, 2009	0.23
First Quarter 2009	March 25, 2009	April 6, 2009	April 27, 2009	0.18

The following table presents cash dividends declared by the Company on its Series A Preferred Stock from January 1, 2009 through June 30, 2010.

Period	Declaration Date	Record Date	Payment Date	Cash Dividend Per Share
Second Quarter 2010	June 16, 2010	June 30, 2010	July 30, 2010	$ 0.50
First Quarter 2010	March 16, 2010	March 31, 2010	April 30, 2010	0.63
Fourth Quarter 2009	December 21, 2009	December 31, 2009	January 29, 2010	0.63
Third Quarter 2009	September 29 , 2009	September 30, 2009	October 30, 2009	0.63
Second Quarter 2009	June 15, 2009	June 30, 2009	July 30, 2009	0.58
First Quarter 2009	March 25, 2009	March 31, 2009	April 30, 2009	0.50

The Company calculates basic net income per share by dividing net income for the period by the weighted-average shares of common stock outstanding for that period. Diluted net income per share takes into account the effect of our Series A convertible preferred stock and uses the conversion price in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding.

The following table presents the computation of basic and diluted net income per share for the periods indicated (in thousands, except per share amounts):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Numerator :				
Net income – Basic	$1,542	$2,547	$4,210	$4,601
Net income from continuing operations	1,274	2,438	3,631	4,337
Net income from discontinued operations (net of tax)	268	109	579	264
Effect of dilutive instruments:				
Convertible preferred debentures	538	608	1,200	1,145
Net income – Dilutive	2,080	3,155	5,410	5,746
Net income from continuing operations	1,812	3,046	4,831	5,482
Net income from discontinued operations (net of tax)	$268	$109	$579	$264
Denominator:				
Weighted average basis shares outstanding	9,419	9,320	9,419	9,320
Effect of dilutive instruments:				
Convertible preferred debentures	2,500	2,500	2,500	2,500
Weighted average dilutive shares outstanding	11,919	11,820	11,919	11,820
EPS:				
Basic EPS	$0.16	$0.27	$0.45	$0.49
Basic EPS from continuing operations	0.14			