

Edgar Filing: AMERICAN MORTGAGE ACCEPTANCE CO - Form 10-Q

AMERICAN MORTGAGE ACCEPTANCE CO  
Form 10-Q  
August 08, 2006

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

OR

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

Commission File Number 0-23972

AMERICAN MORTGAGE ACCEPTANCE COMPANY  
(Exact name of Registrant as specified in its charter)

MASSACHUSETTS  
(State or other jurisdiction of  
incorporation or organization)

13-6972380  
(I.R.S. Employer  
Identification No.)

625 MADISON AVENUE, NEW YORK, NEW YORK  
(Address of principal executive offices)

10022  
(Zip Code)

Registrant's telephone number, including area code (212) 317-5700

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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Large Accelerated filer ☐ 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 ☒

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As of July 31, 2006, there were 8,305,878 outstanding common shares of the registrant's shares of beneficial interest, \$0.10 par value.

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#### SIGNATURES

## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
Condensed Consolidated Balance Sheets  
(In thousands, except per share amounts)

#### ASSETS

June 30,	Decemb
2006	20
-----	-----

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	(Unaudited)	
Cash and cash equivalents	\$ 3,692	\$ 11
Investments		
Debt securities at fair value	194,286	222
Mortgage loans receivable, net	199,762	51
Notes receivable, net	13,725	13
Revenue bonds	6,489	6
ARCap	22,278	20
Real estate owned - held and used, net	67,500	68
Accounts receivable	2,920	3
Other assets	6,498	1
	-----	-----
Total assets	\$ 517,150	\$ 400
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Repurchase facilities payable	\$ 184,253	\$ 209
CDO repurchase facility	127,644	
Line of credit - related party	27,042	
Warehouse facility payable	--	4
Mortgages payable on real estate owned	40,220	40
Preferred shares of subsidiary (subject to mandatory repurchase)	25,000	25
Accounts payable and accrued expenses	2,613	1
Due to Advisor and affiliates	1,891	2
Distributions payable	3,322	3
	-----	-----
Total liabilities	411,985	286
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Shares of beneficial interest; \$.10 par value; 25,000 shares authorized; 8,719 issued and 8,304 outstanding in 2006 and 2005	871	
Treasury shares of beneficial interest at par; 415 shares in 2006 and 2005	(42)	
Additional paid-in capital	126,427	126
Share-based compensation	--	
Accumulated deficit	(17,027)	(17)
Accumulated other comprehensive (loss) income	(5,064)	4
	-----	-----
Total shareholders' equity	105,165	114
	-----	-----
Total liabilities and shareholders' equity	\$ 517,150	\$ 400
	=====	=====

See accompanying notes to condensed financial statements.

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## Condensed Consolidated Statements of Income (In thousands, except per share amounts) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues:				
Interest income:				
Debt securities	\$ 2,996	\$ 3,339	\$ 6,215	\$ 6,371
Mortgage loans	3,687	1,148	5,675	1,763
Notes receivable	216	378	449	857
Revenue bonds	141	146	284	293
Temporary investments	52	67	135	84
Rental income of real estate owned - held and used	2,338	2,283	4,731	4,467
Other revenues	157	499	162	728
Total revenues	9,587	7,860	17,651	14,563
Expenses:				
Interest	4,227	1,735	6,586	2,917
Interest - distributions to preferred shareholders of subsidiary (subject to mandatory repurchase)	556	432	1,074	500
Mortgage interest for real estate owned - held and used	595	603	1,192	1,208
Property operations of real estate owned - held and used	1,185	1,046	2,650	1,966
General and administrative	490	468	978	905
Fees to Advisor	977	680	1,803	1,374
Depreciation	450	336	900	702
Amortization and other	15	91	30	224
Total expenses	8,495	5,391	15,213	9,796
Other income:				
Equity in earnings of ARCap	2,397	600	3,076	1,200
Loss on repayment of debt securities	(153)	--	(153)	(71)
Change in fair value of derivative instruments	1,879	--	2,023	--
Total other income	4,123	600	4,946	1,129
Net income	\$ 5,215	\$ 3,069	\$ 7,384	\$ 5,896
Net income per share (basic and diluted) \$	0.63	\$ 0.37	\$ 0.89	\$ 0.71
Dividends per share	\$ 0.40	\$ 0.40	\$ 0.80	\$ 0.80
Weighted average shares outstanding:				

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Basic	8,304	8,311	8,304	8,324
	=====	=====	=====	=====
Diluted	8,304	8,311	8,305	8,327
	=====	=====	=====	=====

See accompanying notes to condensed financial statements.

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## AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES Condensed Consolidated Statements of Cash Flows (In thousands) (Unaudited)

	Six Months Ended June 30,	
	2006	2005
	-----	-----
Cash flows from operating activities:		
Net income	\$ 7,384	\$ 5,896
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	900	702
Change in fair value of derivative instruments	(2,023)	--
Equity in earnings of ARCap	(3,076)	(1,200)
Net loss on sale or repayment of assets	153	71
Amortization and accretion	(144)	176
Other non-cash expense	89	20
Distributions received from equity investee	1,716	1,200
Changes in operating assets and liabilities:		
Accounts receivable	159	(461)
Other assets	223	(250)
Due to Advisor and affiliates	(1,070)	462
Accounts payable and accrued expenses	921	(41)
	-----	-----
Net cash provided by operating activities	5,232	6,575
	-----	-----
Cash flows from investing activities:		
Funding and purchase of mortgage loans	(153,759)	(21,178)
Principal repayments of mortgage loans	5,450	--
Investment in debt securities	--	(40,443)
Principal repayments of debt securities	17,945	6,313
Purchase of mortgage loans on real estate owned	--	(17,150)
Proceeds from sale of real estate owned	--	7,474
Principal repayment on real estate owned	--	480
Funding of notes receivable	--	(472)
Repayment of notes receivable	--	8,177
Principal repayment of revenue bonds	90	104
Additions to real estate owned	--	(14)
	-----	-----

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Net cash used in investing activities	(130,274)	(56,709)
	-----	-----

continued

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## AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES Condensed Consolidated Statements of Cash Flows (In thousands) (Unaudited)

	Six Months Ended June 30,	
	2006	2005
	-----	-----
Cash flows from financing activities:		
Proceeds from CDO repurchase facility	127,644	--
Proceeds from repurchase facilities	7,368	63,548
Repayments of repurchase facilities	(32,216)	(20,041)
Proceeds from warehouse facility	--	243
Repayments of warehouse facility	(4,070)	--
Proceeds from line of credit - related party	67,542	14,761
Repayments of line of credit - related party	(40,500)	(19,361)
Deferred financing costs	(1,604)	(802)
Distributions paid to shareholders	(6,644)	(6,671)
Treasury stock purchases	--	(368)
Issuance of preferred shares of subsidiary	--	25,000
	-----	-----
Net cash provided by financing activities	117,520	56,309
	-----	-----
Net (decrease) increase in cash and cash equivalents	(7,522)	6,175
Cash and cash equivalents at the beginning of the year	11,214	2,674
	-----	-----
Cash and cash equivalents at the end of the period	\$ 3,692	\$ 8,849
	=====	=====

See accompanying notes to condensed financial statements.

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements

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June 30, 2006  
(Unaudited)

## NOTE 1 - BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of American Mortgage Acceptance Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise indicated, we herein refer to American Mortgage Acceptance Company and its subsidiaries as "AMAC", "we", "us", "our", and "our Company". We are externally managed by CharterMac AMI Associates, Inc., (the "Advisor"), a subsidiary of CharterMac, a publicly traded company. We operate in one business segment, which focuses on investing in mortgage loans secured by multifamily and commercial property throughout the United States.

Effective April 2006, we dissolved one subsidiary that was formed for the purposes of managing a repurchase facility, which expired in March 2004.

In March 2006, we formed AMAC CDO Funding I ("AMAC CDO"), a wholly owned subsidiary, for the purposes of managing our first Collateralized Debt Obligation ("CDO") Securitization (see Note 5).

The condensed consolidated financial statements have been prepared without audit. In the opinion of management, the financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our financial position as of June 30, 2006, and the results of our operations and our cash flows. However, the operating results for interim periods may not be indicative of the results for the full year.

Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. It is suggested that these financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2005.

Our annual report on Form 10-K for the year ended December 31, 2005, contains a summary of our significant accounting policies. There have been no material changes to these items since December 31, 2005, except as noted below. As previously disclosed, we converted a portion of our preferred investment in ARCap Investors, LLC ("ARCap") to common units. While we continue to account for this investment under the equity method, a portion of the equity income recorded is based on the preferred dividend, while the balance is based on our proportionate share of common units outstanding.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain prior year amounts, in particular the reclassification of results of operations of our real estate owned - held and used portfolio, have been reclassified to conform to the current year presentation.

## NEW ACCOUNTING PRONOUNCEMENTS

During the first quarter of 2006, we adopted Statement of Financial Accounting Standards No. 123(R), SHARE-BASED PAYMENT ("SFAS No. 123(R)") which replaces

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SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION ("SFAS No. 123"). Among other things, SFAS No. 123(R) requires that companies record the value of stock option grants as compensation expense, while SFAS No. 123 allowed disclosure of the impact instead of recording the expense. As we had been accounting for share-based payments as an expense following the fair value provisions of SFAS No. 123, the impact of adopting this standard was not material to us. See also Note 8.

In November 2005, the FASB issued Staff Position 115 / 124 - 1, THE MEANING OF OTHER-THAN-TEMPORARY IMPAIRMENT AND ITS APPLICATION TO CERTAIN INVESTMENTS. The Staff Position clarified, among other matters, the determination as to when an

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### AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements June 30, 2006 (Unaudited)

unrealized loss on debt securities should be reflected in the income statement as opposed to accumulated other comprehensive income and was effective as of the first quarter of 2006. Application of the Staff Position had no material impact on our results of operations.

#### NOTE 2 - INVESTMENTS IN DEBT SECURITIES - AVAILABLE FOR SALE

Information regarding our investments in debt securities is as follows:

(In thousands)		
	June 30, 2006	December 31, 2005
	-----	-----
Amortized cost	\$ 200,698	\$ 218,891
	-----	-----
Unrealized gains	1,988	5,707
Unrealized losses	(8,400)	(1,875)
	-----	-----
Net unrealized (loss) gain	(6,412)	3,832
	-----	-----
Fair value	\$ 194,286	\$ 222,723
	=====	=====

The fair value and gross unrealized losses of our debt securities aggregated by length of time that these individual debt securities have been in a continuous unrealized loss position at June 30, 2006, and December 31, 2005, is summarized in the table below:



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(Dollars in thousands)

	June 30, 2006			December 31, 2005		
	Less than 12 Months	12 Months or More	Total	Less than 12 Months	12 Months or More	Total
Number of securities	29	5	34	8	16	24
Fair value	\$137,697	\$ 10,900	\$148,597	\$ 25,905	\$ 56,281	\$ 82,186
Gross unrealized loss	\$ 6,936	\$ 1,464	\$ 8,400	\$ 197	\$ 1,678	\$ 1,875

These unrealized losses are as a result of increases in interest rates subsequent to the acquisition of the securities. All of the debt securities are performing according to their terms. Furthermore, we have the intent and ability to hold these securities to maturity, or at least until interest rates change such that the fair value is no longer less than book value. Accordingly, we have concluded that these declines in value are temporary. As such, no impairment charges have been recorded.

At June 30, 2006, all of our debt securities were pledged as collateral under our repurchase facilities. At June 30, 2006, we had no availability to borrow against these debt securities.

During April 2006, we sold a debt security and a related mortgage loan (see Note 3).

## NOTE 3 - MORTGAGE LOANS

During April 2006, AMAC CDO purchased a first mortgage loan from CharterMac, the parent of our Advisor, at approximately its \$26.0 million face value. This note, along with an existing \$5.0 million subordinated participation we already owned, were assigned to AMAC CDO and pledged as collateral under the CDO repurchase facility, in exchange for \$29.2 million in funds.

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## AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements June 30, 2006 (Unaudited)

Including the first mortgage loan purchased from CharterMac, we partially or fully funded ten first mortgage loans and subordinated notes, totaling approximately \$151.7 million, for the CDO securitization. The loans bear interest at a weighted average interest rate of 6.37%.

During April 2006, we sold a debt security and a mortgage loan, both pertaining to one property, for approximately \$15.5 million. We received \$14.6 million of the sale proceeds, of which \$14.2 was used to repay funds we had borrowed from our repurchase facilities. During July 2006, we received the final payment of sale proceeds. As a result of the sale, we recognized a loss of approximately \$138,000 due to the write-off of an unamortized premium on the debt security. We also recognized income of approximately \$131,000 due to the accelerated

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amortization of a loan origination fee on the mezzanine loan, which is included in other revenues on our condensed consolidated statements of income for the three and six month period ended June 30, 2006.

### NOTE 4 - REAL ESTATE OWNED

Real estate owned consisted of the following:

(Dollars in thousands)

	Number of Units	Location	Carrying Value as of June 30, 2006	Ca
	-----	-----	-----	Dec
Real Estate Owned - Held and Used, net				
Concord Portfolio	852	Houston, TX	\$ 53,127	\$
Less: accumulated depreciation			(3,735)	
Subtotal			----- 49,392	-----
Reserve at Autumn Creek	212	Friendswood, TX	19,349	
Less: accumulated depreciation			(1,241)	
Subtotal			----- 18,108	-----
Total Real Estate Owned - Held and Used, net	1,064		\$ 67,500	\$
	=====		=====	=====
Mortgages Payable on Real Estate Owned				
Concord Portfolio			\$ 40,220	\$
			=====	=====

### NOTE 5 - CDO REPURCHASE FACILITY

In addition to our existing repurchase facilities, we executed a new repurchase agreement during March 2006 with Bank of America ("BOA"). The purpose of this facility is to fund up to \$250.0 million of investments that are to be placed into our first CDO securitization. Advance rates on the borrowings from this facility, ranging from 50% to 95% of collateral value, will be determined on a loan-by-loan basis. Interest on the borrowings, which range from LIBOR plus 0.50% to LIBOR plus 2.25%, are also determined on a loan-by-loan basis. The repurchase facility expires upon inception of the CDO securitization, or six months after the inception of the repurchase facility, whichever comes first. At June 30, 2006, we had approximately \$127.6 million of borrowings outstanding under this facility, at a weighted average interest rate of 6.27%. In connection with the CDO securitization, we have prepaid approximately \$1.5 million of a 1% fee due in full when the CDO is securitized. These fees, which are non-refundable, have been deferred and will be amortized over the life of the CDO securitization.

AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2006  
(Unaudited)

## NOTE 6 - DERIVATIVE INSTRUMENTS

## CASH FLOW HEDGE OF DEBT

As of June 30, 2006, we had one interest rate swap with a notional amount of \$30.0 million, which is designated as a cash flow hedge with the hedged item being the interest payments on our variable-rate repurchase facilities. This swap is recorded at fair value, with changes in fair value recorded in accumulated other comprehensive income to the extent the hedge is effective in achieving offsetting cash flows. There was no ineffectiveness in the hedging relationship during the periods reported. Amounts in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. Since we are hedging the interest payments on our variable-rate debt, the forecasted transactions are the interest payments.

We expect that the swap will be highly effective in achieving offsetting changes in cash flows throughout its term.

## FREE STANDING DERIVATIVES RELATED TO INVESTMENTS

We also have sixteen interest rate swaps with an aggregate notional amount of \$185.0 million that are hedging changes in the fair value of certain investments. We did not elect to apply hedge accounting to these swaps and therefore, the changes in the fair value of these swaps are included in net income.

## FINANCIAL STATEMENT IMPACT

Interest rate swaps for which we were in a net settlement liability position are recorded in accounts payable, accrued expenses and other liabilities and those for which we are in a net settlement asset position are recorded in other assets. The amounts recorded at June 30 were as follows:

(In thousands)	2006 -----	2005 -----
Net asset position	\$3,920	\$ 366
Net liability position	\$ 131	\$ --

Interest expense included the following related to our swaps:

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	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Interest income	\$ (127)	\$ --	\$ (202)	\$ --
Interest expense	61	36	66	107
Net	\$ (66)	\$ 36	\$ (136)	\$ 107

The change in the fair value of our free standing derivatives for the six months ended June 30, 2006 was \$2.0 million and is recorded in other income on our condensed consolidated statements of income.

We estimate that approximately \$267,000 of the net unrealized gain included in accumulated other comprehensive income will reduce interest expense within the next twelve months.

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2006  
(Unaudited)

NOTE 7 - SHAREHOLDERS' EQUITY

Comprehensive income for the six months ended June 30, 2006 and 2005, was as follows:

(In thousands)	Six months ended June 30,	
	2006	2005
Net income	\$ 7,384	\$ 5,896
Net unrealized gain on derivative instruments	205	237
Net unrealized holding (loss) gain on investments	(10,293)	1,824
Comprehensive income of equity investments	240	--
Comprehensive (loss) income	\$ (2,464)	\$ 7,957

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## NOTE 8 - SHARE-BASED COMPENSATION

In accordance with our Amended and Restated Incentive Share Option Plan (the "Plan"), our board of trustees can award share options to trustees, officers and employees of AMAC and employees of our Advisor and its affiliates. As of June 30, 2006, a maximum of 643,536 options can be granted, with annual limits based upon formulas specified in the Plan. Option terms and vesting requirements are determined at the time of grant, provided that the term is no longer than ten years.

On January 1, 2006, we adopted SFAS No. 123(R) under the modified prospective method. Since we previously accounted for our share-based compensation as expense under the fair value provisions of SFAS No. 123, our adoption did not significantly impact our financial position or our results of operations.

In accordance with SFAS No. 123(R), we accrue compensation cost based on the estimated fair value of the options issued and amortize those costs over the vesting period. Because the grant recipients are not our employees and vesting of the options is contingent upon the recipient continuing to provide services to us, we estimate the fair value of the options at each period-end up to the vesting date and adjust recorded amounts accordingly.

As of June 30, 2006, all of our share options were fully amortized, and there was no unrecognized compensation cost related to non-vested share-based compensation grants.

The following table summarizes share option activity in the Plan for the six months ended June 30, 2006:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at beginning of year	187,052	\$15.78	4.91	--
Granted	--	--	--	--
Forfeited/expired	--	--	--	--
Exercised	--	--	--	--
Outstanding at end of period	187,052	\$15.78	4.66	--
Exercisable at end of period	187,052	\$15.78	4.66	--
Compensation cost recorded	\$ 59,000			

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## AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements June 30, 2006 (Unaudited)

The options outstanding had no intrinsic value at June 30, 2006, as the Company's closing stock price on the last trading day of the second quarter was less than the exercise prices. This amount will change based on the fair market value of the Company's stock.

### NOTE 9 - EARNINGS PER SHARE

Diluted net income per share is calculated using the weighted average number of shares outstanding during the period plus the additional dilutive effect of common share equivalents. The dilutive effect of outstanding share options is calculated using the treasury stock method.

(In thousands, except per share amounts)

Three Months Ended June 30, 2006:	Income	Shares	Per Share
	-----	-----	-----
Basic EPS	\$5,215	8,304	\$0.63
Effect of dilutive securities	--	--	--
	-----	-----	-----
Diluted EPS	\$5,215	8,304	\$0.63
	=====	=====	=====
Three Months Ended June 30, 2005:			
Basic EPS	\$3,069	8,311	\$0.37
Effect of dilutive securities	--	--	--
	-----	-----	-----
Diluted EPS	\$3,069	8,311	\$0.37
	=====	=====	=====
Six Months Ended June 30, 2006:			
Basic EPS	\$7,384	8,304	\$0.89
Effect of dilutive securities	--	1	--
	-----	-----	-----
Diluted EPS	\$7,384	8,305	\$0.89
	=====	=====	=====
Six Months Ended June 30, 2005:			
Basic EPS	\$5,896	8,324	\$0.71
Effect of dilutive securities	--	3	--
	-----	-----	-----
Diluted EPS	\$5,896	8,327	\$0.71
	=====	=====	=====

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## AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements June 30, 2006 (Unaudited)

### NOTE 10 - RELATED PARTY TRANSACTIONS

The costs paid or payable to our Advisor were as follows:

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Shared services expenses	\$ 497	\$ 210	\$ 699	\$ 456
Asset management fees	480	382	916	710
Incentive management fee (1)	--	88	188	208
	-----	-----	-----	-----
	\$ 977	\$ 680	\$1,803	\$1,374
	=====	=====	=====	=====
Interest paid on related party line of credit	\$ 745	\$ --	\$ 745	\$ 11
	=====	=====	=====	=====

(1) Accrual based on proportion of actual earnings as compared to our estimates of full-year results. Due to an amendment to our Amended and Restated Advisory Services Agreement, the calculation of the annual incentive management fee payable to our Advisor excludes any gains or losses resulting from the change in fair value of our derivative instruments. As such, no accrual was recorded for the three months ended June 30, 2006.

During April 2006, we purchased a first mortgage loan from CharterMac for the CDO securitization (see Note 3). Including this loan, we partially or fully funded ten first mortgage loans and subordinated notes, totaling approximately \$151.7 million, for the CDO securitization. All of these loans were originated by CharterMac Mortgage Capital ("CMC"), an affiliate of our Advisor. CMC received approximately \$608,000 in loan origination fees related to these originations, all of which were paid by the borrowers.

During April 2006, we amended our loan agreement with CharterMac to increase our borrowing capacity to \$50.0 million and extend the maturity date of the facility to June 2007.

During April 2006, we funded a \$27.0 million first mortgage loan to a property developed by a company controlled by the chairman of CharterMac. In the opinion of management, the terms of the transaction are consistent with those of transactions with independent third parties.

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### NOTE 11 - COMMITMENTS AND CONTINGENCIES

#### a) Legal

On October 27, 2003, prior to taking possession of the real estate collateral supporting a loan investment, we were named in a lawsuit, Concord Gulfgate, Ltd. vs. Robert Parker, Sunrise Housing Ltd., and American Mortgage Acceptance Company, Cause No. 2003-59290 in the 133rd Judicial District Court of Harris County, Texas. The suit alleges that the loan transaction was not properly authorized by the borrower and was not for a legitimate borrower purpose. The suit claims, among other causes of action against the respective defendants, wrongful foreclosure of the real estate collateral, tortious interference with contract and civil conspiracy. The suit seeks, among other relief, actual, consequential, and exemplary damages, and a declaration that the loan documents are unenforceable and constitute a cloud on title. The basic claim of this suit is for the amount of \$1.5 million. The discovery phase of this suit has been completed. A motion for summary judgment was filed by us, but was denied on July 25, 2005. It is expected that the case will be called to trial in September 2006. No reserve has been made at June 30, 2006.

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AMERICAN MORTGAGE ACCEPTANCE COMPANY AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2006  
(Unaudited)

We filed a countersuit on November 25, 2003, against Concord Gulfgate, Ltd., as guarantor, seeking a deficiency on the loan and recovery of unpaid taxes and certain property receipts. We are currently unable to determine the possible outcome of the litigation.

#### b) Guarantees

Prior to 2000, we entered into a loan program with Fannie Mae, under which we agreed to guarantee a first-loss position on certain loans, which could have potentially resulted in an aggregate exposure of \$7.5 million. In June and October of 2000, we originated two loans totaling \$3.3 million under the program. In September 2003, we transferred and assigned all of our obligations with respect to these two loans to CMC, a subsidiary of CharterMac, both of which are affiliates of the Advisor. Pursuant to the agreement with CMC, CharterMac guaranteed CMC's obligations, and we agreed to indemnify both CMC and CharterMac for any losses incurred in exchange for retaining all fees which we were otherwise entitled to receive from Fannie Mae under the program. The maximum exposure at June 30, 2006, was \$3.2 million, although we expect that we will not be called upon to fund these guarantees.

In the first quarter of 2003, we discontinued our loan program with Fannie Mae and will issue no further guarantees pursuant to such program.

For these guarantees, we monitor the status of the underlying properties and evaluate our exposure under the guarantees. To date, we have concluded that no accrual for probable losses is required under SFAS No. 5, ACCOUNTING FOR CONTINGENCIES.

#### Future Funding Commitments



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We are committed to additionally fund the following bridge and mezzanine loans at June 30, 2006:

(In thousands)					
MAXIMUM AMOUNT OF COMMITMENTS					
ISSUE DATE	PROJECT	LOCATION	NO. OF APT. UNITS	TOTAL	LESS THAN 1 YEAR
Jun-04	Woods of Mandarin	Jacksonville, FL	401	\$ 428	\$ 428
Apr-05	Atlantic Hearthstone	Hillsborough, NJ	198	1,847	1,847
May-05	Pasadena	Pasadena, FL	198	198	198
Jul-05	222 Pearson	Chicago, IL	219	217	217
Jul-05	Bayfront Villas	Gulfport, FL	120	142	142
Sep-05	Marbella	Clearwater, FL	--	154	154
TOTAL FUTURE FUNDING COMMITMENTS			1,136	\$2,986	\$2,986

## NOTE 12 - SUBSEQUENT EVENTS

In June 2006, CharterMac, an affiliate of our Advisor, announced its intent to acquire all of the membership interests of ARCap, including those that we own. The board of trustees of AMAC formed a special committee of the board (consisting only of our independent trustees) to evaluate the offer. During July 2006, we received a purchase agreement from ARCap pursuant to which ARCap's investors, including AMAC, would receive a price of approximately \$35 per membership unit, which amounts to approximately \$28.0 million for our investment. The special committee has recommended, and our entire board has approved, our entering into the agreement to sell our membership interests. Should the transaction occur, prior to closing we will also receive from ARCap a special distribution which we expect to amount to approximately \$12.0 million. In total, these transactions would yield incremental net income of approximately \$13.5 million, after accounting for incentive management fees payable to our Advisor. Assuming the transaction closes and we receive the amounts assumed above, we expect that we will make a special distribution to our common shareholders during 2006 in the range of \$1.40 to \$1.50 per share, subject to board approval and an ability to achieve our business plan before the end of the year. We expect the transaction to close in August 2006. Following the completion of the transaction, we may also receive an additional special

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distribution should ARCap's working capital at the acquisition date exceed that required by the purchase agreement. There can be no assurance, however, that we will receive any additional amount.

In addition to approving the sale of our ARCap investment, our board also approved changes to the number of trustees on the board, appointments to the board and other management changes, contingent upon the transactions described above. Such changes will be disclosed upon the closing of the transactions.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Forward-Looking Statements

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Certain statements made in this report may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. Such forward-looking statements include statements regarding the intent, belief or current expectations of us and our management (which includes our Advisor) and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors, which are outlined in detail in our annual report on Form 10-K for the year ended December 31, 2005, include the following:

- o Risks of investing in uninsured and non-investment grade mortgage assets and subordinated Commercial Mortgage-Backed Securities ("CMBS");
- o Competition in acquiring desirable investments;
- o Interest rate fluctuations;
- o Risks associated with hedging transactions, which can limit gains and increase exposure to loss;
- o Risks associated with investments in real estate generally and the properties which secure many of our investments;
- o General economic conditions, particularly as they affect the value of our assets and the credit status of our borrowers;
- o Dependence on our external Advisor for all services necessary for our operations;
- o Conflicts which may arise among us and other entities affiliated with our Advisor which have similar investment policies to ours;
- o Risks associated with the repurchase agreements we utilize to finance our investments and the availability of financing generally; and
- o Risks associated with our contemplated CDO transactions, which include, but are not limited to:

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- o The inability to acquire eligible investments for a CDO issuance;
- o The inability to find suitable replacement investments in collateralized debt obligations with reinvestment periods; and
- o The negative impact on our cash flow that may result from the use of CDO financings with over-collateralization and interest coverage requirements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this quarterly report.

### Factors Affecting Comparability

During March 2005, we issued \$25.0 million of Floating-Rate Preferred Securities through a subsidiary. Due to the mandatory redemption feature of these securities, the payments or accruals of dividends and other amounts to be paid to the holders of these securities are reported as interest costs. As a result, these interest costs are classified as Interest - Distributions to Preferred Shareholders of Subsidiary (Subject to Mandatory Repurchase) in our condensed consolidated statements of income. During the first six months of 2006, we recorded a full period of these costs, as compared to costs relating to three and a half months in the comparable 2005 period.

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### Results of Operations

The following is a summary of our operations for the three and six months ended June 30, 2006 and 2005:

(In thousands)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005	Change	2006	2005	Change
Total revenues	\$ 9,587	\$ 7,860	22.0%	\$17,651	\$14,563	21.2%
Total expenses	8,495	5,391	57.6	15,213	9,796	55.3
Total other income	4,123	600	587.2	4,946	1,129	338.1
Net income	\$ 5,215	\$ 3,069	69.9%	\$ 7,384	\$ 5,896	25.2%

In both the three and six month period ended June 30, 2006, as compared to the same periods in 2005, revenues increased mainly due to the funding of several new first mortgage loans and subordinated notes during the second quarter of 2006. Expenses have also increased for these periods due to higher financing costs (particularly due to increased borrowings used to finance an increased

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level of investing and higher interest rates) and higher Advisory costs due to increased allocations of overhead costs and management fees due to increased levels of acquisition. For the six months ended June 30, 2006, expenses also increased due to the recognition of certain property level costs for real estate owned. Other income increased due to the conversion of ARCap shares from preferred to common, earning higher equity income, and from an increase in the fair value of interest rate swaps used to economically hedge the changes in the fair value of certain investments.

### REVENUES

	Three Months Ended June 30, 2006			Six Months Ended June 30, 2006		
	% Change from prior Period	% of 2006 Total Revenues	% of 2005 Total Revenues	% Change from Prior Period	% of 2006 Total Revenues	% of 2005 Total Revenues
Interest income:						
Debt securities	(10.3)%	31.3%	42.5%	(2.4)%	35.2 %	43.7%
Mortgage loans	221.2	38.4	14.6	221.9	32.2	12.1
Notes receivable	(42.9)	2.3	4.8	(47.6)	2.5	5.9
Revenue bonds	(3.4)	1.5	1.9	(3.1)	1.6	2.0
Temporary investments	(22.4)	0.5	0.9	60.7	0.8	0.6
Other revenues	(68.5)	1.6	6.3	(77.7)	0.9	5.0
Subtotal	30.0	75.6	71.0	28.0	73.2	69.3
Rental income	2.4	24.4	29.0	5.9	26.8	30.7
Total revenues	22.0 %	100.0%	100.0%	21.2 %	100.0 %	100.0%

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Revenues were generated by the following investments (exclusive of Real Estate Owned and ARCap):

(In thousands)

	As of June 30, 2006			As of June 30, 2005		
	Carrying Amount	% of Total	Weighted Average InterestRate	Carrying Amount	% of Total	Weighted Average Interest Ra
Debt securities	\$194,286	46.9%	6.17%	\$230,308	78.1%	6.32%

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Mortgage loans	199,762	48.2	8.67	42,458	14.4	12.90
Notes receivable	13,725	3.3	10.63	15,424	5.2	9.45
Revenue bonds	6,489	1.6	8.68	6,656	2.3	8.69
	-----	-----	-----	-----	-----	-----
	\$414,262	100.0%	7.54%	\$294,846	100.0%	7.71%
	=====	=====	=====	=====	=====	=====

Interest income from debt securities decreased primarily due to the payoff of four debt security certificates during 2006 and the second half of 2005, offset by the funding of four lower yielding debt security certificates in 2006.

Interest income from mortgage loans increased for the three and six months ended June 30, 2006, as compared to 2005, primarily due to the funding of ten CDO first mortgage loans and subordinated notes and the partial funding of several existing mezzanine loans during 2006. The decrease in the weighted average interest rates on mortgage loans as of June 30, 2006, as compared to June 30, 2005, was primarily due to the funding of a greater amount of fixed-rate first mortgage loans for our CDO initiative, as opposed to variable-rate mezzanine loans, as we have done in the past.

Interest income from notes receivable decreased for the three and six months ended June 30, 2006, as compared to 2005, primarily due to the payoff of four notes during 2005.

Interest income from temporary investments decreased for the three months ended June 30, 2006, as compared to 2005, primarily due to the investment of excess cash on hand resulting from the payoff of several loans and GNMA certificates that occurred during 2005. We had less cash on hand in the second quarter of 2006, due to an increase in our first mortgage loan investment activity. The balances increased for the six months ended June 30, 2006, as compared to 2005 due to the higher repayment activity and less investing activity in the first quarter of 2006 as compared to 2005.

Other revenues decreased for the three and six months ended June 30, 2006, primarily due to the 2005 recognition of income from a commitment fee for which the commitment had expired unused. There were no comparable transactions in 2006.

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## EXPENSES

	Three Months Ended June 30, 2006			Six Months Ended June 30, 2006		
	% Change from prior Period	% of 2006 Total Revenues	% of 2005 Total Revenues	% Change from Prior Period	% of 2006 Total Revenues	% of 2005 Total Revenues
Interest	143.6 %	44.1 %	22.1 %	125.8 %	37.3 %	20.0%
Distributions to preferred shareholders	28.7	5.8	5.5	114.8	6.1	3.5

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General and administrative	4.7	5.1	5.9	8.1	5.5	6.2
Fees to Advisor	43.7	10.2	8.6	31.2	10.2	9.4
Amortization and other	(83.5)	0.1	1.2	(86.6)	0.2	1.6
	-----	-----	-----	-----	-----	-----
Subtotal	83.9	65.3	43.3	76.9	59.3	40.7
Property operations	13.3	12.4	13.3	34.8	15.0	13.5
Depreciation	33.9	4.7	4.3	28.2	5.1	4.8
Mortgage interest for real estate owned - held and used	(1.3)	6.2	7.7	(1.3)	6.8	8.3
	-----	-----	-----	-----	-----	-----
Total expenses	57.6 %	88.6 %	68.6 %	55.3 %	86.2 %	67.3 %
	=====	=====	=====	=====	=====	=====

At June 30, 2006, excluding the non-recourse mortgage on real estate owned, we had total debt of approximately \$363.9 million with a weighted average interest rate of 5.95% per year, including the effect of our swap agreement. At June 30, 2005, we had a comparable balance of approximately \$230.2 million with a weighted average interest rate of 3.73% per year. The increase in the weighted average interest rate is due to steady increases in market interest rates during 2005 and 2006.

Interest expense increased for the three and six months ended June 30, 2006, as compared to 2005, primarily due to the increased borrowings made during 2006 to fund CDO loan originations and the increase in interest rates during 2005 and 2006.

Due to specific accounting requirements, we classify distributions made on our preferred shares as interest expense. Distributions to preferred shareholders increased for the three and six months ended June 30, 2006, as compared to 2005 due to the issuance of trust preferred securities in March 2005. The 2006 period included six months preferred distributions compared to the three months in 2005. The increase is also due to the increase in interest rates during 2005 and 2006, as the distributions are payable at a variable rate of interest, based on LIBOR.

General and administrative expenses increased for the three and six months ended June 30, 2006, as compared to 2005, primarily due to increased accounting fees, excise taxes, insurance and stock option costs (the last factor due to the accelerated vesting of certain options in 2006). These increases were offset by decreased legal expenses (from a high level of costs associated with foreclosures in 2005) and decreased investor services expenses (due to costs in 2005 related to changes in our trust agreement for which we needed shareholder approval), as compared to 2005.

Fees to Advisor increased for the three and six months ended June 30, 2006, as compared to 2005, due to higher overhead costs because of expansion of our business and higher management fees. While our management fees are now based on equity instead of assets, fees for the first quarter of 2006 were incurred following the asset-based formula. As our asset base is significantly higher this year, fees incurred during the first quarter of 2006 are higher than those incurred in the comparable 2005 period.

Amortization and other costs decreased for the three and six months ended June 30, 2006, as compared to 2005, due to the costs related to our warehouse facility being fully amortized in August 2005.

Property operations represent all non-interest costs at the property level on all of our Real Estate Owned - Held and Used properties. The increase for the three and six months ended June 30, 2006, as compared to 2005, was mainly due to higher property tax costs.

Depreciation expense increased for the three and six months ended June 30, 2006, as compared to 2005, due to a higher base of depreciable real estate owned in 2006 as compared to the 2005 period. In February 2005, we sold the Plaza at San Jacinto property and, in 2006, included depreciation on the larger Autumn Creek property.

#### OTHER INCOME

Other income increased for the three and six months ended June 30, 2006, as compared to 2005, due to the conversion of 315,000 of our 800,000 ARCap membership units from preferred to common at the end of 2005. Following this conversion, we are earning a higher level of equity income from the common share portion of the investment, which included our proportionate share of a large resecuritization gain in 2006.

During 2006, we expect to receive a special distribution, and we plan to sell our membership units to CharterMac, both of which would generate a significant amount of income in the current year (see Note 12). No assurances can be made at this time on the closing of the sale of our ARCap shares.

In addition, other income includes the changes in the fair value of certain interest rate swaps in 2006 for which we do not apply hedge accounting. At June 30, 2006, we had sixteen interest rate swaps with an aggregate notional amount of \$185.0 million. There were no fair value swaps in place at June 30, 2005.

#### Funds from Operations

Funds from operations ("FFO"), represents net income or loss (computed in accordance with GAAP), excluding gains or losses from sales of property, excluding depreciation and amortization related to real property and including funds from operations for unconsolidated joint ventures calculated on the same basis. FFO is calculated in accordance with the National Association of Real Estate Investment Trusts ("NAREIT") definition. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs. FFO should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. Our management considers FFO a supplemental measure of operating performance, and, along with cash flows from operating activities, financing activities, and investing activities, it provides investors with an indication of our ability to incur and service debt, make capital expenditures, and fund other cash needs.

The following table reconciles net income to FFO for the three and six months ended June 30, 2006 and 2005:

(In thousands)

Three Months Ended

Six Months Ended

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	June 30,		June 30,	
	2006	2005	2006	2005
Net income	\$ 5,215	\$ 3,069	\$ 7,384	\$ 5,89
Add back: depreciation of real property	\$ 450	\$ 336	\$ 900	\$ 70
FFO	\$ 5,665	\$ 3,405	\$ 8,284	\$ 6,59
Cash flows from:				
Operating activities	\$ 3,578	\$ 2,843	\$ 5,232	\$ 6,57
Investing activities	\$ (130,507)	\$ (23,261)	\$ (130,274)	\$ (56,70
Financing activities	\$ 129,943	\$ 19,139	\$ 117,520	\$ 56,30
Weighted average shares outstanding:				
Basic	8,304	8,311	8,304	8,32
Diluted	8,304	8,311	8,305	8,32

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Since not all companies calculate FFO in a similar fashion, our calculation presented above may not be comparable to similarly titled measures reported by other companies.

## Liquidity and Capital Resources

### SOURCES OF FUNDS

We expect that cash generated from our investments, as well as our borrowing capacity, will meet our needs for short-term liquidity and will be sufficient to pay all expenses and distributions to our shareholders in amounts sufficient to retain our Real Estate Investment Trust ("REIT") status in the foreseeable future. In order to qualify as a REIT under the Internal Revenue Code (the "Code"), as amended, we must, among other things, distribute at least 90% of our taxable income and 100% of any capital gain. We believe that we are in compliance with the REIT-related provisions of the Code.

We finance our investing activity primarily through borrowing from various facilities at short-term rates. At June 30, 2006, we had approximately \$145.4 million available to borrow, contractually, under our debt facilities without exceeding limits imposed by debt covenants and our by-laws. Subsequent to June 30, 2006, we borrowed \$33.6 million through our debt facilities.

From time to time, we may also issue common shares or other equity to fund investing activity. During 2005, our subsidiary issued \$25.0 million of variable-rate preferred securities. The proceeds received were used to purchase



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debt securities.

We plan to sell our 800,000 preferred and common shares of ARCap to CharterMac, however, there are no assurances that this sale will close. The planned sale would generate approximately \$28.0 million in proceeds in 2006 (see Note 12).

We have capacity to raise approximately \$170.0 million of additional funds by issuing either common or preferred shares pursuant to a shelf registration statement filed with the SEC. If market conditions warrant, we may seek to raise additional funds for investment through further offerings, although the timing and amount of such offerings cannot be determined at this time.

We are expecting to utilize CDOs as a financing tool to lower our cost of capital and thereby enhance our investment capabilities and opportunities. Tapping these securitization markets should enable us to compete in debt markets in which we have not competed effectively in the past and to originate a wide variety of debt products, including floating- or fixed-rate assets, first mortgages, subordinate participations in first mortgages, bridge loans, mezzanine loans, etc. We intend for the assets to be aggregated on our balance sheet and later securitized. We have originated and purchased approximately \$156.7 million in first mortgage loans and subordinated notes through June 30, 2006, that we expect to be used for our first CDO securitization. Subsequently, we originated approximately \$32.5 million in additional first mortgages. Our goal is to complete our first CDO securitization by the end of 2006, although there are no assurances that we will proceed with such a program.

### SUMMARY OF CASH FLOWS

During the six months ended June 30, 2006, as compared to the six months ended June 30, 2005, the net change in cash and cash equivalents decreased by approximately \$13.7 million. Despite higher net earnings, operating cash flows decreased by approximately \$1.3 million primarily due to the timing of the receipt of our equity earnings, as well as the timing of collection of our receivables and payments of our liabilities.

An increase in net cash used in investing activities (approximately \$73.6 million) was due to the increase in investments made during the second quarter of 2006, as compared to 2005. This was due to shifting our focus to originating loans for our first CDO securitization. There was also an increase in net cash provided by financing activities (approximately \$61.2 million) that can be attributed to the higher level of investing activity during the 2006 period, offset by partial repayments made to the repurchase facilities and the full repayment of the warehouse facility.

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### LIQUIDITY REQUIREMENTS AFTER JUNE 30, 2006

During July 2006, we closed approximately \$32.0 million of first mortgage loans. We plan to securitize these loans in our first CDO. In addition to these loans, we anticipate approximately another \$150.0-200.0 million in additional acquisition volume for the CDO securitization to close during 2006. Financing for the anticipated acquisitions is expected to be made through our CDO related repurchase facility with BOA (see Note 5 to our condensed consolidated financial statements).

During August 2006, distributions of approximately \$3.3 million (\$0.40 per share), which were declared in June 2006, will be paid to common shareholders.

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We are not aware of any trends or events, commitments or uncertainties, which have not otherwise been disclosed that will or are likely to impact liquidity in a material way.

### Dividends

The following table outlines our total dividends and return of capital amounts, determined in accordance with GAAP, for the six months ended June 30:

(In thousands)	2006 -----	2005 -----
Total dividends	\$6,644	\$6,671
Return of capital:		
Amount	--	\$ 773
Per share	--	\$ 0.09
Percent of total dividends	--	11.60%

### Commitments, Contingencies and Off-Balance Sheet Arrangements

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See Note 11 to our condensed consolidated financial statements for a summary of our guarantees and commitments and contingencies.

We have no unconsolidated subsidiaries, special purpose off-balance sheet financing entities, or other off-balance sheet arrangements.

### CONTRACTUAL OBLIGATIONS

In conducting business, we enter into various contractual obligations. Details of these obligations, including expected settlement periods as of June 30, 2006, are contained below.

	Payments Due by Period (In thousands)			
	Total -----	Less than 1 Year -----	1 - 3 Years -----	3 - 5 Years -----
Debt:				
Repurchase facilities	\$ 184,253	\$ 184,253	\$ --	\$ --
CDO repurchase facility	127,644	127,644	--	--
Line of credit-related party	27,042	27,042	--	--
Mortgage loan on real estate owned (1)	40,220	512	1,218	1,370
Preferred shares of subsidiary (subject to mandatory repurchase)	25,000	--	--	--
Funding Commitments:				
Standby and forward loan commitments	2,986	2,986	--	--
	-----	-----	-----	-----

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Total	\$ 407,145	\$ 342,437	\$ 1,218	\$ 1,370
	=====	=====	=====	=====

(1) Represents a first mortgage on properties we report as Real Estate Owned - Held and Used (Concord Portfolio) as a sale of the properties did not meet the criteria for sale recognition in accordance with GAAP. The first mortgage loan is non-recourse with respect to AMAC, the debt service is paid from the cash flows of the properties, and we will not be required to satisfy the obligation.

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### Inflation

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Inflation did not have a material effect on our results for the periods presented.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates and equity prices. The primary market risk to which the Company is exposed is interest rate risk, which is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the control of our Company.

#### INTEREST RATE RISK

Interest rate fluctuations can adversely affect our income in many ways and present a variety of risks, including the risk of mismatch between asset yields and borrowing rates.

Our operating results depend in large part on differences between the income from our assets (net of credit losses) and our borrowing costs. Although we have originated variable rate loans, most of our assets generate fixed returns and have terms in excess of five years. We fund the origination and acquisition of a significant portion of our assets with borrowings which have variable interest rates that reset relatively rapidly, such as weekly, monthly, or quarterly. In most cases, the income from assets will respond more slowly to interest rate fluctuations than the cost of borrowings, creating a mismatch between asset yields and borrowing rates. Consequently, changes in interest rates, particularly short-term interest rates, may influence our net income. Our borrowings under repurchase and our trust preferred securities bear interest at rates that fluctuate with LIBOR.

Various financial vehicles exist which would allow our management to mitigate the impact of interest rate fluctuations on our cash flows and earnings. We enter into certain hedging transactions to protect our positions from interest rate fluctuations and other changes in market conditions. These transactions include interest rate swaps and fair value hedges. Interest rates swaps are entered into in order to hedge against increases in floating rates on our repurchase facilities. Fair value hedges are entered into for some of our investments to hedge our risk that interest rates may affect the fair value of these investments, prior to securitization.

Based on the \$206.3 million unhedged portion of the \$363.9 million of borrowings

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outstanding at June 30, 2006, a 1% change in LIBOR would impact our annual net income and cash flows by approximately \$2.1 million. However, as the interest income from some of our loans is also based on LIBOR, a 1% change in LIBOR would impact our annual net income and cash flows from such loans by approximately \$351,000. The net effect of a 1% change in LIBOR would therefore result in a change of our annual net income by approximately \$1.7 million. In addition, a change in LIBOR could also impede the collections of interest on our variable-rate loans, as there might not be sufficient cash flow at the properties to pay the increased debt service. Because the value of our debt securities fluctuates with changes in interest rates, rate fluctuations will also affect the market value of our net assets.

### ITEM 4. CONTROLS AND PROCEDURES

- (a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report. Based on such evaluation, such officers have concluded that our disclosure controls and procedures as of the end of the period covered by this quarterly report were effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and to ensure that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.
- (b) INTERNAL CONTROL OVER FINANCIAL REPORTING. There have not been any significant changes in our internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On October 27, 2003, prior to taking possession of the real estate collateral supporting a loan investment, we were named in a lawsuit, Concord Gulfgate, Ltd. vs. Robert Parker, Sunrise Housing Ltd., and American Mortgage Acceptance Company, Cause No. 2003-59290 in the 133rd Judicial District Court of Harris County, Texas. The suit alleges that the loan transaction was not properly authorized by the borrower and was not for a legitimate borrower purpose. The suit claims, among other causes of action against the respective defendants, wrongful foreclosure of the real estate collateral, tortious interference with contract and civil conspiracy. The suit seeks, among other relief, actual, consequential, and exemplary damages, and a declaration that the loan documents are unenforceable and constitute a cloud on title. The basic claim of this suit is for the amount of \$1.5 million. The discovery phase of this suit has been completed. A motion for summary judgment was filed by us, but was

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denied on July 25, 2005. It is expected that the case will be called to trial in September 2006. No reserve has been made at June 30, 2006.

We filed a countersuit on November 25, 2003, against Concord Gulfgate, Ltd., as guarantor, seeking a deficiency on the loan and recovery of unpaid taxes and certain property receipts. We are currently unable to determine the possible outcome of the litigation.

### ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors as disclosed in our filing on form 10-K for the year ended December 31, 2005.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS - None

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES - None

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The company held its annual meeting of shareholders on June 14, 2006. The shareholders elected Jeff T. Blau, Alan P. Hirmes, Scott M. Manes, Stanley R. Perla, and Richard M. Rosan as trustees for one-year terms which will expire in 2007. Common shares of beneficial interest were voted as follows:

Trustee nominee -----	For -----	Abstain/withheld -----
Jeff T. Blau	7,845,879	158,400
Alan P. Hirmes	7,835,343	168,936
Scott M. Mannes	7,904,863	99,416
Stanley R. Perla	7,907,545	96,734
Richard M. Rosan	7,917,503	86,776

There were no votes "against" any of the nominees.

### ITEM 5. OTHER INFORMATION - None

### ITEM 6. EXHIBITS

31.1 Chief Executive Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

31.2 Chief Financial Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

\* Filed herewith.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN MORTGAGE ACCEPTANCE COMPANY  
(Registrant)

Date: August 8, 2006

By: /s/ Jeff T. Blau

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Jeff T. Blau  
Chairman of the Board of Trustees  
and Chief Executive Officer

Date: August 8, 2006

By: /s/ Alan P. Hirmes

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Alan P. Hirmes  
Managing Trustee and Chief Financial Officer