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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006.

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: 001-31916

AMERICAN HOME MORTGAGE INVESTMENT CORP.

(Exact Name of Registrant as Specified in its Charter)

Maryland	20-0103914
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
538 Broadhollow Road, Melville, New York	11747
(Address of Principal Executive Offices)	(Zip Code)

(516) 949-3900

(Registrant's telephone number, including area code)

(Former name, former address and former 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 [__]

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 [X]   Accelerated Filer [_]   Non-Accelerated Filer [_]

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

As of November 3, 2006, there were 50,192,257 shares of the registrant's common stock, par value $0.01 per share, outstanding.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	September 30, 2006	Decembe 2005
	(Unaudited)	
Assets:		
Cash and cash equivalents	$ 298,079	$ 57
Accounts receivable and servicing advances	350,965	32
Mortgage-backed securities (including securities pledged of $7,424,977 as of September 30, 2006 and $10,063,621 as of December 31, 2005)	8,957,373	10,60
Mortgage loans held for sale, net	1,365,595	2,20
Mortgage loans held for investment, net of allowance of $10,903 as of September 30, 2006 and $2,142 as of December 31, 2005	5,797,801	3,47
Derivative assets	26,323	4
Mortgage servicing rights	460,913	31
Premises and equipment, net	82,288	6
Goodwill	111,890	9
Other assets	53,100	2
Total assets	$ 17,504,327	$ 17,75
Liabilities and Stockholders' Equity:		
Liabilities:		
Warehouse lines of credit	$ 1,890,034	$ 3,47
Drafts payable	8,749	2
Commercial paper	1,283,858	1,07
Reverse repurchase agreements	7,232,503	9,80
Collateralized debt obligations	3,484,873	1,05
Payable for securities purchased	1,221,105	26
Derivative liabilities	40,170	1
Trust preferred securities	282,340	20
Accrued expenses and other liabilities	383,585	27
Notes payable	317,161	31
Income taxes payable	95,808	3
Total liabilities	16,240,186	16,54
Commitments and contingencies	-	
Stockholders' Equity:		
Preferred Stock, par value $0.01 per share, 10,000,000 shares authorized:		
9.75% Series A Cumulative Redeemable, 2,150,000 shares issued and outstanding as of September 30, 2006 and December 31, 2005, respectively	50,857	5
9.25% Series B Cumulative Redeemable, 3,450,000 shares issued and outstanding as of September 30, 2006 and December 31, 2005, respectively	83,183	8
Common Stock, par value $0.01 per share, 100,000,000 shares authorized, 50,182,257 and 49,639,646 shares issued and outstanding as of September 30, 2006 and December 31, 2005, respectively	502	
Additional paid-in capital	962,903	94
Retained earnings	245,473	20
Accumulated other comprehensive loss	(78,777)	(7

Total stockholders' equity	1,264,141	1,20
Total liabilities and stockholders' equity	$ 17,504,327	$ 17,75

See notes to consolidated financial statements (unaudited).

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months End September 30	
	2006	2005	2006	2
Net interest income:				
Interest income	$ 332,875	$ 180,038	$ 963,684	$ 46
Interest expense	(289,878)	(133,169)	(823,905)	(31
Total net interest income	42,997	46,869	139,779	15
Provision for loan losses	(5,365)	-	(10,655)	
Total net interest income after provision for loan losses	37,632	46,869	129,124	15
Non-interest income:				
Gain on sales of mortgage loans	210,621	123,658	607,122	23
Gain on sales of current period securitized mortgage loans	-	19,960	-	19
Gain on sales of mortgage-backed securities and derivatives	9,849	6,116	8,952	1
Unrealized gain (loss) on mortgage-backed securities and derivatives	1,050	(10,965)	2,635	3
Loan servicing fees	43,379	21,099	98,129	4
Amortization and impairment of mortgage servicing rights	-	(3,478)	-	(4
Change in fair value of mortgage servicing rights:				
Due to realization of cash flows	(28,839)	-	(73,880)	
Due to changes in valuation assumptions, net of hedge gain (loss)	(16,799)	-	(9,209)	
Net loan servicing (loss) fees	(2,259)	17,621	15,040	
Other non-interest income	2,018	1,585	5,912	

Total non-interest income	221,279	157,975	639,661	49
Non-interest expenses:				
Salaries, commissions and benefits, net	105,676	101,378	308,100	26
Occupancy and equipment	19,228	15,328	56,961	4
Data processing and communications	5,700	6,479	19,559	1
Office supplies and expenses	5,346	5,024	14,823	1
Marketing and promotion	4,868	5,104	17,051	1
Travel and entertainment	7,798	4,670	22,344	1
Professional fees	6,076	3,744	16,420	1
Other	16,588	7,360	49,662	2
Total non-interest expenses	171,280	149,087	504,920	40
Net income before income tax expense (benefit)	87,631	55,757	263,865	24
Income tax expense (benefit)	15,611	2,549	65,035	(
Net income	$ 72,020	$ 53,208	$ 198,830	$ 24
Dividends on preferred stock	3,305	3,304	9,914	
Net income available to common shareholders	$ 68,715	$ 49,904	$ 188,916	$ 23
Per share data:				
Basic	$ 1.37	$ 1.10	$ 3.78	$
Diluted	$ 1.36	$ 1.09	$ 3.75	$
Weighted average number of shares - basic	50,148	45,174	49,975	4
Weighted average number of shares - diluted	50,553	45,669	50,363	4

See notes to consolidated financial statements (unaudited).

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AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In thousands)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumu Oth Compreh Los
Balance at January 1, 2005	$ 134,040	$ 403	$ 631,530	$ 99,628	$ (
Comprehensive income:					
Net income	-	-	-	244,088	
Net change in unrealized loss on					

mortgage-backed securities available for sale	-	-	-	-	(
Net change in unrealized gain on cash flow hedges, net of amortization	-	-	-	-	
Comprehensive income					
Issuance of common stock - offering	-	90	304,033	-	
Issuance of common stock - earnouts	-	2	5,990	-	
Issuance of common stock - 1999 Omnibus Stock Incentive Plan	-	1	1,914	-	
Tax benefit for stock options exercised	-	-	2,638	-	
Dividends declared on Series A Preferred Stock	-	-	-	(3,930)	
Dividends declared on Series B Preferred Stock	-	-	-	(5,983)	
Dividends declared on Common Stock	-	-	-	(98,247)	
Balance at September 30, 2005	$ 134,040	$ 496	$ 946,105	$235,556	$ (
Balance at January 1, 2006	$ 134,040	$ 496	$ 947,512	$203,778	$ (
Comprehensive income:					
Net income	-	-	-	198,830	
Net change in unrealized loss on mortgage-backed securities available for sale	-	-	-	-	
Net change in unrealized gain on cash flow hedges, net of amortization	-	-	-	-	
Comprehensive income					
Cumulative effect adjustment as of beginning of year	-	-	-	(2,917)	
Issuance of common stock - earnouts	-	3	9,851	-	
Issuance of common stock - 1999 Omnibus Stock Incentive Plan	-	3	3,190	-	
Stock-based employee compensation expense	-	-	820	-	
Tax benefit for stock options exercised	-	-	1,530	-	
Dividends declared on Series A Preferred Stock	-	-	-	(3,931)	
Dividends declared on Series B Preferred Stock	-	-	-	(5,983)	
Dividends declared on Common Stock	-	-	-	(144,304)	
Balance at September 30, 2006	$ 134,040	$ 502	$ 962,903	$245,473	$ (

See notes to consolidated financial statements (unaudited).

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ende September 30,	
	2006	2005	2006	2
Cash flows from operating activities:				
Net income	$ 72,020	$ 53,208	$ 198,830	$
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation and amortization	4,275	3,098	13,242	
Provision for loan losses	5,365	-	10,655	
Change in fair value of mortgage servicing rights	52,753	-	90,204	
Amortization and impairment of mortgage servicing rights	-	3,478	-	
Accretion and amortization of mortgage-backed securities, net	4,696	(2,571)	9,033	
Deferred cash flow hedge gain, net of amortization	5,509	1,689	19,927	
(Gain) loss on sales of mortgage-backed securities and derivatives	(4,735)	2,819	(4,735)	
Unrealized (gain) loss on mortgage-backed securities	(1,588)	74,595	16,093	
Unrealized loss (gain) on free standing derivatives	20,629	(31,137)	14,826	
Increase (decrease) in forward delivery contracts	42,315	(12,820)	12,238	
Capitalized mortgage servicing rights on securitized loans	-	(27,536)	-	(
Capitalized mortgage servicing rights on sold loans	(79,493)	(14,762)	(230,290)	
(Increase) decrease in interest rate lock commitments	(5,069)	14,501	(2,385)	
(Increase) decrease in mortgage loan basis adjustments	(10,125)	(12,649)	(7,550)	
Excess tax benefits from share-based payment arrangements	(332)	-	(1,530)	
Other	(569)	1,469	(1,400)	
(Increase) decrease in operating assets:				
Accounts receivable	2,740	(218,519)	(3,937)	(
Servicing advances	(11,461)	(382)	(15,894)	
Income taxes receivable	-	-	-	
Other assets	(18,648)	(10,512)	(23,681)	
Increase in operating liabilities:				
Accrued expenses and other liabilities	25,988	53,657	86,887	
Income taxes payable	15,611	8,557	62,495	
Origination of mortgage loans held for sale	(14,664,704)	(12,394,139)	(41,239,157)	(30,
Principal received from sales of mortgage loans held for sale	14,241,440	9,448,293	41,627,935	16,
Proceeds from securitizations of mortgage loans held for sale	-	2,993,315	-	16,
Additions to mortgage-backed securities				

and derivatives	-	(1,191,209)	-	(4,
Principal proceeds from sales of self-originated mortgage-backed securities	-	-	1,908,882	1,
Cash received from residual assets in securitizations	16,785	35,431	65,085	
Principal repayments of mortgage-backed securities	35,677	274,035	190,007	
Net cash (used in) provided by operating activities	(250,921)	(948,091)	2,795,780	
Cash flows from investing activities:				
Purchases of premises and equipment	(6,267)	(5,831)	(26,748)	
Origination of mortgage loans held for investment	(599,384)	(1,301,364)	(2,129,722)	(1,
Proceeds from repayments of mortgage loans held for investment	446,199	5,108	824,147	
Purchases of mortgage-backed securities	(1,666,650)	(2,417,565)	(3,517,111)	(3,
Principal proceeds from sales of purchased mortgage-backed securities	1,503,760	518,517	1,503,760	1,
Principal repayments of purchased mortgage-backed securities	529,441	414,667	1,468,977	1,
Net increase in investment in Federal Home Loan Bank stock, at cost	(54)	-	(162)	
Acquisition of business	-	-	(550,077)	
Net cash provided by (used in) investing activities	207,045	(2,786,468)	(2,426,936)	(1,
Cash flows from financing activities:				
Increase (decrease) in warehouse lines of credit, net	413,076	1,499,457	(1,584,157)	1,
(Decrease) increase in reverse repurchase agreements, net	(1,707,283)	1,703,949	(2,573,641)	
(Decrease) increase in collateralized debt obligations	(240,005)	-	2,426,967	(2,
Increase in payable for securities purchased	1,221,105	554,717	959,566	
Increase in commercial paper, net	395,382	42,612	204,679	
Decrease in drafts payable, net	(3,600)	(7,775)	(12,005)	
Increase in trust preferred securities	29,560	48,550	78,652	
(Decrease) increase in notes payable, net	(20,539)	49,706	(2,148)	
Proceeds from issuance of Common Stock	1,068	304,522	2,847	
Excess tax benefits from share-based payment arrangements	332	-	1,530	
Dividends paid	(51,409)	(34,130)	(148,705)	
Net cash provided by (used in) financing activities	37,687	4,161,608	(646,415)	2,
Net (decrease) increase in cash and cash equivalents	(6,189)	427,049	(277,571)	
Cash and cash equivalents, beginning of period	304,268	197,375	575,650	
Cash and cash equivalents, end of period	$ 298,079	$ 624,424	$ 298,079	$
Supplemental disclosure of cash flow information:				
Interest paid	$ 264,303	$ 111,172	$ 786,400	$
Income taxes paid	2	118	2,540	
Supplemental disclosure of non-cash				

investing information:				
Net transfer of loans held for sale to loans held for investment	$ 307,431	$ -	$ 1,006,950	$

See notes to consolidated financial statements (unaudited).

AMERICAN HOME MORTGAGE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - American Home Mortgage Investment Corp. ("AHM Investment") is a mortgage REIT focused on earning net interest income from mortgage loans and securities, and, through its taxable subsidiaries, on earning income from originating and selling mortgage loans and servicing mortgage loans for institutional investors. Mortgages are originated through a network of loan origination offices and mortgage brokers or are purchased from correspondents, and are serviced at the Company's Irving, Texas servicing center. As used herein, references to the "Company," "American Home," "we," "our" and "us" refer to AHM Investment collectively with its subsidiaries.

Basis of Presentation - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's estimates and assumptions primarily arise from risks and uncertainties associated with interest rate volatility, prepayment volatility, credit exposure and regulatory changes. Although management is not currently aware of any factors that would significantly change its estimates and assumptions in the near term, future changes in market trends and conditions may occur which could cause actual results to differ materially.

Due to the Company's exercising significant influence on the operations of its joint ventures, their balances and operations have been fully consolidated in the accompanying consolidated financial statements and all intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents - Cash and cash equivalents are demand deposits and short-term investments with a maturity of 90 days or less. The carrying amount of cash and cash equivalents approximates its fair value.

Mortgage-backed Securities - Mortgage-backed securities are classified as either trading or available for sale. Trading securities are reported at fair value, and changes in fair value are reported in unrealized gain (loss) on mortgage-backed securities and derivatives in the consolidated statements of income. Available for sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income (loss). Realized gains and losses on sales of available for sale securities are determined on an average cost basis and included in gain (loss) on sales of mortgage-backed securities and derivatives.

When the fair value of an available for sale security is less than amortized cost, management evaluates whether there is an other-than-temporary impairment in the value of the security (e.g., whether the security is likely to be sold prior to the recovery of fair value) based on estimated credit losses, prepayment speeds and the length of time in an unrealized loss position. If, in management's assessment, an other-than-temporary impairment exists, the cost basis of the security is written down to the then-current fair value, and the unrealized loss is transferred from accumulated other comprehensive income as an immediate reduction of current earnings (i.e., as if the loss had been realized in the period of impairment). Premiums and discounts on the Company's mortgage-backed securities held in available for sale are amortized to interest income using the level yield method over the estimated life of the security.

Mortgage Loans Held for Sale - Mortgage loans held for sale are carried at the lower of cost or aggregate market value. The cost basis includes the capitalized value of the prior interest rate lock commitments ("IRLCs") related to the mortgage loans and any net deferred origination costs. For mortgage loans held for sale that are hedged with forward sale commitments, if the Company meets hedge accounting requirements, the carrying value is adjusted for the change in market during the time the hedge was deemed to be highly effective. The market value is determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate basis.

Mortgage Loans Held for Investment - Mortgage loans held for investment represent loans securitized through transactions structured as financings, or pending securitization through transactions that are expected to be structured as financings. Mortgage loans held for investment are carried at the aggregate of their remaining unpaid principal balances, including the capitalized value of the prior IRLCs related to the mortgage loans, plus net deferred origination costs, less any related charge-offs and allowance for loan losses. Loan fees and direct origination costs are deferred and amortized into interest income over the contractual life of the loan using the level-yield method.

Allowance for Losses on Mortgage Loans Held for Investment - The Company maintains an allowance for loan losses for its mortgage loans held for investment, based on the Company's estimate of current existing losses. Additions to the allowance for loan losses are based on assessments of certain factors, including historical loan loss experience of similar types of loans, the Company's loan loss experience, the

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amount of past due and nonperforming loans, specific known risks, the value of collateral securing the loans, and current and anticipated economic and interest rate conditions. Evaluation of these factors involves subjective estimates and judgments that may change. Additions to the allowance for loan losses are provided through a charge to income and recorded within provision for loan losses in the consolidated statements of income. The allowance for loan losses is reduced by subsequent charge-offs, net of recoveries.

Mortgage Servicing Rights - In March 2006, the Financial Accounting Standards Board ("FASB") released Statement of Financial Accounting Standards ("SFAS") No. 156, "Accounting for Servicing Financial Assets, an amendment of SFAS No. 140" ("SFAS No. 156"). SFAS No. 156 amends SFAS No. 140 to require that all separately recognized servicing assets and liabilities be initially measured at fair value, if practical. The effective date of this statement is as of the beginning of the entity's first fiscal year that begins after September 15, 2006; however, early adoption is permitted as of the beginning of any fiscal year, provided the entity has not issued financial statements for the interim period. The initial recognition and measurement of servicing assets and servicing liabilities are required to be applied prospectively to transactions occurring after the effective date. The Company elected to early adopt SFAS No. 156 as of January 1, 2006, and has recorded its mortgage servicing rights

("MSRs") at fair value. The Company's election increased MSRs by $1.2 million. Prior to January 1, 2006, MSRs were carried at the lower of cost or fair value, based on defined interest rate risk strata, and the gross MSR asset was amortized in proportion to and over the period of estimated net servicing income. The Company estimates the fair value of its MSRs by obtaining market information from one of the market's primary independent MSR brokers.

Premises and Equipment - Premises and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated service lives of the premises and equipment. Leasehold improvements are amortized over the lesser of the life of the lease or service lives of the improvements using the straight-line method. Depreciation and amortization are recorded within occupancy and equipment expense in the consolidated statements of income.

Goodwill - Goodwill represents the excess purchase price over the fair value of net assets acquired from business acquisitions. The Company tests for impairment at least annually and will test for impairment more frequently if events or circumstances indicate that an asset may be impaired. The Company tests for impairment by comparing the fair value of goodwill, as determined by using a discounted cash flow method, with its carrying value. Any excess of carrying value over the fair value of the goodwill would be recognized as an impairment loss in continuing operations. The discounted cash flow calculation related to the Company's loan origination segment includes a forecast of the expected future loan originations and the related revenues and expenses. The discounted cash flow calculation related to the Company's mortgage holdings segment includes a forecast of the expected future net interest income, gain on mortgage-backed securities and the related revenues and expenses. These cash flows are discounted using a rate that is estimated to be a weighted-average cost of capital for similar companies. We further test to ensure that the fair value of all of our business units does not exceed our total market capitalization.

Reverse Repurchase Agreements - The Company has entered into reverse repurchase agreements to finance certain of its investments. These agreements are secured by a portion of the Company's investments and bear interest rates that have historically moved in close relationship to the London Inter-Bank Offer Rate ("LIBOR"). Reverse repurchase agreements are accounted for as borrowings and recorded as a liability on the consolidated balance sheet.

Collateralized Debt Obligations - The Company has issued adjustable-rate collateralized debt obligations ("CDOs") to finance certain portions of its mortgage loans. The collateralized debt obligations are collateralized by adjustable-rate mortgage ("ARM") loans that have been placed in a trust and bear interest rates that have historically moved in close relationship to LIBOR. CDOs are accounted for as borrowings and recorded as a liability on the consolidated balance sheet.

Commercial Paper - The Company maintains a wholly owned special purpose entity for the purpose of issuing commercial paper in the form of short-term Secured Liquidity Notes ("SLNs") to finance certain portions of the Company's mortgage loans held for sale and mortgage loans held for investment. The commercial paper may be secured by the Company's mortgage loans held for sale, mortgage loans held for investment, mortgage-backed securities or cash and bears interest at prevailing money market rates approximating LIBOR. Commercial paper is accounted for as a borrowing and recorded as a liability on the consolidated balance sheet.

Trust Preferred Securities - The Company has formed wholly owned statutory business trusts ("Trusts") for the purpose of issuing trust preferred securities. The Company does not consolidate its Trusts, which results in a liability to the Trusts, which is recorded in trust preferred securities on the consolidated balance sheet. The securities begin to mature in 2035 and bear interest at rates ranging from LIBOR +240 basis points to LIBOR +300 basis points.

Drafts Payable - Drafts payable represent outstanding mortgage loan disbursements that the Company has provided to its customers for the purchase of a home. The amounts outstanding do not bear interest and the obligation is transferred into one of the Company's warehouse facilities when the related draft is presented to a bank.

Derivative Financial Instruments - The Company has developed risk management programs and processes designed to manage market risk associated with normal business activities.

Interest Rate Lock Commitments ("IRLCs"). The Company's mortgage committed pipeline includes IRLCs that have been extended to borrowers who have applied for loan funding and meet certain defined credit and underwriting criteria and have locked their terms and rates. The Company uses mortgage forward delivery contracts to economically hedge the IRLCs. The Company classifies and accounts for the IRLCs associated with loans expected to be sold as free-standing derivatives. Accordingly, IRLCs related to loans held for sale are recorded at fair value with changes in fair value recorded to current earnings.

Forward Delivery Commitments Used to Economically Hedge IRLCs. The Company uses mortgage forward delivery contracts to economically hedge the IRLCs, which are also classified and accounted for as free-standing derivatives and thus are recorded at fair value with the changes in fair value recorded to current earnings.

Forward Delivery Commitments Used to Hedge Mortgage Loans Held for Sale. The Company's risk management objective for its mortgage loans held for sale is to protect earnings from an unexpected charge due to a decline in value. The Company's strategy is to engage in a risk management program involving the use of mortgage forward delivery contracts designated as fair value hedging instruments to hedge 100% of its agency-eligible conforming loans and most of its non-conforming loans held for sale. At the inception of the hedge, to qualify for hedge accounting, the Company formally documents the relationship between the forward delivery contracts and the mortgage inventory as well as its objective and strategy for undertaking the hedge transaction. For conventional conforming fixed-rate loans, the notional amount of the forward delivery contracts, along with the underlying rate and terms of the contracts, are equivalent to the unpaid principal amount of the mortgage inventory being hedged; hence, the forward delivery contracts effectively fix the forward sales price and thereby substantially eliminate interest rate and price risk to the Company. The Company classifies and accounts for these forward delivery contracts as fair value hedges. The derivatives are carried at fair value with the changes in fair value recorded to current earnings. When the hedges are deemed highly effective, the book value of the hedged loans held for sale is adjusted for its change in fair value during the hedge period.

Total Return Swaps Used to Economically Hedge MSRs. The Company uses agency trust principal only total return swaps to economically hedge its MSRs, which are also classified and accounted for as free-standing derivatives and thus are recorded at fair value with the changes in fair value recorded to current earnings.

Interest Rate Swap Agreements. The Company enters into interest rate swap agreements which require it to pay a fixed interest rate and receive a variable interest rate based on LIBOR. The fair value of interest rate swap agreements is based on the net present value of estimated future interest payments over the remaining life of the interest rate swap agreement. All changes in the unrealized gains and losses on swap agreements designated as cash flow hedges have been recorded in accumulated other comprehensive income (loss) and are reclassified to earnings as interest expense is recognized on the Company's hedged borrowings. For interest rate swap agreements accounted for as cash flow hedges, the net amount accrued for the variable interest receivable and fixed interest payable affects the amount recorded as interest expense. If it becomes probable that the forecasted transaction, which in this case refers to interest payments to be made under the Company's short-term borrowing agreements, will not occur by the end of the originally specified time period, as documented at the inception of the hedging relationship, or within an additional two-month time period thereafter, then the related gain or loss in accumulated other comprehensive income (loss) would be reclassified to income. Certain swap agreements are designated as cash flow hedges against the benchmark interest rate risk associated with the Company's borrowings. Although the terms and characteristics of the Company's swap agreements and hedged borrowings are nearly identical, due to the explicit requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), the Company does not account for these hedges under a method defined in SFAS No. 133 as the "shortcut" method, but rather the Company calculates the effectiveness of these hedges on an ongoing basis, and, to date, has calculated effectiveness of approximately 100%. The Company classifies and accounts for interest rate swap agreements that are not designated as cash flow hedges as free-standing derivatives. Accordingly, these swap agreements are recorded at fair value with changes in fair value recorded to current earnings as a component of unrealized gain on mortgage-backed securities and derivatives as they are used to offset the price change exposure of mortgage-backed securities classified as trading. For interest rate swap agreements accounted for as free-standing derivatives, the net amount accrued for the variable interest receivable and fixed interest payable is recorded in current earnings as unrealized gain on mortgage-backed securities and derivatives.

Termination of Hedging Relationships. The Company employs a number of risk management monitoring procedures to ensure that the designated hedging relationships are demonstrating, 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 de-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 in their value recorded in earnings.

Gain on Sale of Loans - The Company recognizes gain on sale of loans for the difference between the sales price and the adjusted book value of the loans at the time of sale. The adjusted book value of the loans includes the original principal amount plus SFAS No. 133 basis adjustments plus deferrals of fees and points received and direct loan origination costs.

Loan Origination Fees and Direct Origination Costs - The Company records loan fees, discount points and certain direct origination costs as an adjustment of the cost of the loan or security and such amounts are included in revenues when the loan or security is sold. When loans held for investment are securitized, net deferred origination costs are amortized over the life of the loan using the level-yield method and such amounts adjust interest income. When loans are securitized and held as trading securities, net deferred origination costs are an adjustment to the cost of the security and such amounts affect the amount recorded as unrealized gain on mortgage-backed securities and derivatives.

Interest Recognition - The Company accrues interest income as it is earned and interest expense as it is incurred. Loans are placed on a nonaccrual status when any portion of the principal or interest is 90 days past due or earlier when concern exists as to the ultimate collectibility of principal or interest. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

The Company enters into interest rate swap agreements which require it to pay a fixed interest rate and receive a variable interest rate based on the LIBOR. For interest rate swap agreements accounted for as cash flow hedges, the net amount accrued for the variable interest receivable and fixed interest payable affects the amount recorded as interest expense. For interest rate swap agreements accounted for as free-standing derivatives, the net amount accrued for the variable interest receivable and fixed interest payable is recorded in current earnings as unrealized gain on mortgage-backed securities and derivatives.

Servicing Fees - The Company recognizes servicing fees when the fees are collected.

Marketing and Promotion - The Company charges the costs of marketing, promotion and advertising to expense in the period incurred.

Income Taxes - The Company accounts for income taxes in conformity with SFAS No. 109, "Accounting for Income Taxes," which requires an asset and liability approach for accounting and reporting of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences ("temporary differences") attributable to the differences between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. A valuation allowance is provided for deferred tax assets where realization is not considered "more likely than not." The Company recognizes the effect of changes in tax laws or rates on deferred tax assets and liabilities in the period that includes the enactment date.

Stock Option Plans - In 1999, the Company established the 1999 Omnibus Stock Incentive Plan, as amended (the "Plan"). Prior to January 1, 2006, the Company accounted for the Plan using Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25"), and provided pro forma net income and pro forma earnings per share disclosures for employee stock option grants as if the fair-value based method, as required by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" ("SFAS No. 148"), had been applied. Prior to January 1, 2006, in accordance with APB Opinion No. 25, no stock-based compensation cost was reflected in the Company's net income for grants of stock options to employees because the Company granted stock options with an exercise price equal to the market value of the stock on the date of grant. Had the Company used the fair value based accounting method for stock compensation expense prescribed by SFAS Nos. 123 and 148 for the three and nine months ended September 30, 2005, the Company's consolidated net income and earnings per share would have been reduced to the pro-forma amounts presented in the following table:

	Three Months Ended September 30,	Nine Months Ended September 30,

(In thousands, except per share data)	2005	2005
Net income available to common shareholders - as reported	$ 49,904	$ 234,175
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related effects	(268)	(953)
Net income available to common shareholders - pro forma	$ 49,636	$ 233,222
Earnings per share:		
Basic - as reported	$ 1.10	$ 5.58
Basic - pro forma	$ 1.10	$ 5.56
Diluted - as reported	$ 1.09	$ 5.51
Diluted - pro forma	$ 1.09	$ 5.49

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS No. 123R"), which requires that the compensation cost relating to share-based payment transactions (including employee stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans) be recognized as an expense in the Company's consolidated financial statements. Under SFAS No. 123R, the related compensation cost is measured based on the fair value of the award at the date of grant. In March 2005, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment," which expresses views of the SEC Staff about the application of SFAS No. 123R. SFAS No. 123 requires only that the expense relating to employee stock options be disclosed in the footnotes to the consolidated financial statements. SFAS No. 123R replaced SFAS No. 123 and superseded APB Opinion No. 25. While SFAS No. 123R was originally to have been effective for interim and annual reporting periods beginning after June 15, 2005, the SEC, in April 2005, deferred the compliance date to the first annual reporting period beginning after June 15, 2005.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, using the modified prospective method. Under this method, compensation cost in the nine months ended September 30, 2006 includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated using a binomial lattice-based option valuation model. Results of prior periods do not reflect any restated amounts and the Company had no cumulative effect adjustment upon adoption of SFAS No. 123R under the modified prospective method. The Company's policy is to recognize compensation cost for awards with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. Additionally, the Company's policy is to issue authorized but unissued shares of common stock to satisfy stock option exercises.

During the nine months ended September 30, 2006, the Company's adoption of SFAS No. 123R decreased income before income taxes by $820 thousand, decreased net income by $655 thousand and decreased basic and diluted net income per share by

$0.01 per share. The income tax benefit recognized in income for the nine months ended September 30, 2006 for stock options was $165 thousand. The expense, before income tax effect, is included in salaries, commissions and benefits expense.

Earnings Per Share - Basic earnings per share excludes dilution and is computed by dividing net income available to common shareholders 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.

Cash Flows - Cash and cash equivalents are demand deposits and short-term investments with a maturity of 90 days or less.

Recently Issued Accounting Standards - In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of SFAS No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the potential impact of FIN 48 on its consolidated financial statements.

On September 13, 2006, the SEC issued SAB No. 108 on quantifying financial statement misstatements. In summary, SAB No. 108 was issued to address the diversity in practice of evaluating and quantifying financial statement misstatements and the related accumulation of such misstatements. SAB No. 108 states that both a balance sheet approach and an income statement approach should be used when quantifying and evaluating the materiality of a potential misstatement and contains guidance for correcting errors under this dual perspective. SAB No. 108 is effective for the Company's financial statements beginning January 1, 2007. The Company does not expect that the adoption of SAB No. 108 will have a significant impact on its consolidated financial statements.

On September 15, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," ("SFAS No. 157") which provides for enhanced guidance for using the fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. SFAS No. 157 is applicable under other accounting pronouncements that either require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is in the process of analyzing the implications of SFAS No. 157 on its consolidated financial statements.

NOTE 2 - MORTGAGE-BACKED SECURITIES

The following tables present the Company's mortgage-backed securities available for sale as of September 30, 2006 and December 31, 2005:

	September 30, 2006			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Agency securities	$ 110,732	$ -	$ (4,247)	$ 106,485
Privately issued:				
Rated	8,037,091	1,215	(52,462)	7,985,844
Unrated	5,539	153	-	5,692
Securities available for sale	$ 8,153,362	$ 1,368	$ (56,709)	$8,098,021

	December 31, 2005			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Agency securities	$ 135,545	$ -	$ (5,225)	$ 130,320
Privately issued:				
Rated	7,282,916	4,562	(49,963)	7,237,515
Unrated	7,176	25	-	7,201
Securities available for sale	$ 7,425,637	$ 4,587	$ (55,188)	$7,375,036

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The following tables present the Company's mortgage-backed securities available for sale in an unrealized loss position as of September 30, 2006 and December 31, 2005:

	September 30, 2006				
	Less Than 12 Months		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Valu
(In thousands)					
Agency securities	$ -	$ -	$ 106,485	$ (4,247)	$ 106,48
Privately issued:					
Rated	3,066,177	(7,524)	3,489,505	(44,938)	6,555,68

Securities available for sale	$ 3,066,177	$ (7,524)	$3,595,990	$ (49,185)	$6,662,16

	December 31, 2005				
	Less Than 12 Months		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Valu
(In thousands)					
Agency securities	$ -	$ -	$ 130,320	$ (5,225)	$ 130,32
Privately issued:					
Rated	3,834,893	(29,230)	926,942	(20,733)	4,761,83
Securities available for sale	$ 3,834,893	$ (29,230)	$1,057,262	$ (25,958)	$4,892,15

The Company has evaluated its mortgage-backed securities available for sale in an unrealized loss position for twelve months or more and determined there was no other-than-temporary impairment as of September 30, 2006. The Company has the ability and intent to hold its mortgage-backed securities available for sale in an unrealized loss position until a market price recovery or maturity.

The following table presents the Company's mortgage-backed trading securities as of September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
	Fair Value	
(In thousands)		
Privately issued:		
Rated	$ 647,188	$ 2,997,650
Unrated	212,164	229,418
Trading securities	$ 859,352	$ 3,227,068

During the three months ended September 30, 2006, the Company recorded $1.6 million in unrealized gains on trading securities that related to trading securities held at September 30, 2006. During the three months ended September 30, 2005, the Company recorded $37.6 million in unrealized losses on trading securities that related to trading securities held at September 30, 2005.

During the nine months ended September 30, 2006, the Company recorded $12.0 million in unrealized losses on trading securities that related to trading securities held at September 30, 2006. During the nine months ended September 30, 2005, the Company recorded $7.2 million in unrealized gains on trading securities that related to trading securities held at September 30, 2005.

During the three months ended September 30, 2006, the Company sold $1.5 billion of mortgage-backed securities and realized $9.8 million in gains, net of hedges. The $1.5 billion of mortgage-backed securities sold were market-purchased.

During the three months ended September 30, 2005, the Company sold $521 million of mortgage-backed securities, excluding securities sold contemporaneously with the execution of securitization transactions, and realized $5.8 million in gains, net of hedges. The $521 million of mortgage-backed securities sold were primarily market-purchased. During the three months ended September 30, 2005, the Company securitized and held in its portfolio $1.2 billion of mortgage-backed securities.

During the nine months ended September 30, 2006, the Company sold $3.4 billion of mortgage-backed securities and realized $9.0 million in gains, net of hedges. The $3.4 billion of mortgage-backed securities sold were primarily self-originated.

During the nine months ended September 30, 2005, the Company sold $2.8 billion of mortgage-backed securities, excluding securities sold contemporaneously with the execution of securitization transactions, and realized $6.7 million in gains, net of hedges. During the nine months ended September 30, 2005, the Company securitized and held in its portfolio $4.4 billion of mortgage-backed securities.

The Company's mortgage-backed securities held at September 30, 2006 were primarily either agency obligations or were rated AAA or AA by Standard & Poor's.

The Company has credit exposure on $11.7 billion and $15.1 billion of loans it has securitized privately as of September 30, 2006 and December 31, 2005, respectively. The following tables summarize the loan delinquency information as of September 30, 2006 and December 31, 2005:

(Dollars in thousands)	September 30, 2006			
Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio	Percentage Total Asset
60 to 89 days	37	$ 4,439	0.04%	0.
90 and greater days	97	20,000	0.17%	0.
Pending foreclosure	1,054	236,757	2.03%	1.
Loans 60 days and greater delinquent	1,188	$ 261,196	2.24%	1.

December 31, 2005

(Dollars in thousands)

Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio	Percentage Total Asset
60 to 89 days	49	$ 10,194	0.07%	0.
90 and greater days	82	13,596	0.09%	0.
Pending foreclosure	451	119,181	0.79%	0.
Loans 60 days and greater delinquent	582	$ 142,971	0.95%	0.

As of September 30, 2006 and December 31, 2005, the fair value of residual assets from securitizations reported in mortgage-backed securities was $224.3 million and $276.0 million, respectively.

The significant assumptions used in estimating the fair value of residual cash flows as of September 30, 2006 and December 31, 2005 were as follows:

	September 30, 2006	December 31, 2005
Weighted-average prepayment speed (CPR)	31.45%	30.63%
Weighted-average discount rate	16.34%	16.52%
Weighted-average annual default rate	0.54%	0.54%

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NOTE 3 - MORTGAGE LOANS, NET

Mortgage Loans Held For Sale, Net

The following table presents the Company's mortgage loans held for sale, net, as of September 30, 2006 and December 31, 2005:

(In thousands)	September 30, 2006	December 31, 2005
Mortgage loans held for sale	$ 1,353,674	$ 2,190,062
SFAS No. 133 basis adjustments	1,154	(2,099)
Deferred origination costs, net	10,767	20,786
Mortgage loans held for sale, net	$ 1,365,595	$ 2,208,749

During the three months ended September 30, 2006, the Company sold mortgage loans to third parties totaling $14.3 billion and realized $210.6 million in gains.

During the nine months ended September 30, 2006, the Company sold mortgage loans to third parties totaling $41.7 billion and realized $607.1 million in gains.

During the three and nine months ended September 30, 2006, the Company deferred $192.0 million and $481.7 million, respectively, of loan origination costs as an adjustment to the cost basis for additions to mortgage loans held for sale. The Company's gain on sale of loans was reduced by $192.1 million and $491.8 million of deferred origination costs associated with mortgage loans sold during the three and nine months ended September 30, 2006, respectively.

The following tables summarize delinquency information as of September 30, 2006 and December 31, 2005 for the Company's mortgage loans held for sale:

(Dollars in thousands)	September 30, 2006		
Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio
60 to 89 days	21	$ 2,733	0.20%
90 and greater days	96	11,970	0.88%
Pending foreclosure	262	41,010	3.02%
Loans 60 days and greater delinquent	379	$ 55,713	4.10%

(Dollars in thousands)	December 31, 2005		
Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio
60 to 89 days	15	$ 2,404	0.11%
90 and greater days	51	6,530	0.30%
Pending foreclosure	32	4,824	0.22%
Loans 60 days and greater delinquent	98	$ 13,758	0.63%

Mortgage Loans Held For Investment, Net

The following table presents the Company's mortgage loans held for investment, net, as of September 30, 2006 and December 31, 2005:

(In thousands)	September 30, 2006	December 31, 2005
Mortgage loans held for investment	$ 5,750,950	$ 3,438,425
SFAS No. 133 basis adjustments	(4,147)	-
Deferred origination costs, net	61,901	43,438
Allowance for loan losses	(10,903)	(2,142)

Mortgage loans held for investment, net	$ 5,797,801	$ 3,479,721

In June 2006, the Company transferred $964.9 million of its mortgage loans held for investment to American Home Mortgage Investment Trust 2006-2 (the "2006-2 Trust") in a securitization transaction accounted for as a financing of the loans held for investment.

In March 2006, the Company transferred $2.0 billion of its mortgage loans held for investment to American Home Mortgage Investment Trust 2006-1 (the "2006-1 Trust") in a securitization transaction accounted for as a financing of the loans held for investment.

During the three and nine months ended September 30, 2006, the Company deferred $8.7 million and $29.1 million, respectively, of loan origination costs as an adjustment to the cost basis for mortgage loans added to its held for investment portfolio. The Company's interest income was reduced by $4.3 million and $10.6 million of deferred origination cost amortization on mortgage loans held for investment during the three and nine months ended September 30, 2006, respectively.

The following table presents the activity in the Company's allowance for loan losses for the three and nine months ended September 30, 2006:

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
	(In thousands)	
Balance at beginning of period	$ 6,885	$ 2,142
Provision for loan losses	5,365	10,655
Charge-offs	(1,347)	(1,894)
Balance at end of period	$ 10,903	$ 10,903

The following tables summarize delinquency information as of September 30, 2006 and December 31, 2005 for the Company's mortgage loans held for investment:

(Dollars in thousands)	September 30, 2006		
Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio
60 to 89 days	51	$ 5,419	0.09%
90 and greater days	176	11,122	0.19%
Pending foreclosure	347	71,611	1.24%
Loans 60 days and greater delinquent	574	$ 88,152	1.52%

(Dollars in thousands)	December 31, 2005		
Delinquency Status	Loan Count	Loan Balance	Percentage of Total Portfolio
60 to 89 days	23	$ 2,898	0.08%
90 and greater days	26	2,489	0.07%
Pending foreclosure	49	8,797	0.26%
Loans 60 days and greater delinquent	98	$ 14,184	0.41%

NOTE 4 - DERIVATIVE ASSETS AND LIABILITIES

The following table presents the Company's derivative assets and liabilities as of September 30, 2006 and December 31, 2005:

(In thousands)	September 30, 2006	December 31, 2005
Derivative Assets		
Interest rate lock commitments	$ 16,471	$ 14,086
Interest rate swaps	9,749	30,508
Total return swaps	103	-
Derivative assets	$ 26,323	$ 44,594
Derivative Liabilities		
Forward delivery contracts - loan commitments	$ 17,599	$ 8,659
Forward delivery contracts - loans held for sale	11,412	8,114
Interest rate swaps	9,906	-
Other	1,253	-
Derivative liabilities	$ 40,170	$ 16,773

As of September 30, 2006, the notional amount of forward delivery contracts and interest rate swap agreements was approximately $3.6 billion and $8.7 billion, respectively.

As of December 31, 2005, the notional amount of forward delivery contracts and interest rate swap agreements was approximately $2.2 billion and $8.7 billion, respectively.

As of September 30, 2006, the notional amount of total return swaps was approximately $126.5 million.

During the three months ended September 30, 2006, the Company recognized in earnings $564 thousand in unrealized losses on free standing derivatives. During the three months ended September 30, 2005, the Company recognized in earnings $26.6 million in unrealized gains on free standing derivatives.

During the nine months ended September 30, 2006, the Company recognized in earnings $14.6 million in unrealized gains on free standing derivatives. During the nine months ended September 30, 2005, the Company recognized in earnings $29.1 million in unrealized gains on free standing derivatives. These gains are recorded in unrealized gain (loss) on mortgage-backed securities and derivatives in the consolidated statements of income.

During the three months ended September 30, 2005, the Company realized $0.3 million in gains on sales of interest rate swap agreements associated with its securitizations of mortgage loans.

During the nine months ended September 30, 2005, the Company realized $6.1 million in gains on sales of interest rate swap agreements associated with its securitizations of mortgage loans. These gains are recorded in gain on sales of mortgage-backed securities and derivatives in the consolidated statements of income.

The Company's forward delivery contracts have a high correlation to the price movement of the loans being hedged. The ineffectiveness in hedging loans held for sale recorded on the consolidated balance sheets was insignificant as of September 30, 2006 and December 31, 2005.

As of September 30, 2006, the unrealized loss on interest rate swap agreements, interest rate caps and other derivative liabilities relating to cash flow hedges recorded in accumulated other comprehensive loss was $23.4 million. The Company estimates that $6.2 million of this unrealized loss will be reclassified from accumulated other comprehensive loss to interest expense for the twelve months ended September 30, 2007. As of December 31, 2005, the unrealized loss on interest rate swap agreements relating to cash flow hedges recorded in accumulated other comprehensive loss was $28.2 million.

NOTE 5 - MORTGAGE SERVICING RIGHTS

The Company elected to early adopt SFAS No. 156 as of January 1, 2006, and has recorded its MSRs at fair value. The Company's adoption of SFAS No. 156 resulted in a cumulative-effect adjustment as of January 1, 2006, which increased MSRs by $1.2 million.

Prior to January 1, 2006, MSRs were carried at the lower of cost or fair value, based on defined interest rate risk strata, and the gross MSR asset was amortized in proportion to and over the period of estimated net servicing income. Prior to the Company's adoption of SFAS No. 156, the Company evaluated MSRs for impairment based on risk strata and a valuation allowance was recognized for MSRs that had an amortized balance in excess of the estimated fair value for the individual risk stratification.

The following table presents the activity in the Company's MSRs for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,		Nine Months En September 30	
(In thousands)	2006	2005	2006	
Balance at beginning of period	$ 434,173	$ 290,756	$ 340,377	$ 1
Cumulative-effect adjustment as of beginning of year	-	-	1,156	
Fair value measurement method adjustment	-	-	(20,706)	
Additions	79,493	42,298	230,290	1
Amortization	-	(15,055)	-	(
Changes in fair value resulting from:				
Realization of cash flows	(28,839)	-	(73,880)	
Changes in valuation assumptions	(23,914)	-	(16,324)	
Balance at end of period	$ 460,913	$ 317,999	$ 460,913	$ 3
Impairment allowance:				
Balance at beginning of period	$ -	$ (28,917)	$ (20,706)	$ (
Fair value measurement method adjustment	-	-	20,706	
Impairment recovery (provision)	-	11,577	-	
Balance at end of period	$ -	$ (17,340)	$ -	$ (
Mortgage servicing rights	$ 460,913	$ 300,659	$ 460,913	$ 3

The amount of contractually specified servicing fees earned by the Company during the three months ended September 30, 2006 and 2005 were $27.3 million and $18.4 million, respectively.

The amount of contractually specified servicing fees earned by the Company during the nine months ended September 30, 2006 and 2005 were $67.4 million and $43.9 million, respectively. The Company reports contractually specified servicing fees in loan servicing fees in the consolidated statements of income.

The estimated fair value of MSRs is determined by obtaining a market valuation from one of the market's primary independent MSR brokers. To determine the market value of MSRs, the MSR broker uses a valuation model which incorporates assumptions relating to the estimate of the cost of servicing the loan, a discount rate, a float value, an inflation rate, ancillary income per loan, prepayment speeds and default rates that market participants use for similar MSRs. Market assumptions are held constant over the life of the portfolio. The key risks inherent in MSRs are changes in interest rates and prepayment speeds.

The Company uses free standing derivatives (economic hedges) to hedge the risk of changes in fair value of MSRs, with the resulting gain or loss reflected in income. During the three months ended September 30, 2006, the Company recognized in earnings $7.1 million in unrealized gains on free standing derivatives used to economically hedge the MSRs. These gains are recorded in change in fair value of mortgage servicing rights due to changes in valuation assumptions, net of hedge gain (loss), in the consolidated statements of income.

The significant assumptions used in estimating the fair value of MSRs at September 30, 2006 and December 31, 2005 were as follows:

	September 30, 2006	December 31, 2005
Weighted-average prepayment speed (PSA)	501	315
Weighted-average discount rate	11.60%	11.94%
Weighted-average default rate	2.39%	2.78%

The following table presents certain information regarding the Company's servicing portfolio of loans serviced for others at September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
	(Dollars in thousands)	
Loan servicing portfolio - loans sold or securitized	$ 35,932,126	$ 25,044,676
ARM loans as a percentage of total loans	75%	73%
Average loan size	$ 230	$ 194
Weighted-average servicing fee	0.339%	0.330%
Weighted-average note rate	6.77%	5.79%
Weighted-average remaining term (in months)	362	337
Weighted-average age (in months)	15	15

NOTE 6 - GOODWILL

The following table presents the activity in the Company's goodwill for the nine months ended September 30, 2006 and 2005:

(In thousands)	Loan Origination Segment	Mortgage Holdings Segment	Total
Balance at January 1, 2005	$ 66,037	$ 24,840	$ 90,877
Earnouts from previous acquisitions	8,391	-	8,391
Balance at September 30, 2005	$ 74,428	$ 24,840	$ 99,268
Balance at January 1, 2006	$ 74,687	$ 24,840	$ 99,527
Acquisitions	1,099	-	1,099
Earnouts from previous acquisitions	11,264	-	11,264
Balance at September 30, 2006	$ 87,050	$ 24,840	$111,890

As of December 31, 2005, the Company completed a goodwill impairment test by comparing the fair value of goodwill with its carrying value and did not recognize impairment.

NOTE 7 - WAREHOUSE LINES OF CREDIT, REVERSE REPURCHASE AGREEMENTS AND COMMERCIAL PAPER

Warehouse Lines of Credit

To originate a mortgage loan, the Company draws against either a $3.3 billion SLN commercial paper program, a $2.0 billion pre-purchase facility with UBS Real Estate Securities Inc., a facility of $2.5 billion with Bear Stearns, a $1.3 billion bank syndicated facility led by Bank of America, N.A. (which includes a $438 million term loan facility which the Company uses to finance its MSRs), a facility of $750 million with Morgan Stanley Bank ("Morgan Stanley"), a facility of $125 million with J.P. Morgan Chase, a $750 million facility with IXIS Real Estate Capital, Inc. ("IXIS"), a $350 million facility with Credit Suisse First Boston Mortgage Capital LLC, and a $1.4 billion syndicated facility led by Calyon New York Branch ("Calyon"). The Bank of America, IXIS, Morgan Stanley and Calyon facilities are committed facilities. The interest rate on outstanding balances fluctuates daily based on a spread to the LIBOR and interest is paid monthly.

The facilities are secured by mortgage loans and other assets of the Company. The facilities contain various covenants pertaining to maintenance of net worth, working capital and maximum leverage. At September 30, 2006, the Company was in compliance with respect to the loan covenants.

Included within the Bank of America line of credit, the Company has a working capital sub-limit that allows for borrowings up to $50 million at a rate based on a spread to the LIBOR that may be adjusted for earnings on compensating balances on deposit at creditors' banks. As of September 30, 2006, borrowings under the working capital line of credit were $44.0 million.

As of September 30, 2006, the Company had $1.9 billion of warehouse lines of credit outstanding with a weighted-average borrowing rate of 5.89%. As of December 31, 2005, the Company had $3.5 billion of warehouse lines of credit outstanding with a weighted-average borrowing rate of 4.78%.

Reverse Repurchase Agreements

The Company has arrangements to enter into reverse repurchase agreements, a form of collateralized short-term borrowing, with seventeen different financial institutions and on September 30, 2006 had borrowed funds from ten of these firms. Because the Company borrows money under these agreements based on the fair value of its mortgage-backed securities, and because changes in interest rates can negatively impact the valuation of mortgage-backed securities, the Company's borrowing ability under these agreements could be limited and lenders could initiate margin calls in the event interest rates change or the value of the Company's mortgage-backed securities declines for other reasons.

As of September 30, 2006, the Company had $7.2 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 5.39% and a weighted-average remaining maturity of 1.1 years. As of December 31, 2005, the Company had $9.8 billion of reverse repurchase agreements outstanding with a weighted-average borrowing rate of 4.40% and a weighted-average remaining maturity of four months.

As of September 30, 2006 and December 31, 2005, the Company's reverse repurchase agreements had the following remaining maturities:

	September 30, 2006	December 31, 2005
	(In thousands)	
Within 30 days	$ 607,243	$ 689,469
31 to 89 days	293,504	4,817,885
90 to 365 days	304,103	4,298,790
Greater than 1 year	6,027,653	-
Reverse repurchase agreements	$ 7,232,503	$ 9,806,144

The Company's average reverse repurchase agreements outstanding were $8.8 billion and $6.5 billion for the three months ended September 30, 2006 and 2005, respectively.

The Company's average reverse repurchase agreements outstanding were $9.0 billion and $6.6 billion for the nine months ended September 30, 2006 and 2005, respectively.

Commercial Paper

The Company maintains a wholly owned special purpose entity for the purpose of issuing commercial paper in the form of short-term SLNs to finance certain portions of the Company's mortgage loans. The special purpose entity allows for issuance of short-term SLNs with maturities of up to 180 days, extendable up to 300 days. The SLNs bear interest at prevailing money market rates approximating the LIBOR. The SLN program capacity, based on aggregate commitments of underlying credit enhancers, was $3.3 billion at September 30, 2006.

As of September 30, 2006, the Company had $1.3 billion of SLNs outstanding, with an average interest cost of 5.39%. The SLNs were collateralized by mortgage loans held for sale, mortgage loans held for investment and cash with a balance of $1.4 billion as of September 30, 2006. As of December 31, 2005, the Company had $1.1 billion of SLNs outstanding, with an average interest cost of 4.35%. The SLNs were collateralized by mortgage loans held for sale, mortgage loans held for investment and cash with a balance of $1.2 billion as of December 31, 2005.

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As of September 30, 2006 and December 31, 2005, the Company's SLNs had the following remaining maturities:

	September 30, 2006	December 31, 2005
	(In thousands)	
Within 30 days	$ 1,234,238	$ 1,079,179
31 to 89 days	49,620	-
Commercial paper	$ 1,283,858	$ 1,079,179

NOTE 8 - COLLATERALIZED DEBT OBLIGATIONS

In June 2006, the Company transferred $964.9 million of its mortgage loans held for investment to the 2006-2 Trust in a securitization transaction. In this transaction, the Company issued $944.7 million of CDOs in the form of AAA and AA-rated floating-rate pass-through certificates to third-party investors and the Company retained $20.2 million of subordinated certificates, which provide credit support to the certificates issued to third parties. The Company's CDOs are collateralized by loans held for investment transferred to the 2006-2 Trust. The interest rates on the floating-rate pass-through certificates reset monthly and are indexed to one-month LIBOR. In the second quarter of 2006, the Company incurred CDO issuance costs of $2.1 million, which were deducted from the proceeds of the transactions and are being amortized over the expected life of the CDOs. This securitization transaction was accounted for as a financing of the mortgage loans held for investment.

In March 2006, the Company transferred $2.0 billion of its mortgage loans held for investment to the 2006-1 Trust in a securitization transaction. In this transaction, the Company issued $1.9 billion of CDOs in the form of AAA and AA-rated floating-rate pass-through certificates to third-party investors and the Company retained $61.3 million of subordinated certificates, which provide credit support to the certificates issued to third parties. The Company's CDOs are collateralized by loans held for investment transferred to the 2006-1 Trust. The interest rates on the floating-rate pass-through certificates reset monthly and are indexed to one-month LIBOR. In the first quarter of 2006, the Company incurred CDO issuance costs of $4.0 million, which were deducted from the proceeds of the transactions and are being amortized over the expected life of the CDOs. This securitization transaction was accounted for as a financing of the mortgage loans held for investment.

In the fourth quarter of 2005, the Company transferred $1.2 billion of its mortgage loans held for investment to two American Home Mortgage Investment Trusts (the "2005 Trusts") in two securitization transactions. In these transactions, the Company issued $1.1 billion of CDOs in the form of AAA and AA-rated floating-rate pass-through certificates to third-party investors and the Company retained $134.6 million of subordinated certificates, which provide credit support to the certificates issued to third parties. The Company's CDOs are collateralized by loans held for investment transferred to the 2005 Trusts. The interest rates on the floating-rate pass-through certificates reset monthly and are indexed to one-month LIBOR. In the fourth quarter of 2005, the Company incurred CDO issuance costs of $5.5 million, which were deducted from the proceeds of the transactions and are being amortized over the expected life of the CDOs. These securitization transactions were accounted for as financings of the mortgage loans held for investment.

In December 2004, the Company transferred $3.5 billion of its mortgage loans held for sale to American Home Mortgage Investment Trust 2004-4 (the "2004-4 Trust") in a securitization transaction. In the transaction, the Company issued $2.0 billion of CDOs, which were collateralized by loans held for sale transferred to the 2004-4 Trust. This securitization transaction was accounted for as a financing of the mortgage loans held for sale. This securitization transaction qualified for sale treatment under SFAS No. 140 in the first quarter of 2005, and consequently the loans were derecognized.

As of September 30, 2006, the Company's CDOs had a balance of $3.5 billion and an effective interest cost of 5.55%. As of September 30, 2006, the CDOs were collateralized by mortgage loans held for investment of $3.5 billion.

As of December 31, 2005, the Company's CDOs had a balance of $1.1 billion and an effective interest cost of 4.54%. As of December 31, 2005, the CDOs were collateralized by mortgage loans held for investment of $1.1 billion.

As of September 30, 2006 and December 31, 2005, the Company's CDOs had the following remaining contractual maturities:

	September 30, 2006	December 31, 2005
	(In thousands)	
15 to 20 years	$ 39,147	$ 68,214
20 to 25 years	175,125	177,016
25 to 30 years	763,833	34,316
Greater than 30 years	2,506,768	778,360
Collateralized debt obligations	$ 3,484,873	$ 1,057,906

NOTE 9 - NOTES PAYABLE

Notes payable primarily consist of amounts borrowed under a term loan facility with a bank syndicate led by Bank of America. Under the terms of this facility, the Company may borrow the lesser of 70% of the value of its MSRs, or $437.5 million. As of September 30, 2006, borrowings under the term loan were $201.0 million. This term loan expires on August 9, 2007, but the Company has an option to extend the term for twelve additional months at a higher interest rate. Interest is based on a spread to the LIBOR and may be adjusted for earnings on compensating balances. As of September 30, 2006, the interest rate was 6.05%.

In 2005, the Company sold $85.0 million in Mortgage Warehouse Subordinated Notes ("Subordinated Notes"). The Company received a premium, net of issuance costs, of $1.5 million related to the Subordinated Notes offering, which is being amortized to interest expense over the expected life of the Subordinated Notes. As of September 30, 2006, the balance of Subordinated Notes outstanding, net of unamortized premium and issuance costs, was $86.0 million. The Subordinated Notes mature on May 20, 2009. The interest rates on the Subordinated Notes reset monthly and are indexed to one-month LIBOR. As of September 30, 2006, the interest rate was 7.33%.

As of September 30, 2006, included in notes payable is a mortgage note of $25.6 million on an office building located in Melville, New York at a rate of 5.82%, and a mortgage note of $1.0 million on an office building located in Mount Prospect, Illinois at a rate of 7.18%.

As of September 30, 2006, the Company had $3.6 million of Federal Home Loan Bank ("FHLB") advances with an interest rate of 5.34% and with remaining maturities within 30 days. Advances from the FHLB are collateralized by pledges of one-to-four family first mortgage loans with an aggregate principal balance of $7.3 million.

The following table presents the Company's notes payable as of September 30, 2006 and December 31, 2005:

(In thousands)	September 30, 2006	December 31, 2005
Term loan	$ 201,000	$ 206,188
Subordinated note	86,006	86,322

Notes - office buildings	26,555	26,799
FHLB advances	3,600	-
Notes payable	$ 317,161	$ 319,309

The following table presents the maturities of the Company's notes payable as of September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
	(In thousands)	
Within 1 year	$ 205,463	$ 207,009
1 to 2 years	1,413	843
2 to 3 years	64,579	1,540
3 to 4 years	21,729	85,606
4 to 5 years	468	447
Greater than 5 years	23,509	23,864
Notes payable	$ 317,161	$ 319,309

NOTE 10 - COMMON STOCK AND PREFERRED STOCK

In August 2005, the Company issued 9,000,000 shares of its common stock, par value $0.01 per share ("Common Stock") at a price of $35.50 per share. The total proceeds to the Company were $319.5 million, before underwriting discounts, commissions and other offering expenses.

Under the Company's charter, the Company's Board of Directors is authorized to issue 110,000,000 shares of stock, of which up to 100,000,000 shares may be Common Stock and up to 10,000,000 shares may be preferred stock. As of September 30, 2006, there were 50,182,257 shares of Common Stock issued and outstanding, 2,150,000 shares of 9.75% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") issued and outstanding and 3,450,000 shares of 9.25% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") issued and outstanding. On or after July 7, 2009, the Company may, at its option, redeem the Series A Preferred Stock, in whole or part, at any time and from time to time, for cash at a price of $25 per share, plus accumulated or unpaid dividends (whether or not declared), if any, to the date of redemption. On or after December 15, 2009, the Company may, at its option, redeem the Series B Preferred Stock, in whole or part, at any time and from time to time, for cash at a price of $25 per share, plus accumulated or unpaid dividends (whether or not declared), if any, to the date of redemption.

During the three months ended September 30, 2006, the Company declared dividends totaling $50.7 million, or $1.01 per share of Common Stock, which were paid on October 30, 2006. During the three months ended September 30, 2005, the Company declared dividends totaling $38.8 million, or $0.86 per share of Common Stock, which were paid on October 27, 2005.

During the nine months ended September 30, 2006, the Company declared dividends totaling $144.3 million, or $2.88 per share of Common Stock. During the nine months ended September 30, 2005, the Company declared dividends totaling $98.2 million, or $2.33 per share of Common Stock.

During the three months ended September 30, 2006, the Company declared dividends totaling $1.3 million, or $0.609375 per share of Series A Preferred Stock, which were paid on October 31, 2006. During the three months ended September 30, 2005, the Company declared dividends totaling $1.3 million, or $0.609375 per share of Series A Preferred Stock, which were paid on October 31, 2005.

During the nine months ended September 30, 2006, the Company declared dividends totaling $3.9 million, or $1.828125 per share of Series A Preferred Stock. During the nine months ended September 30, 2005, the Company declared dividends totaling $3.9 million, or $1.828125 per share of Series A Preferred Stock.

During the three months ended September 30, 2006, the Company declared dividends totaling $2.0 million, or $0.578125 per share of Series B Preferred Stock, which were paid on October 31, 2006. During the three months ended September 30, 2005, the Company declared dividends totaling $2.0 million, or $0.578125 per share of Series B Preferred Stock, which were paid on October 31, 2005.

During the nine months ended September 30, 2006, the Company declared dividends totaling $6.0 million, or $1.734375 per share of Series B Preferred Stock. During the nine months ended September 30, 2005, the Company declared dividends totaling $6.0 million, or $1.734375 per share of Series B Preferred Stock.

NOTE 11 - INCOME TAXES

A reconciliation of the statutory income tax provision to the effective income tax expense (benefit) is as follows:

	Three Months Ended September 30,				Nine Months Ended	
	2006		2005		2006	
	(Dollars in thousands)					
Tax provision at statutory rate	$ 30,670	35.0%	$ 19,516	35.0%	$ 92,351	35.0%
Non-taxable REIT income	(14,033)	(16.0)	(17,487)	(31.4)	(34,152)	(12.9)
State and local taxes, net of federal income tax benefit	(1,385)	(1.6)	253	0.5	5,693	2.2
Meals and entertainment	320	0.4	218	0.4	1,187	0.4
Other	39	-	49	0.1	(44)	-
Income tax expense (benefit)	$ 15,611	17.8%	$ 2,549	4.6%	$ 65,035	24.7%

The major sources of temporary differences and their deferred tax effect at September 30, 2006 and December 31, 2005 are as follows:

	September 30, 2006	December 31, 2005

	(In thousands)	
Deferred income tax liabilities:		
Capitalized cost of mortgage servicing rights	$ 165,154	$ 150,926
Loan origination costs	28,356	8,973
Depreciation	1,667	3,083
Deferred state income taxes	-	1,465
Mark-to-market adjustments	10,522	-
Other	-	11
Deferred income tax liabilities	205,699	164,458
Deferred income tax assets:		
Tax loss carryforwards	95,195	109,145
Allowance for bad debts and foreclosure reserve	8,831	2,817
Deferred state income taxes	414	-
Mark-to-market adjustments	-	10,721
AMT credit	1,745	1,745
Broker fees	-	958
Bonus accrual	1,209	8,399
Deferred compensation	5,754	3,436
Other	390	-
Deferred income tax assets	113,538	137,221
Net deferred income tax liabilities	$ 92,161	$ 27,237

American Home Mortgage Servicing, Inc. has approximately $40 million of separate company federal net operating loss carryforwards which begin to expire in 2008. In addition, American Home Mortgage Holdings, Inc. has approximately $274 million of federal and approximately $203 million of state net operating loss carryforwards which begin to expire in 2024 and 2009, respectively. The weighted average of the expiration of the state net operating loss carryforwards is approximately sixteen years.

At September 30, 2006 and December 31, 2005, no valuation allowance has been established against deferred tax assets since it is more likely than not that the deferred tax assets will be realized.

The Company has been audited by various state tax jurisdictions which have settled with a "no change" decision. In addition, the Company is currently under examination by other tax jurisdictions which the Company expects to result in no material assessments. The Company regularly assesses the likelihood of additional assessments in each of the tax jurisdictions in the calculation of its provision and maintains an appropriate reserve as needed.

NOTE 12 - EARNINGS PER SHARE

The following is a reconciliation of the denominators used in the computations of basic and diluted earnings per share for the three and nine months ended September 30, 2006 and 2005:

(Dollars in thousands, except per share amounts)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Mon Septem 2006
Numerator for basic earnings per share - Net income available to common shareholders	$ 68,715	$ 49,904	$ 188,916
Denominator:			
Denominator for basic earnings per share			
Weighted average number of common shares outstanding during the period	50,148,422	45,173,834	49,975,027
Net effect of dilutive stock options	404,333	494,784	387,852
Denominator for diluted earnings per share	50,552,755	45,668,618	50,362,879
Net income per share available to common shareholders:			
Basic	$ 1.37	$ 1.10	$ 3.78
Diluted	$ 1.36	$ 1.09	$ 3.75

NOTE 13 - STOCK INCENTIVE PLAN

Pursuant to the Plan, eligible employees, officers and directors may be offered the opportunity to acquire the Company's Common Stock through the grant of options and the award of restricted stock under the Plan. The total number of shares that may be optioned or awarded under the Plan is 4,000,000 shares of Common Stock. The Plan provides for the granting of options at the fair market value on the date of grant. The options issued primarily vest 50% on the two-year anniversary of the grant date and 50% on the three-year anniversary of the grant date, and expire ten years from the grant date.

Effective January 1, 2006, the Company adopted SFAS No. 123R, which requires that the compensation cost relating to share-based payment transactions (including employee stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans) be recognized as an expense in the Company's consolidated financial statements. Under SFAS No. 123R, the related compensation cost is measured based on the fair value of the award at the date of grant. The Company adopted the fair value recognition provisions of SFAS No. 123R, using the modified prospective method. Under this method, compensation cost in the nine months ended September 30, 2006 includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of, December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated using a binomial lattice-based option valuation model.

During the nine months ended September 30, 2006, the Company recognized compensation expense of $820 thousand relating to stock options granted under the Plan. The expense, before income tax effect, is included in salaries, commissions and benefits expense. The income tax benefit recognized in income for the nine months ended September 30, 2006 for stock options was $165 thousand. No compensation cost was recognized for the nine months ended September 30, 2005.

During the nine months ended September 30, 2006, the fair value of the options granted was estimated using the binomial lattice option-pricing model. Under the binomial lattice option-pricing model, the fair value of each option award is estimated, with the assistance of an outside consulting service, on the date of grant, which incorporates ranges of assumptions for inputs as shown in the following table. The assumptions are as follows:

Dividend yield range: The expected dividend yield assumption is based on the Company's current dividend yield as the best estimate of projected dividend yield for periods within the contractual life of the option.

Expected volatility: The expected volatility assumption is a blend of implied volatility based on market-traded options on the Company's Common Stock and historical volatility of the Company's Common Stock over the contractual life of the options.

Risk-free interest rate range: The risk-free interest rate assumption is based on the U.S. Treasury yield curve in effect at the time of grant for periods within the contractual life of the option.

Expected term range: The Company uses historical data to estimate option exercise and employee termination behavior within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected life of options granted is derived from the output of the option valuation model and represents the period of time the options are expected to be outstanding.

The weighted-average fair value per share of options granted during the nine months ended September 30, 2006 was $4.65. The fair value of the options granted during the nine months ended September 30, 2006 was estimated using the binomial lattice option-pricing model with the following assumptions used for the grants:

	Nine Months Ended September 30, 2006
Dividend yield range	11.9% - 13.1%
Expected volatility	39.1 %
Risk-free interest rate range	4.3% - 5.0%
Expected term range (in years)	7.0 - 7.9

Prior to adoption of SFAS No. 123R as of January 1, 2006, the Company's pro forma disclosures reflected the fair value of each option grant estimated on the date of grant using the Black-Scholes option-pricing model. Under the Black-Scholes option-pricing model, the Company estimated volatility using only its historical share price performance over the expected life of the option.

The weighted-average fair value per share of options granted during the nine months ended September 30, 2005 was $3.82 . The fair value of the options granted during the nine months ended September 30, 2005 was estimated using the

Black-Scholes option-pricing model with the following assumptions used for the grants:

	Nine Months Ended September 30, 2005
Dividend yield	9.1 %
Expected volatility	29.1 %
Risk-free interest rate	5.0 %
Expected term (in years)	3.0

The following table presents a summary of the Company's stock option activity for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,				Nine Mo	
	2006		2005		2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	W A E
Options outstanding - beginning of period	1,747,433	$ 25.56	1,535,321	$ 22.28	1,501,384	$
Granted	-	-	25,000	34.18	452,159	
Exercised	(57,903)	18.46	(46,448)	10.56	(205,513)	
Canceled	(5,000)	28.45	-	-	(63,500)	