ANTHRACITE CAPITAL INC
Form 10-Q
May 10, 2006

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

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

For the quarterly period ended March 31, 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 001-13937

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

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

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

NOT APPLICABLE
(Former name, former address, and for new fiscal year; if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

(1) Yes X No__
(2) 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. (Check one)

Large accelerated filer__ Accelerated filer X Non-accelerated filer__

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

(1) Yes _ No X

As of May 10, 2006, 57,053,435 shares of common stock ($.001 par value per share) were outstanding.

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PART I - FINANCIAL INFORMATION

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

(1) the introduction, withdrawal, success and timing of business initiatives and strategies;
(2) changes in political, economic or industry conditions, the interest rate environment or financial, capital and real estate markets, which could result in changes in the value of the Company's assets;
(3) the relative and absolute investment performance and operations of the Company's manager, BlackRock Financial Management, Inc. (the "Manager");
(4) the impact of increased competition;
(5) the impact of capital improvement projects;
(6) the impact of future acquisitions and divestitures;
(7) the unfavorable resolution of legal proceedings;
(8) the extent and timing of any share repurchases;
(9) the impact, extent and timing of technological changes and the adequacy of intellectual property protection;
(10) the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to the Company, the Manager or The PNC Financial Services Group, Inc. ("PNC Bank");
(11) terrorist activities, which may adversely affect the general economy, real estate, financial and capital markets, specific industries, and the Company and the Manager;
(12) the ability of the Manager to attract and retain highly talented professionals.
(13) fluctuations in foreign currency exchange rates; and
(14) the impact of changes to tax legislation and, generally, the tax position of the Company.

Forward-looking statements speak only as of the date they are made. The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Part I - FINANCIAL INFORMATION
Item 1. Financial Statements

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

		March 31, 2006
ASSETS		
Cash and cash equivalents		$27
Restricted cash equivalents		1
Securities available-for-sale, at fair value:		
Subordinated commercial mortgage-backed securities ("CMBS")	$829,678	
Investment grade CMBS	1,364,681	
Residential mortgage-backed securities ("RMBS")	187,551	
Total securities available-for-sale		2,381
Commercial mortgage loan pools, at amortized cost		1,287
Securities held-for-trading, at estimated fair value		
CMBS	21,260	
RMBS	155,259	
Total securities held-for-trading		176
Commercial mortgage loans, net		361
Equity investments		155
Real estate, held-for-sale		5
Other assets		117
Total Assets		$4,514
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Borrowings:		
Collateralized debt obligations ("CDOs")	$1,066,574	
Secured by pledge of subordinated CMBS	113,899	
Secured by pledge of other securities available-for-sale	860,154	
Secured by pledge of commercial mortgage loan pools	1,273,796	
Secured by pledge of securities held-for-trading	132,760	
Secured by pledge of commercial mortgage loans	201,347	
Junior subordinated notes to subsidiary trust issuing preferred securities	180,477	
Total borrowings		$3,829
Payable for investments purchased		20
Distributions payable		16
Other liabilities		26
Total Liabilities		$3,893
Commitments and Contingencies		

Stockholders' Equity:	
Common Stock, par value $0.001 per share; 400,000 shares authorized; 57,053 shares issued and outstanding in 2006; 56,339 shares issued and outstanding in 2005	55
9.375% Series C Preferred stock, liquidation preference $57,500	619
Additional paid-in capital	(127,
Distributions in excess of earnings	72
Accumulated other comprehensive income	
Total Stockholders' Equity	621
Total Liabilities and Stockholders' Equity	$4,514

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

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

	For the Three Months Ended March 31, 2006	For th Months March 3
Income:		
Interest from securities available-for-sale	$38,897	
Interest from commercial mortgage loans	8,015	
Interest from commercial mortgage loan pools	13,227	
Interest from securities held-for-trading	1,925	
Earnings from equity investments	9,342	
Earnings from real estate joint ventures	-	
Interest from cash and cash equivalents	337	
Total income	71,743	
Expenses:		
Interest	44,632	
Interest - securities held-for-trading	1,893	
Management and incentive fee	4,219	
General and administrative expense	1,104	
Total expenses	51,848	
Other gains (losses):		
Sale of securities available-for-sale	34	
Securities held-for-trading	950	
Foreign currency gain (loss)	44	
Loss on impairment of assets	(781)	
Total other gains (losses)	247	
Net income	20,142	

Dividends on preferred stock	1,348
Net income available to common stockholders	$18,794
Net income per common share, basic:	$0.33
Net income per common share, diluted:	$0.33
Dividend declared per share of Common Stock	$0.28
Weighted average number of shares outstanding:	
Basic	56,672
Diluted	56,678

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

Anthracite Capital, Inc. and Subsidiaries
Consolidated Statement of Changes in Stockholders' Equity (Unaudited)
For the Three Months Ended March 31, 2006
(in thousands)

	Common Stock, Par Value	Series C Preferred Stock	Additional Paid-In Capital	Distributions In Excess Of Earnings	Accumulated Other Comprehensiv Income
Balance at January 1, 2006	$56	$55,435	$612,368	$(130,038)	$60,197
Net income				20,142	
Unrealized gain on cash flow hedges					34,543
Reclassification of losses from cash flow hedges included in net income					1,503
Change in net unrealized loss on securities available-for-sale, net of reclassification adjustment					(23,488)
Other comprehensive income					
Comprehensive income					

Dividends declared-common stock				(15,975)	
Dividends declared - preferred stock				(1,348)	
Issuance of common stock	1		7,616		
Balance at March 31, 2006	$57	$55,435	$619,984	$(127,219)	$72,755

Disclosure of reclassification adjustment:

Unrealized holding loss
Reclassification for realized gains previously recorded as unrealized

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

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

	For the Thre Months Ende March 31, 20
Cash flows from operating activities:	
Net income	$20,14
Adjustments to reconcile net income to net cash provided by operating activities:	
Decrease in trading securities	11,90
Net (gain) loss on sale of securities	(98
Earnings from subsidiary trust	(7
Distributions from subsidiary trust	5
Earnings from equity investments and real estate joint ventures	(9,34
Distributions of earnings from equity investments and real estate joint ventures	6,86
Amortization of collateralized debt obligation issuance costs	55
Amortization of junior subordinated note issuance costs	3
Premium amortization (net)	13

Loss on impairment of assets	78
Unrealized net foreign currency gain	(39
Decrease in other assets	16,32
Decrease in other liabilities	(3,09
Net cash provided by operating activities	42,89
Cash flows from investing activities:	
Purchase of securities available-for-sale	(322,642
Principal payments received on securities available-for-sale	12,53
Repayments received from commercial mortgage loan pools	2,11
Funding of commercial mortgage loans	(48,883
Repayments received from commercial mortgage loans	48,38
Purchase of real estate held-for-sale	(5,435
Decrease in restricted cash equivalents	17
Return of capital from equity investments and joint ventures	11,85
Investment in equity investments	(48,21
Net cash (used in) provided by investing activities	(350,10
Cash flows from financing activities:	
Net increase (decrease) in borrowings under reverse repurchase agreements and credit facilities	210,61
Repayments of borrowings secured by commercial mortgage loan pools	(1,90
Repayments of collateralized debt obligations	(603
Issuance of junior subordinated notes to subsidiary trust	100,00
Issuance costs of junior subordinated notes	(3,07
Dividends paid on preferred stock	(1,34
Proceeds from issuance of common stock, net of offering costs	6,32
Dividends paid on common stock	(15,77
Net cash provided (used in) by financing activities	294,23
Net decrease in cash and cash equivalents	(12,96
Cash and cash equivalents, beginning of period	40,55

Cash and cash equivalents, end of period	$27,59
Supplemental disclosure of cash flow information:	
Interest paid	$31,50
Investments purchased not settled	$20,66
Supplemental disclosure of non-cash investing and financing activities:	
Investments in subsidiary trusts	$ 3,09

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

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

Note 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Anthracite Capital, Inc., a Maryland corporation, and its subsidiaries (the "Company") is a real estate finance company that primarily generates income based on the spread between the interest income on its commercial real estate assets and the interest expense from borrowings used to finance those investments. The Company seeks to earn high returns on a risk-adjusted basis to support a consistent quarterly dividend. The Company has elected to be taxed as a real estate investment trust ("REIT") under the United States Internal Revenue Code of 1986, as amended (the "Code") and, therefore, its income is largely exempt from corporate taxation. The Company commenced operations on March 24, 1998.

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

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

The accompanying March 31, 2006 unaudited consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. These consolidated financial statements should be read in conjunction with the annual audited financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission (the "SEC").

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the statements of financial condition and revenues and expenses for the periods covered. Actual results could differ from those estimates and assumptions. Significant estimates in the financial statements include the valuation of certain of the Company's mortgage-backed securities and certain other investments.

Recent Accounting Developments

Accounting Changes and Corrections

In June 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS No. 154"). SFAS No. 154 replaces Accounting Principles Board ("APB") Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented in accordance with the new accounting principle. SFAS No. 154 also requires that a change in the method of depreciating or amortizing a long-lived non-financial asset be accounted for prospectively as a change in estimate, and correction of errors in previously issued financial statements should be termed "restatements." SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The implementation of SFAS No. 154 had no impact on the Company's consolidated financial statements.

Stock Based Compensation

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment. This statement is a revision to SFAS No. 123, Accounting for Stock-Based Compensation, and superseded APB Opinion No. 25, Accounting for Stock Issued to Employees. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. Entities will be required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service (usually the vesting period) in exchange for the award. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. As amended by Rule 4-01(a) of Regulation S-X promulgated by the SEC, this statement is effective as of the beginning of the first interim or annual reporting period of the Company's first fiscal year beginning on or after December 15, 2005. The Company adopted SFAS No. 123R, as amended, effective January 1, 2006 with no impact to the consolidated financial statements as there are no unvested options as of December 31, 2005 and the Company applied the fair value method to all options issued after January 1, 2003.

Reverse Repurchase Agreements

The FASB has placed an item on its agenda relating to the treatment of transactions where mortgage-backed securities purchased from a particular counterparty are financed via a repurchase agreement with the same counterparty. Currently, the Company records such assets and the related financing gross on the consolidated statement of financial condition, and the corresponding interest income and interest expense gross on the consolidated statement of operations. Any change in fair value of the security is reported through other comprehensive income under SFAS No. 115, because the security is classified as available-for-sale. However, in a transaction where the mortgage-backed securities are acquired from and financed under a repurchase agreement with the same counterparty, the acquisition may not qualify as a sale from the seller's perspective under the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. In such cases, the seller may be required to continue to consolidate the assets sold to the Company, based on their continuing involvement with such investments. Depending on the ultimate outcome of the FASB deliberations, the Company may be precluded from presenting the assets gross on the Company's balance sheet and should instead be treating the Company's net investment in such assets as a derivative. If it is determined that these transactions should be treated as investments in derivatives, the derivative instruments entered into by the Company to hedge the Company's interest rate exposure with respect to the borrowings under the associated repurchase agreements may no longer qualify for hedge accounting, and would then, as with the underlying asset transactions, also be marked to market through the income statement. This potential change in accounting treatment does not affect the economics of the transactions but does affect how the transactions would be reported in the consolidated financial statements. The Company's cash flows, liquidity and ability to pay a dividend would be unchanged, and the Company does not believe its REIT taxable income or REIT status would be affected. The Company's net equity would not be materially affected. At March 31, 2006, the Company has identified available-for-sale securities with a fair value of $120,999 which had been purchased from and financed with the same counterparty since their purchase. If the Company were to change the current accounting treatment for these transactions at March 31, 2006, total assets and total liabilities would each be reduced by approximately $120,999.

Impairment of Investments

In November 2005, the FASB issued FASB Staff Position ("FSP") FAS 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, which provides guidance for determining when impairment charges should be taken on certain debt and equity securities. FSP FAS 115-1/124-1 requires that debt and equity securities subject to the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and equity securities subject to the provisions of APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, but which are not accounted for under the equity method (i.e., securities accounted for under the cost method) shall be reviewed for impairment when circumstances warrant. For securities subject to SFAS No. 115, a review for other-than-temporary impairments shall occur in each accounting period where the fair value of the security is less than its cost. For securities subject to APB Opinion No. 18, a review for other-than-temporary impairments shall occur in each accounting period where a) circumstances indicate that impairment may exist and b) the fair value of the security is less than its carrying value. The provisions of the FSP were required to be applied to reporting periods beginning after December 15, 2005. The adoption of FSP FAS 115-1/124-1 on January 1, 2006 had no material impact on the Company's condensed consolidated financial statements.

Recent Accounting Developments

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS No. 133 and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The Statement provides, among other things, that: (1) companies that have embedded derivatives which would otherwise be required to be bifurcated from their host contracts and accounted for at fair value in accordance with SFAS No. 133 may make an irrevocable election, on an instrument-by-instrument basis, to measure the hybrid financial instrument at fair value in its entirety, with changes in fair value recognized in earnings and (2) clarifies that concentrations of credit risk in the form of subordination are not considered embedded derivatives. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to remeasurement after the beginning of an entity's first fiscal year that begins after September 15, 2006. Upon adoption, differences between the total carrying amount of the individual components of an existing bifurcated hybrid financial instrument and the fair value of the combined hybrid financial instrument should be recognized as a cumulative effect adjustment to beginning retained earnings. Prior periods should not be restated. The Company is currently evaluating the potential impact of SFAS No. 155 and intends to adopt the Statement on January 1, 2007.

Reclassifications

Certain items previously reported have been reclassified to conform to the current presentation.

Note 2 NET INCOME PER SHARE

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

	For the Months E March 31,
Numerator:	
Net income available to common stockholders	
Numerator for basic and diluted earnings per share	
Denominator:	
Denominator for basic earnings per share--weighted average common shares Outstanding	56,
Dilutive effect of stock options	
Denominator for diluted earnings per share--weighted average common shares outstanding and common stock equivalents outstanding	56
Basic net income per weighted average common share:	
Diluted net income per weighted average common share and common share equivalents:	

Total anti-dilutive stock options excluded from the calculation of net income per share were 1,384,151 and 1,385,151 for the three months ended March 31, 2006 and 2005, respectively.

Note 3 SECURITIES AVAILABLE-FOR-SALE

The Company's securities available-for-sale are carried at estimated fair value. The amortized cost and estimated fair value of securities available-for-sale as of March 31, 2006 are summarized as follows:

Security Description	Amortized Cost	Gross Unrealized Gain
CMBS:		
CMBS interest only securities ("IOs")	$98,721	$750
Investment grade CMBS	647,427	39,274
Non-investment grade rated subordinated securities	581,452	54,925
Non-rated subordinated securities	41,343	3,295
Credit tenant leases	24,857	522
Investment grade REIT debt	249,297	6,130
Multifamily agency securities	372,092	-
CDO investments	117,259	1,731
Total CMBS	2,132,448	106,627
Single-family RMBS:		
Agency adjustable rate securities	73,950	16
Residential CMOs	102,829	59
Hybrid adjustable rate mortgages ("ARMs")	14,945	-
Total RMBS	191,724	75
Total securities available-for-sale	$2,324,172	$106,702

As of March 31, 2006, the Company's securities available-for-sale included non-dollar denominated assets with an estimated fair value of $60,555.

As of March 31, 2006, an aggregate of $2,197,394 in estimated fair value of the Company's securities available-for-sale was pledged to secure its collateralized borrowings.

During the three months ended March 31, 2006 and 2005, respectively, the Company realized gains of $34 and $10 on securities available-for-sale.

The following table shows the Company's estimated fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2006.

	Less than 12 Months		12 Months or More	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
CMBS IOs	$52,903	$(2,869)	$22,852	$(1,186)
Investment grade CMBS	151,373	(3,584)	114,660	(9,480)
Non-investment grade rated subordinated securities	180,242	(5,360)	23,998	(2,192)
Non-rated subordinated securities	2,371	(174)	-	-
Credit tenant leases	-	-	15,859	(677)
Investment grade REIT debt	38,191	(1,145)	48,858	(3,051)
Multifamily agency securities	338,627	(10,975)	22,039	(451)
CDO investments	56,862	(3,572)	-	-
Agency adjustable rate securities	-	-	70,436	(1,476)
Residential CMOs	99,984	(2,291)	-	-
Hybrid ARMs	-	-	14,464	(481)
Total temporarily impaired securities	$920,553	$(29,970)	$333,166	$(18,994)

The temporary impairment of the available-for-sale securities results from the estimated fair value of the securities falling below the amortized cost basis. These unrealized losses are primarily the result of market factors other than credit impairment and the Company believes the carrying value of the securities are fully recoverable over their expected holding period. Management possesses both the intent and the ability to hold the securities until maturity, allowing for the anticipated recovery in estimated fair value of the securities held. As such, management does not believe any of the securities held are other-than-temporarily impaired at March 31, 2006.

As of March 31, 2006, the anticipated weighted average yield to maturity based upon the amortized cost of the subordinated CMBS ("reported yield") was 10.6% per annum. The anticipated reported yield of the Company's investment grade securities available-for-sale was 5.9%. The Company's anticipated yields on its subordinated CMBS and other securities available-for-sale are based upon a number of assumptions that are subject to certain business and economic uncertainties and contingencies. Examples of these include, among other things, the rate and timing of principal payments (including prepayments, repurchases, defaults, and liquidations and related expenses), the pass-through or coupon rate, and interest rate fluctuations. The Company considers the CMBS securities where it maintains the right to influence the foreclosure/workout process on the underlying loans its controlling class CMBS ("Controlling Class"). Additional factors that may affect the Company's anticipated yields to maturity on its Controlling Class CMBS include interest payment shortfalls due to delinquencies on the underlying mortgage loans, and the timing and magnitude of credit losses on the mortgage loans underlying the Controlling Class CMBS that are a result of the general condition of the real estate market (including competition for tenants and their related credit quality) and changes in market rental rates. As these uncertainties and contingencies are difficult to predict and are subject to future events which may alter these assumptions, no assurance can be given that the anticipated yields to maturity, discussed above and elsewhere, will be achieved.

Note 4 IMPAIRMENTS - CMBS

The Company updates its estimated cash flows for securities subject to Emerging Issues Task Force Issue 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets ("EITF 99-20") on a quarterly basis. The Company compares the yields resulting from the updated cash flows to the current accrual yields. An impairment charge is required under EITF 99-20 if the updated yield is lower than the current accrual yield and the security has a market value less than its adjusted purchase price. The Company carries all these securities at their market value on its consolidated statement of financial condition.

As of March 31, 2006, the Company had two CMBS that required an impairment of $781. As of March 31, 2005, the Company had one CMBS that required an impairment of $159. The decline in the updated yields that caused the impairments is not related to increases in losses but rather changes in the timing of credit losses and prepayments. Based on current economic conditions, the Company believes the impairments will be recovered over the remaining life of the bonds.

Note 5 COMMERCIAL MORTGAGE LOAN POOLS

During the second quarter of 2004, the Company acquired subordinated CMBS in a trust establishing a Controlling Class interest. The Company negotiated for and obtained a greater degree of influence over the disposition of the commercial mortgage loans than is typically granted to the special servicer. As a result of this expanded influence, the trust was not a qualifying special-purpose entity ("QSPE") and FASB Interpretation No. 46, Consolidation of Variable Interest Entities (revised December 2003) ("FIN 46R") required the Company to consolidate the net assets and results of operations of the trust.

Approximately 45% of the par amount of the commercial mortgage loan pool is comprised of investment grade loans and the remaining 55% are unrated. For income recognition purposes, the Company considers the investment grade and unrated commercial mortgage loans in the pool as single assets reflecting the credit assumptions made in establishing loss adjusted yields for Controlling Class securities. The Company has taken into account the credit quality of the underlying loans in formulating its loss assumptions. Credit losses assumed on the entire pool are 1.40% of the principal balance, or 2.53% of the unrated principal balance.

Over the life of the commercial mortgage loan pools, the Company reviews and updates its loss assumptions to determine the impact on expected cash flows to be collected. A decrease in estimated cash flows will reduce the amount of interest income recognized in future periods and may result in a loan loss reserve depending upon the severity of the cash flow reductions. An increase in estimated cash flows will first reduce the loan loss reserve and any additional cash will increase the amount of interest income recorded in future periods.

Note 6 SECURITIES HELD-FOR-TRADING

The Company's securities held-for-trading are carried at estimated fair value. At March 31, 2006, the Company's securities held-for-trading consisted of FNMA Mortgage Pools with an estimated fair value of $155,259 and CMBS with an estimated fair value of $21,260. The FNMA Mortgage Pools, and the underlying mortgages, bear interest at fixed rates for specified periods, generally three to seven years, after which the rates are periodically reset to market.

Note 7 EQUITY INVESTMENTS

The Company has a $100,000 commitment to acquire shares of BlackRock Diamond

Property Fund ("BlackRock Diamond"). At March 31, 2006, 80.6% of the commitment has been called and the Company owned approximately 34.6% of BlackRock Diamond. The Company's investment in BlackRock Diamond at March 31, 2006 was $86,415.

The Company recorded $5,542 of income related to its ownership in BlackRock Diamond for the three months ended March 31, 2006, as reported by BlackRock Diamond. Of the $5,542 in income, $370 represented current income and $5,172 represented unrealized capital appreciation. The Company's investment represents a 34.6% interest in a portfolio of fifteen assets with a total market value of approximately $367,000. BlackRock Diamond carries its real estate investments at estimated fair values based upon valuations performed internally and upon appraisal reports prepared annually by independent real estate appraisers. The estimated fair values of real estate may differ significantly from those that could be realized if the real estate were actually offered for sale in the market place.

The Company entered into a $50,000 commitment on July 20, 2001 to acquire shares in Carbon Capital, Inc. ("Carbon I"). On July 12, 2004, the investment period expired. The Company's investment in Carbon I at March 31, 2006 was $6,634. At March 31, 2006, the Company owned approximately 20% of Carbon I.

The Company entered into an aggregate commitment of $100,000 to acquire shares in Carbon Capital II, Inc. ("Carbon II"). The Company's investment in Carbon II at March 31, 2006 was $60,364. The Company's remaining commitment at March 31, 2006 was $39,472. At March 31, 2006, the Company owned approximately 26% of Carbon II.

On December 22, 2005, the Company entered into an $11,000 commitment to acquire shares of Dynamic India Fund IV. On March 13, 2006, the Company funded a capital call for 16.5% of its commitment. The Company's investment in Dynamic India Fund IV at March 31, 2006 was $1,650.

Note 8 REAL ESTATE, HELD-FOR-SALE

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets specifies that long-lives assets to be disposed by sale, which meet certain criteria, should be classified as real estate held-for-sale and measured at the lower of its carrying amount or fair value less costs of sale. In addition, depreciation is not recorded for real estate held-for-sale.

During the quarter, the Company purchased a defaulted loan from a Controlling Class CMBS trust. The loan was secured by a first mortgage on a multi-family property in Texas. Subsequent to the loan purchase, the property was acquired by the Company at foreclosure. The Company's plan is to enhance leasing activity and increase occupancy rates. Subsequently, the performance of the asset has improved and the Company has entered into a contract to sell the property for an amount in excess of the Company's basis. The sale is contingent on due diligence and other closing matters. The multi-family property acquired during the quarter meets the requirement of SFAS No. 144 and is carried at its acquisition cost of $5,435 and no depreciation was recorded during the quarter.

Note 9 BORROWINGS

The Company's borrowings consist of credit facilities, reverse repurchase agreements, CDOs, trust preferred securities, and commercial mortgage loan pools.

Reverse Repurchase Agreements and Credit Facilities

On February 16, 2006, the Company entered into a $200,000 committed non-dollar credit facility with Morgan Stanley Mortgage Servicing, Inc. which matures in February 2008. Outstanding borrowings under this credit facility bear interest at a LIBOR based variable rate. As of March 31, 2006, there were no borrowings under this facility.

On March 17, 2006, the Company entered into a $100,000 committed non-dollar credit facility with Bank of America, N.A. which matures in September 2008. Outstanding borrowings under this credit facility bear interest at a LIBOR based variable rate. As of March 31, 2006, there were no borrowings under this facility.

Under the credit facilities and the reverse repurchase agreements, the respective lender retains the right to mark the underlying collateral to estimated fair value. A reduction in the estimated fair value of its pledged assets will require the Company to provide additional collateral or fund margin calls. From time to time, the Company expects that it will be required to provide such additional collateral or fund margin calls.

CDOs

On May 2, 2006, the Company announced the pricing of its sixth CDO issuance ("CDO HY3") resulting in the issuance of $417,000 of non-recourse debt. The debt will be secured by a portfolio of CMBS and subordinated commercial real estate loans. This debt, rated AAA through BBB-, will be privately placed, and the Company will receive additional CDO debt rated BB and 100% of the preferred shares issued by the CDO. The transaction is expected to close on May 23, 2006.

The terms of the offering permit the Company to contribute to the CDO up to $50,000 of additional CMBS during a ramp-up period. These CMBS assets will be contributed at par value. The debt issuance is intended to match fund existing Company assets to be contributed to the CDO at closing, and the assets to be purchased during the ramp-up period, with long-term liabilities. The Company intends to account for this transaction on its balance sheet as a financing. All debt placed will either carry a fixed rate or will be hedged to create a current cost of funds of approximately 6.3% after issuance expenses and will have a weighted average life of 8.1 years. The Company will use the net proceeds of the offering to pay down existing debt on the CDO collateral. Since the CDO collateral was not fully levered, the Company expects excess cash of $93,000 after the pay down of existing debt in addition to the $50,000 ramp facility. Following the closing of CDO HY3, approximately 93% of the Company's subordinated CMBS will be match funded in CDOs.

Certain information with respect to the Company's collateralized borrowings at March 31, 2006 is summarized as follows:

	Reverse Repurchase Agreements	Credit Facilities	Commercial Mortgage Loan Pools	Collaterali Debt Obligat
Outstanding borrowings	$1,060,329	$254,016	$1,267,611	$1,066
Weighted average borrowing rate	4.89%	5.75%	3.97%	6
Weighted average remaining maturity	25 days	1.15 years	6.57 years	6.53 y
Estimated fair value of assets pledged	$1,099,519	$397,002	$1,287,277	$1,236

As of March 31, 2006, the Company's collateralized borrowings had the following remaining maturities:

	Reverse Repurchase Agreements	Credit Facilities	Commercial Mortgage Loan Pools	Collateral Debt Obliga
Within 30 days	$1,027,784	$-	$-	
31 to 59 days	4,244	12,698	-	
60 days to less than 1 year	28,301	86,445	-	
1 year to 3 years	-	154,873	-	
3 years to 5 years	-	-	-	
Over 5 years	-	-	1,267,611	1,
	$1,060,329	$254,016	$1,267,611	$1,

* As of March 31, 2006, collateralized debt obligations are comprised of $418,834 of CDO debt with a weighted average remaining maturity of 6.04 years, $292,585 of CDO debt with a weighted average remaining maturity of 6.42 years, and $367,440 of CDO debt with a weighted average remaining maturity of 7.14 years.

Trust Preferred

On January 31, 2006, the Company issued $50,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust II, a Delaware statutory trust ("Trust II"). The trust preferred securities have a thirty-year term ending April 30, 2036 with interest at a fixed rate of 7.73% for the first ten years and at a floating rate of three-month LIBOR plus 2.7% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in April 2011. Trust II issued $1,550 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust II to the Company for a purchase price of $1,550. The Company realized net proceeds from this offering of approximately $48,491.

On March 16, 2006, the Company issued $50,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust III, a Delaware statutory trust ("Trust III" and collectively with Trust II, the "Trusts"). The trust preferred securities have a thirty-year term ending March 15, 2036 with interest at a fixed rate of 7.77% for the first ten years and at a floating rate of three-month LIBOR plus 2.7% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in March 2011. Trust III issued $1,547 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust III to the Company for a purchase price of $1,547. The Company realized net proceeds from this offering of approximately $48,435.

The Trusts used the proceeds from the sale of the trust preferred securities and the common securities to purchase the Company's junior subordinated notes. The terms of the junior subordinated notes match the terms of the trust preferred securities. The notes are subordinate and junior in right of payment to all present and future senior indebtedness and certain other of our financial obligations.

The Company's interests in the Trusts are accounted for using the equity method and the assets and liabilities of the Trusts are not consolidated into the Company's financial statements. Interest on the junior subordinated notes is included in interest expense on the consolidated statement of operations while the common securities are included as a component of other assets on the Company's consolidated statement of financial condition.

Note 10 COMMON STOCK

Pursuant to its 2006 Management Agreement (defined below), 30% of the incentive fees earned in 2005 or after may be paid in shares of the Company's Common Stock. On March 20, 2006 the Company issued 117,679 shares of Common Stock related to $1,287 of fourth quarter 2005 incentive fees. See Note 11 of the consolidated financial statements, Transactions with Affiliates, for further discussion of the Company's Management Agreement.

For the three months ended March 31, 2006, the Company issued 590,216 shares of Common Stock under its Dividend Reinvestment and Stock Purchase Plan (the "Dividend Reinvestment Plan"). Net proceeds to the Company were approximately $6,270. For the three months ended March 31, 2005, the Company issued 7,706 shares of Common Stock under its Dividend Reinvestment Plan. Net proceeds to the Company were approximately $91. As of February 24, 2006, the Company suspended the Dividend Reinvestment Plan for all future investments dates.

During the three months ended March 31, 2006, 7,000 stock options with an exercise price of $8.44 per share were exercised pursuant to the Company's stock option plan (the "1998 Stock Option Plan"). Net proceeds to the Company were $59.

On February 24, 2006, the Company declared dividends to its common stockholders of $0.28 per share, payable on May 1, 2006 to stockholders of record on March 31, 2006. For U.S. federal income tax purposes, the dividends are expected to be ordinary income to the Company's stockholders.

Note 11 TRANSACTIONS WITH AFFILIATES

The Company has a Management Agreement with the Manager, a majority owned indirect subsidiary of The PNC Financial Services Group, Inc. and the employer of certain directors and all of the officers of the Company, under which the Manager manages the Company's day-to-day operations, subject to the direction and oversight of the Company's Board of Directors. Pursuant to the Management Agreement, the Manager formulates investment strategies, arranges for the acquisition of assets, arranges for financing, monitors the performance of the Company's assets and provides certain other advisory and managerial services in connection with the operations of the Company. For performing these services, the Company pays the Manager a base management fee equal to 2.0% of the quarterly average total stockholders' equity for the applicable quarter.

To provide an incentive, the Manager is entitled to receive an incentive fee equal to 25% of the amount by which the rolling four-quarter GAAP net income before the incentive fee exceeds the greater of 8.5% or 400 basis points over the ten-year Treasury note multiplied by the adjusted per share issue price of the common stock ($11.36 per common share at March 31, 2006).

The Company's unaffiliated directors approved an extension of the Management Agreement to March 31, 2007 at the Board of Directors' February 2006 meeting. Additionally, pursuant to a resolution of the Company's Board of Directors adopted at the February 2006 meeting, up to 30% of the incentive fees earned in 2005 or after may be paid in shares of the Company's Common Stock subject to certain provisions. The Board of Directors also authorized the Company to seek stockholder approval of a compensatory deferred stock plan. Pending stockholder approval, the Company would establish a stock based incentive plan where one half of one percent of common shares outstanding will be paid to the Manager in 2006.

The Company incurred $3,050 and $2,579 in base management fees in accordance with the terms of the Management Agreement for the three months ended March 31, 2006 and 2005, respectively. The Company incurred $1,169 in incentive fees for the three months ended March 31, 2006. The Company did not incur incentive fees for the three months ended March 31, 2005. As of March 31, 2006 and 2005, respectively, management and incentive fees of $4,095 and $2,438 are payable to the Manager. In accordance with the provisions of the Management Agreement, the Company recorded reimbursements to the Manager of $100 and $40 for certain expenses incurred on behalf of the Company for the three months ended March 31, 2006 and 2005, respectively, which are included in general and administrative expense on the accompanying consolidated statements of operations.

The Company has an administration and investment accounting agreement with the Manager. Under the terms of the administration agreement, the Manager provides financial reporting, audit coordination and accounting oversight services to the Company. Under the terms of the investment accounting agreement, the Manager provides investment accounting services to the Company. For the three months ended March 31, 2006 and 2005, the Company recorded administration and investment accounting fees of $182 and $51, respectively, which are included in general and administrative expense on the accompanying consolidated statements of operations.

The special servicer on 20 of the Company's 24 Controlling Class trusts is Midland Loan Services, Inc. ("Midland"), a wholly owned indirect subsidiary of PNC Bank, and therefore an affiliate of the Manager. The Company's fees for Midland's services are at market rates.

The Company has a $100,000 commitment to acquire shares of BlackRock Diamond. BlackRock Diamond is a private REIT managed by BlackRock Realty Advisors, Inc., a subsidiary of the Manager. At March 31, 2006, 80.6% of the commitment has been called and the Company owned approximately 34.6% of BlackRock Diamond. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in BlackRock Diamond. The Company's investment in BlackRock Diamond at March 31, 2006 was $86,116. The Company's unaffiliated directors approved this transaction in September 2005.

During 2001, the Company entered into a $50,000 commitment to acquire shares in Carbon Capital, Inc. ("Carbon I"), a private commercial real estate income opportunity fund managed by the Manager. The Carbon I investment period ended on July 12, 2004 and the Company's investment in Carbon I as of March 31, 2006 was $6,634. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in Carbon I. On March 31, 2006, the Company owned approximately 20% of the outstanding shares in Carbon I. The Company's unaffiliated directors approved this transaction in July 2001.

The Company entered into an aggregate commitment of $100,000 to acquire shares in Carbon II, a private commercial real estate income opportunity fund managed by the Manager. At March 31, 2006, the Company's investment in Carbon II was $60,364 and the Company's remaining commitment to Carbon II is $39,472. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in Carbon II. The Company's unaffiliated directors approved this transaction in September 2004.

During 2000, the Company completed the acquisition of CORE Cap, Inc. At the time of the CORE Cap, Inc. acquisition, the Manager agreed to pay GMAC (CORE Cap, Inc.'s external advisor) $12,500 over a ten-year period ("Installment Payment") to purchase the right to manage the CORE Cap, Inc. assets under the existing management contract ("GMAC Contract"). The GMAC Contract had to be terminated in order to allow the Company to complete the merger, as the Company's management agreement with the Manager did not provide for multiple managers. As a result the Manager offered to buy-out the GMAC Contract as the Manager estimated it would receive incremental fees above and beyond the Installment Payment, and thus was willing to pay for, and separately negotiate, the termination of the GMAC Contract. Accordingly, the value of the Installment Payment was not considered in the Company's allocation of its purchase price to the net assets acquired in the acquisition of CORE Cap, Inc. The Company agreed that should the Management Agreement with its Manager be terminated, not renewed or not extended for any reason other than for cause, the Company would pay to the Manager an amount equal to the Installment Payment less the sum of all payments made by the Manager to GMAC. As of March 31, 2006, the Installment Payment would be $5,000 payable over five years. The Company does not accrue for this contingent liability.

Note 12 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company accounts for its derivative investments under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the consolidated statement of financial condition at estimated fair value. If the derivative is designated as a cash flow hedge, the effective portions of change in the estimated fair value of the derivative are recorded in other comprehensive income ("OCI") and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the estimated fair value of cash flow hedges are recognized in earnings. If the derivative is designated as a fair value hedge, the changes in the estimated fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings.

The Company uses interest rate swaps to manage exposure to variable cash flows on portions of its borrowings under reverse repurchase agreements and the floating rate debt of its CDOs and as trading derivatives intended to offset changes in estimated fair value related to securities held as trading assets. On the date in which the derivative contract is entered, the Company designates the derivative as either a cash flow hedge or a trading derivative.

Occasionally, counterparties will require the Company or the Company will require counterparties to provide collateral for the interest rate swap agreements in the form of margin deposits. Net deposits are recorded as a component of either other assets or other liabilities. Should the counterparty fail to return deposits paid, the Company would be at risk for the estimated fair value of that asset. At March 31, 2006 and December 31, 2005, respectively, the balance of such net margin deposits held by the Company as collateral under these agreements totaled $1,069 and $1,246.

As of March 31, 2006, the Company had interest rate swaps with notional amounts aggregating $1,446,091 designated as cash flow hedges of borrowings under reverse repurchase agreements and the floating rate debt of its CDOs. Cash flow hedges with an estimated fair value of $53,096 are included in other assets on the consolidated statement of financial condition and cash flow hedges with an estimated fair value of $2,914 are included in other liabilities on the consolidated statement of financial condition. For the three months ended March 31, 2006, the net change in the estimated fair value of the interest rate swaps was an increase of $35,158, of which $615 was deemed ineffective and is included as a decrease of interest expense and $34,543 was recorded as an addition to OCI. As of March 31, 2006, the $1,446,091 notional of swaps designated as cash flow hedges had a weighted average remaining term of 7.65 years.

During the quarter ended March 31, 2006, the Company terminated one of its interest rate swaps with a notional amount of $36,000 that was designated as a cash flow hedge of borrowings under reverse repurchase agreements. The Company will reclassify the $1,733 gain in value incurred from OCI to interest expense over 7.19 years, which was the remaining term of the swap at the time it was closed out. For the quarter ended March 31, 2006, $20 was reclassified as a decrease to interest expense and $241 will be reclassified as a decrease to interest expense for the next 12 months. As of March 31, 2006 the Company has, in aggregate, $31,962 of losses related to terminated swaps in OCI. For the quarter ended March 31, 2006, $1,503 was reclassified as an increase to interest expense and $5,693 will be reclassified as an increase to interest expense for the next twelve months.

As of March 31, 2006, the Company had interest rate swaps with notional amounts aggregating $323,445 designated as trading derivatives. Trading derivatives with an estimated fair value of $4,994 are included in other assets on the consolidated statement of financial condition and trading derivatives with an estimated fair value of $105 are included in other liabilities on the consolidated statement of financial condition. For the three months ended March 31, 2006, the change in estimated fair value for these trading derivatives was an increase of $2,304 and is included as a reduction of loss on securities held-for-trading in the consolidated statements of operations. As of March 31, 2006, the $323,445 notional of swaps designated as trading derivatives had a weighted average remaining term of 6.49 years.

At March 31, 2006, the Company had a forward LIBOR cap with a notional amount of $85,000 and an estimated fair value at March 31, 2006 of $370 which is included in other assets, and the change in estimated fair value related to this derivative is included as a component of gain (loss) on securities held-for-trading in the consolidated statements of operations.

Foreign Currency

The U.S. dollar is considered the functional currency for the Company's international subsidiaries. Foreign currency transaction gains or losses related to the Company's non-dollar denominated assets and liabilities are recognized in the period incurred and are included in other gain (loss) in the consolidated statement of operations. The Company uses foreign currency forward commitments to hedge the Company's net foreign investments. Gains and losses on foreign currency forward commitments are included in other gain (loss) in the consolidated statement of operations. The Company recorded net foreign currency transaction gain (loss) of $44 and $(168) for the three months ended March 31, 2006 and 2005, respectively. At March 31, 2006 and December 31, 2005, the Company also had foreign currency forward commitments with an estimated fair value of $(84,495) and $(55,390) included in other liabilities on the consolidated statement of financial condition.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

All dollar figures expressed herein are expressed in thousands, except share or per share amounts or as otherwise noted.

I. General

Anthracite Capital, Inc., a Maryland corporation, and subsidiaries (the "Company") is a commercial real estate company that invests in commercial real estate opportunities in the United States and Europe. The company seeks to generate income from the spread between the interest income, gains and net operating income on its commercial real estate assets and the interest expense from borrowings to finance its investments. The Company's primary activity is investing in high yielding commercial real estate debt. The Company combines traditional real estate underwriting and capital markets expertise to maximize the opportunities arising from the continuing integration of these two disciplines. The Company focuses on acquiring pools of performing loans in the form of commercial mortgage-backed securities ("CMBS"), issuing secured debt backed by CMBS and providing strategic capital for the commercial real estate industry in the form of mezzanine loan financing. The Company also recently began investing in diversified portfolios of commercial real estate in the United States. The Company commenced operations on March 24, 1998.

The Company's common stock is traded on the New York Stock Exchange under the symbol "AHR". The Company's primary long-term objective is to distribute consistent dividends supported by earnings. The Company establishes its dividend by analyzing the long-term sustainability of earnings given existing market conditions and the current composition of its portfolio. This includes an analysis of the Company's credit loss assumptions, general level of interest rates, projected hedging costs and the estimated return potential of its real estate investments.

The Company is managed by BlackRock Financial Management, Inc. (the "Manager"), a subsidiary of BlackRock, Inc., a publicly traded (NYSE:BLK) asset management company with approximately $463 billion of assets under management, including more than $10 billion in real estate equity and debt as of March 31, 2006. The Manager provides an operating platform that incorporates significant asset origination, risk management, operational and property management capabilities.

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

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

The commercial real estate securities portfolio provides diversification and high yields that are adjusted for anticipated losses over a period of time (typically, a ten-year weighted average life) and can be financed through the issuance of secured debt that matches the life of the investment. Commercial real estate loans provide attractive risk adjusted returns over shorter periods of time through strategic investments in specific property types or regions. The Company's equity strategy is to invest in a diverse portfolio of commercial real estate with the objective of repositioning the property to maximize its value. The return objective is to provide strong returns over a medium term period of 4 to 7 years through a combination of real estate operating income and capital gains. It is expected that, over the short term, current returns will fluctuate as gains and losses are reported based on a valuation process each quarter. The Company believes that the combination of these activities will result in a strong, sustainable dividend stream for our shareholders.

The Company's fixed income investment activity continues to be managed to maintain a positive, though controlled, exposure to both long- and short-term interest rates through its active hedging strategies. See "Item 3 - Quantitative and Qualitative Disclosures About Market Risk" for a discussion of interest rates and their effect on earnings and book value.

The following table illustrates the mix of the Company's asset types as of March 31, 2006 and December 31, 2005:

Carrying Value as of

	March 31, 2006 Amount	%	December 31, 2005 Amount	%
Commercial real estate securities	$2,215,620	50.8%	$2,005,383	49.7%
Commercial mortgage loan pools(1)	1,287,277	29.5	1,292,407	32.0
Commercial real estate loans((2))	428,720	9.8	425,453	10.6
Commercial real estate equity	88,065	2.0	51,003	1.3
Residential mortgage-backed securities	342,810	7.9	259,026	6.4
Total	$4,362,492	100.0%	$4,033,272	100.0%

(1) Represents a Controlling Class CMBS that is consolidated for accounting purposes. See Note 5 of the consolidated financial statements.
(2) Includes the Company's investments in the Carbon Capital Funds at March 31, 2006 and December 31, 2005.

During the first quarter of 2006, the Company purchased a total of $313,142 of commercial real estate assets. Included in this amount is $40,317 of non-dollar denominated assets as the Company continues to expand its non-U.S. investment activities. Commercial real estate assets purchased were comprised of: $128,032 of CMBS, $105,092 of multifamily agency securities, $48,637 of commercial real estate loans and $31,381 of real estate equity. In addition, the Company purchased $98,225 of investment grade residential mortgage-backed securities.

Commercial Real Estate Securities Portfolio Activity

The following table details the par, estimated fair value, adjusted purchase price, and loss adjusted yield of the Company's commercial real estate securities included in as well as outside the CDOs as of March 31, 2006:

	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Do Pr
Investment grade CMBS	$182,474	$180,421	98.87	$190,926	
Investment grade real estate investment trust ("REIT") debt	23,000	21,516	93.55	22,834	
CMBS rated BB+ to B	198,689	164,771	82.93	169,373	
CMBS rated B- or lower	188,359	65,683	34.87	61,934	
CDO Investments	423,349	115,418	27.26	117,259	
CMBS Interest Only securities ("IOs")	3,461,113	95,415	2.76	98,721	
Multifamily agency securities	361,931	360,666	99.65	372,092	
Total commercial real estate securities outside CDOs	4,838,915	1,003,890	20.75	1,033,139	
Investment grade CMBS	515,555	512,565	99.42	476,849	
Investment grade REIT debt	223,445	229,715	102.81	226,463	
CMBS rated BB+ to B	510,302	440,602	86.34	389,022	
CMBS rated B- or lower	5,439	4,145	76.21	4,292	
Credit tenant lease	24,187	24,703	102.13	24,857	

Total commercial real estate securities included in CDOs	1,278,928	1,211,730	94.75	1,121,483
Total commercial real estate securities	$6,117,843	$2,215,620	36.22	$2,154,622

The following table details the par, estimated fair value, adjusted purchase price and loss adjusted yield of the Company's commercial real estate securities included in as well as outside the CDOs as of December 31, 2005:

	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Dol Pri
Investment grade CMBS	$150,128	$151,889	101.17	$161,314	107
Investment grade real estate investment trust ("REIT") debt	23,000	21,828	94.90	22,828	99
CMBS rated BB+ to B	104,784	90,289	86.17	92,931	88
CMBS rated B- or lower	132,242	47,854	36.19	45,070	34
CDO Investments	423,349	124,549	29.42	112,577	26
CMBS Interest Only securities("IOs")	3,505,646	103,363	2.95	103,120	2
Multifamily agency securities	256,398	263,362	102.72	268,319	104
Total commercial real estate securities outside CDOs	4,595,547	803,134	17.48	806,159	17
Investment grade CMBS	375,502	377,291	100.48	354,561	94
Investment grade REIT debt	223,445	233,939	104.70	226,583	101
CMBS rated BB+ to B	656,207	566,181	86.28	513,446	78
Credit tenant lease	24,317	24,837	102.14	24,995	102
Total commercial real estate securities included in CDOs	1,279,472	1,202,248	93.96	1,119,585	87
Total commercial real estate securities	$5,875,019	$2,005,383	34.13	$1,925,744	32

During the three months ended March 31, 2006, the Company's commercial real estate securities portfolio increased by approximately 10.5% from an estimated fair value of $2,005,383 at December 31, 2005, compared with $2,215,620 at March 31, 2006.

The Company's CDO offerings allow the Company to match fund its commercial real estate portfolio by issuing long-term debt to finance long-term assets. The CDO debt is non-recourse to the Company; therefore, the Company's losses are limited to its equity investment in the CDO. The CDO debt is also hedged to protect the Company from an increase in short-term interest rates. At March 31, 2006, over 65% of the estimated fair value of the Company's subordinated CMBS is match funded in the Company's CDOs in this manner. Following the closing of CDO HY3, approximately 93% of the Company's subordinated CMBS will be match funded in CDOs.

The Company retained 100% of the equity of CDOs I, II and III (as defined below) and recorded the transactions on its consolidated financial statements as secured financing. The table below summarizes the Company's CDO debt and collateral at March 31, 2006.

	Collateral as of March 31, 2006		Debt as of March 31, 2006		
	Adjusted Purchase Price	Loss Adjusted Yield	Adjusted Issue Price	Weighted Average Cost of Funds *	Ne
CDO I	$442,181	9.19%	$406,429	7.05%	
CDO II	326,861	7.96%	292,708**	5.80%	
CDO III	377,881	7.22%	367,437**	5.03%	
Total **	$1,146,923	8.19%	$1,066,575	6.01%	

* Weighted Average Cost of Funds is the current cost of funds plus hedging expenses.
** The Company chose not to sell $10,000 of par of CDO II debt rated BB and $13,069 of par of CDO III debt rated BB.

Securitizations

On July 26, 2005, the Company closed its fifth CDO ("CDO HY2") and issued non-recourse liabilities with a face amount of $365,010. Senior investment grade notes with a face amount of $240,134 were issued and sold in a private placement. The Company retained the floating rate BBB- note, the below investment grade notes and the preferred shares. The Company recorded CDO HY2 as a secured financing for accounting purposes and consolidated the assets, liabilities, income and expenses of CDO HY2 until the sale of the floating rate BBB- note in December 2005, at which point CDO HY2 qualified as a sale under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("SFAS 140").

The Company received cash proceeds of $244,212 as well as all of the retained interests that had an estimated fair value of $105,025 at December 31, 2005. The transaction raised investable proceeds of $56,226. The following table summarizes the impact of this transaction on 2005 results:

Net realized gain related to sale of CDO HY2	$16,523
Increase in accumulated other comprehensive income	9,611
Total stockholders' equity impact	$26,134

On November 9, 2004, the Company closed its fourth collateralized debt obligation ("CDO HY1") secured by a portfolio of below investment grade CMBS with an average rating of CCC. The CMBS portfolio was carried at its estimated fair value of $109,933 on the Company's consolidated statement of financial condition based on price quotes received from third parties. The transaction was accounted for as a sale under SFAS No. 140. The Company received cash proceeds of $140,425 as well as all of the CDO HY1 preferred shares that had an estimated fair value of $15,885 at December 31, 2004. The transaction raised investable proceeds of $95,799. The following table summarizes the impact of this transaction on 2004 results:

Realized gain at closing of CDO HY1	$14,769
Realized gain from subsequent sale of A- tranche	1,825
Increase in accumulated other comprehensive income	29,782
Total stockholders' equity impact	$46,376

Real Estate Credit Profile of Below Investment Grade CMBS

The Company divides its below investment grade CMBS investment activity into two portfolios; Controlling Class CMBS and other below investment grade CMBS. The Company considers the CMBS securities where it maintains the right to influence the foreclosure/workout process on the underlying loans its controlling class CMBS ("Controlling Class"). The distinction between the two is in the rights the Company obtains with its investment in Controlling Class CMBS. Controlling Class rights allow the Company to influence the workout and/or disposition of defaults that occur in the underlying loans. These securities absorb the first losses realized in the underlying loan pools. The coupon payment on the non-rated security also can be reduced for special servicer fees charged to the trust. The next highest rated security in the structure then generally will be downgraded to non-rated and become the first to absorb losses and expenses from that point on. At March 31, 2006, the Company owns 24 different trusts where it is in the first loss position and is designated as the controlling class representative by owning the lowest rated or non-rated CMBS class. The total par of the loans underlying these securities was $33,598,059. At March 31, 2006, subordinated Controlling Class CMBS with a par of $708,070 were included on the Company's consolidated statement of financial condition. Subordinated Controlling Class CMBS with a par of $711,644 were held as collateral for CDOs HY1 and HY2.

The Company's other below investment grade CMBS have more limited rights associated with its ownership to influence the workout and/or disposition of underlying loan defaults. The total par of the Company's other below investment grade CMBS at March 31, 2006, was $194,718; the average credit protection, or subordination level, of this portfolio is 3.92%.

The Company's investment in its subordinated Controlling Class CMBS by credit rating category at March 31, 2006 is as follows:

	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Adjusted Dollar Price	Subordination Level
BB+	$119,110	$105,829	88.85	$101,434	85.16	4.08%
BB	130,902	111,688	85.32	95,089	72.64	3.14%
BB-	122,786	94,939	77.32	88,471	72.05	3.40%
B+	84,788	60,281	71.10	56,696	66.87	2.60%
B	62,125	41,768	67.23	35,658	57.40	2.07%
B-	36,771	19,848	53.98	19,359	52.65	1.27%
NR	151,588	45,833	30.24	14,574	28.09	n/a
Total	$708,070	$480,186	67.82	$439,281	62.04	

The Company's investment in its subordinated Controlling Class CMBS by credit rating category at December 31, 2005 is as follows:

	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Dollar Price	Weighted Average Subordinatio Level
BB+	$139,541	$131,676	94.36	$120,541	86.38	5.64%
BB	92,583	81,469	88.00	76,527	82.66	4.43%
BB-	110,514	92,116	83.35	85,829	77.66	4.15%
B+	79,564	56,651	71.20	52,828	66.40	2.60%
B	132,247	84,201	63.37	77,784	58.82	2.81%
B-	23,775	13,216	55.59	12,303	51.75	1.24%
NR	96,626	27,777	28.75	25,727	26.63	n/a
Total	$674,850	$487,106	72.18	$451,539	66.91	

Future delinquencies and losses may cause par reductions and cause the Company to conclude that a change in loss adjusted yield is required along with a write down of the adjusted purchase price through the income statement according to Emerging Issue Task Force ("EITF") 99-20. During the three months ended March 31, 2006, the loan pools were paid down by $153,842. Pay down proceeds are distributed to the highest rated CMBS class first and reduce the percent of total underlying collateral represented by each rating category.

For all of the Company's Controlling Class securities, the Company follows a policy of assigning estimated losses to specific loans as well as adding a general loss assumption that is not loan specific. In performing continuing credit reviews on the 24 Controlling Class trusts, the Company estimates that specific losses totaling $497,635 related to principal of the underlying loans will not be recoverable, of which $186,335 is expected to occur over the next five years. The total loss estimate of $497,638 represents 1.48% of the total current underlying loan pools at March 31, 2006. Additionally, the Company assumes a constant default rate of approximately ten to forty basis points with a 35% loss severity and a one year recovery period. These estimates were developed based on an analysis of individual loan characteristics and prevailing market conditions at the time of origination. All estimated workout expenses including special servicer fees are included in these assumptions. These loss assumptions are then used to compute a loss adjusted yield, which is then used to record income on the Company's consolidated financial statements. If the loss assumptions prove to be consistent with actual loss experience, the Company will maintain that level of income for the life of the security. As actual losses differ from the original loss assumptions, yields are adjusted to reflect the updated assumptions. In addition, a write down of the adjusted purchase price or write up of loss adjusted yields of the security may be required. (See Item 3 -"Quantitative and Qualitative Disclosures About Market Risk" for more information on the sensitivity of the Company's income and adjusted purchase price to changes in credit experience.)

The Company considers delinquency information from the Lehman Brothers Conduit Guide to be the most relevant benchmark to measure credit performance and market conditions applicable to its Controlling Class CMBS holdings. The year of issuance, or vintage year, is important, as older loan pools will tend to have more delinquencies than newly underwritten loans. Comparable delinquency statistics referenced by vintage year as a percentage of par outstanding as of

March 31, 2006 are shown in the table below:

Vintage Year	Underlying Collateral	Delinquencies Outstanding	Lehman Brothers Conduit Guide
1998	$5,804,361	1.42%	1.49%
1999	629,114	1.51%	1.73%
2001	869,555	2.99%	1.29%
2002	1,144,715	0.32%	0.53%
2003	2,112,823	0.67%	0.47%
2004	6,699,032	0.56%	0.24%
2005	12,160,658	0.00%	0.16%
2006	4,177,801	0.00%	0.00%
Total	$33,598,059	0.51%	0.48%*

* Weighted average based on current principal balance.

Delinquencies on the Company's CMBS collateral as a percent of principal are in line with expectations and are consistent with comparable data provided in the Lehman Brothers Conduit Guide. Morgan Stanley also tracks CMBS loan delinquencies for the specific CMBS transactions with more than $200,000 of collateral and that have been seasoned for at least one year. These seasoning criteria generally will adjust for the lower delinquencies that occur in newly originated collateral. At March 31, 2006, the Morgan Stanley index indicated that delinquencies on 350 securitizations were 0.92%, and at December 31, 2005, this same index indicated that delinquencies on 338 securitizations were 1.21%.

The following table sets forth certain information relating to the aggregate principal balance and payment status of delinquent mortgage loans underlying the Controlling Class CMBS held by the Company as of March 31, 2006.

	March 31, 2006		
	Principal	Number of Loans	% of Collateral
Past due 30 days to 60 days	$39,532	5	0.12%
Past due 61 days to 90 days	10,240	4	0.03%
Past due 91 days or more	60,096	16	0.18%
Real estate owned ("REO")	59,514	7	0.18%
Foreclosure	3,617	1	0.01%
Total delinquent	$172,999	33	0.51%
Total principal balance	$33,598,059		

Of the 33 delinquent loans at March 31, 2006, 7 loans were real estate owned and being marketed for sale, 1 loan was in foreclosure and the remaining 25 loans were in some form of workout negotiations. The Controlling Class CMBS owned by the Company have a delinquency rate of 0.51%, which is consistent with industry averages. During the three months ended March 31, 2006, the underlying collateral experienced early payoffs of $153,842 representing 0.46% of the quarter-end pool balance. These loans were paid off at par with no loss. Aggregate losses related to the underlying collateral of $3,398 were realized during the three months ended March 31, 2006. This brings cumulative realized losses to $93,568, which is 18.8% of total estimated losses. These losses include special servicer and other workout expenses. This experience to date is in line with the Company's loss expectations. Realized losses and special servicer expenses are expected to increase on the underlying loans as the portfolio matures. Special servicer expenses are also expected to increase as portfolios mature.

To the extent that realized losses differ from the Company's original loss estimates, it may be necessary to reduce or increase the projected yield on the applicable CMBS investment to better reflect such investment's expected earnings net of expected losses, from the date of purchase. While realized losses on individual assets may be higher or lower than original estimates, the Company currently believes its aggregate loss estimates and yields remain appropriate.

The Company manages its credit risk through disciplined underwriting, diversification, active monitoring of loan performance and exercise of its right to control the workout process for delinquent loans as early as possible. The Company maintains diversification of credit exposures through its underwriting process and can shift its focus in future investments by adjusting the mix of loans in subsequent acquisitions. The comparative profiles of the loans underlying the Company's CMBS by property type as of March 31, 2006 and December 31, 2005 are as follows:

	March 31, 2006 Exposure		December 31, 2005 Exposure	
Property Type	Loan Balance	% of Total	Loan Balance	% of Total
Retail	$10,577,237	31.5%	$9,195,747	31.0%
Office	10,359,572	30.8	9,406,148	31.7
Multifamily	7,391,306	22.0	6,874,450	23.2
Industrial	2,510,225	7.5	2,060,953	7.0
Lodging	2,119,098	6.3	1,670,436	5.6
Healthcare	297,530	0.9	299,692	1.0
Other	343,092	1.0	160,923	0.5
Total	$33,598,059	100%	$29,668,349	100%

As of March 31, 2006, the estimated fair value of the Company's holdings of subordinated Controlling Class CMBS is $40,904 higher than the adjusted cost for these securities which consists of a gross unrealized gain of $48,153 and a gross unrealized loss of $7,249. The adjusted purchase price of the Company's subordinated Controlling Class CMBS portfolio as of March 31, 2006 represents approximately 62% of its par amount. The estimated fair value of the Company's subordinated Controlling Class CMBS portfolio as of March 31, 2006 represents approximately 68% of its par amount. As the portfolio matures, the Company expects to recoup the $7,249 of unrealized loss, provided that the credit losses experienced are not greater than the credit losses assumed in the projected cash flow analysis. As of March 31, 2006, the Company believes there has been no material deterioration in the credit quality of its portfolio below current expectations.

As the portfolio matures and expected losses occur, subordination levels of the lower rated classes of a CMBS investment will be reduced. This may cause the lower rated classes to be downgraded, which would negatively effect their estimated fair value and therefore the Company's net asset value. Reduced estimated fair value would negatively effect the Company's ability to finance any such securities that are not financed through a CDO or similar matched funding vehicle. In some cases, securities held by the Company may be upgraded to reflect seasoning of the underlying collateral and thus would increase the estimated fair value of the securities. During the three months ended March 31, 2006, there were eight credit upgrades on four of the Company's Controlling Class CMBS and no credit downgrades. Additionally, the Company experienced 23 upgrades and no downgrades related to non-Controlling Class commercial real estate securities during the three months ended March 31, 2006.

The Company's interest income calculated in accordance with EITF 99-20 for its CMBS is computed based upon a yield, which assumes credit losses will occur. The yield to compute the Company's taxable income does not assume there would be credit losses, as a loss can only be deducted for tax purposes when it has occurred. As a result, for the years 1998 through March 31, 2006, the Company's GAAP income accrued on its CMBS assets was approximately $33,626 lower than the taxable income accrued on the CMBS assets.

Effect of Hurricanes on Below Investment Grade CMBS

During 2005, four properties which are security for mortgages in four separate Controlling Class CMBS transactions were damaged by Hurricane Katrina. The Company believes that two properties have adequate insurance coverage and the cash flows related to those Controlling Class CMBS transactions should not be adversely affected. As a result, the Company has not adjusted the loss assumed for these properties. However, two properties with aggregate outstanding loan balances of $14,640 have suffered significant damage. Based on the Company's on-site review of the damage incurred and information available to date, the anticipated loss for these properties has been adjusted and reflected in the Company's EITF 99-20 calculations. As more information is received, losses may be adjusted further.

In addition, the Company has concluded that no properties in its Controlling Class CMBS transactions were substantially affected by Hurricane Wilma.

Commercial Real Estate Loan Activity

The Company's commercial real estate loan portfolio generally emphasizes larger transactions located in metropolitan markets, as compared to the typical loan in the CMBS portfolio.

The following table summarizes the Company's commercial real estate loan portfolio by property type as of March 31, 2006 and December 31, 2005:

	Carrying Value				Weighted Average Yield	
	March 31, 2006		December 31, 2005			
Property Type	Amount	%	Amount	%	2006	2005
Office	$94,087	26.0%	$94,432	25.8%	8.9%	8.9%
Residential	49,481	13.7	57,466	15.7	8.9	8.6
Retail	113,152	31.3	76,502	20.9	7.8	7.3
Hotel	54,541	15.1	79,840	21.8	9.1	8.6
Storage	32,833	9.1	32,913	9.0	9.1	9.1
Communication Tower	-	-	20,000	5.5	-	9.4
Industrial	15,462	4.2	2,423	0.7	8.8	8.1

Other Mixed Use	2,167	.6	2,230	0.6	8.1	8.1
Total	$361,723	100.0%	$365,806	100.0%	8.6%	8.5%

During the quarter ended March 31, 2006, the Company purchased $35,600 U.S. dollar denominated commercial real estate loans with a total principal balance of $40,000 and a British Pound denominated commercial real estate loan with a cost of (pound)7,474 ($13,283) and a principal balance of (pound)7,500. During the quarter ended March 31, 2006, the Company experienced repayments in the aggregate amount of $48,385 related to its U.S. dollar denominated commercial real estate loan portfolio. The Company finances its non-dollar denominated loans by borrowing in the applicable local currency and hedging the un-financed portion.

The carrying value and average yields on the Company's commercial real estate loans as of March 31, 2006 were as follows:

	Carrying Value	Carrying Value (Local Currency)	Average Yield	Average Spread to 1-month USD LIBOR	Average to 3-mo LIB
Fixed Rate	$177,346		8.88%		
Floating Rate	48,905			5.85%	
Floating Rate	69,189	(pound)39,777			4.3
Floating Rate	66,283	(euro)54,588			
	$361,723				

Critical Accounting Estimates

Management's discussion and analysis of financial condition and results of operations are based on the amounts reported in the Company's consolidated financial statements. These financial statements are prepared in accordance with GAAP. In preparing the financial statements, management is required to make various judgments, estimates and assumptions that affect the reported amounts. Changes in these estimates and assumptions could have a material effect on the Company's consolidated financial statements. The following is a summary of the Company's accounting policies that are the most affected by management judgments, estimates and assumptions:

Securities Available-for-sale

The Company has designated certain investments in mortgage-backed securities, mortgage-related securities and certain other securities as available-for-sale. Securities available-for-sale are carried at estimated fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. Many of these investments are relatively illiquid, and management must estimate their values. In making these estimates, management generally utilizes market prices provided by dealers who make markets in these securities, but may, under certain circumstances, adjust these valuations based on management's judgment. Changes in the valuations do not affect the Company's reported net income or cash flows, but impact stockholders' equity and, accordingly, book value per share.

Management must also assess whether unrealized losses on securities reflect a decline in value that is other than temporary, and, accordingly, write the impaired security down to its fair value, through earnings. Significant judgment by management is required in this analysis, which includes, but is not limited to, making assumptions regarding the collectability of the principal and interest, net of related expenses, on the underlying loans.

Income on these securities is recognized based upon a number of assumptions that are subject to uncertainties and contingencies. Examples of these assumptions include, among other things, the rate and timing of principal payments (including prepayments, repurchases, defaults and liquidations), the pass-through or coupon rate and interest rate fluctuations. Additional factors that may affect the Company's reported interest income on its mortgage securities include interest payment shortfalls due to delinquencies on the underlying mortgage loans, the timing and magnitude of credit losses on the mortgage loans underlying the securities that are a result of the general condition of the real estate market (including competition for tenants and their related credit quality) and changes in market rental rates. These uncertainties and contingencies are difficult to predict and are subject to future events that may alter the assumptions.

The Company recognizes interest income from its purchased beneficial interests in securitized financial interests ("beneficial interests") (other than beneficial interests of high credit quality, sufficiently collateralized to ensure that the possibility of credit loss is remote, or that cannot contractually be prepaid or otherwise settled in such a way that the Company would not recover substantially all of its recorded investment) in accordance with EITF 99-20. Accordingly, on a quarterly basis, when changes in estimated cash flows from the cash flows previously estimated occur due to actual prepayment and credit loss experience, the Company calculates a revised yield based on the current amortized cost of the investment (including any other-than-temporary impairments recognized to date) and the revised cash flows. The revised yield is then applied prospectively to recognize interest income.

For other mortgage-backed and related mortgage securities, the Company accounts for interest income under SFAS No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases ("SFAS No. 91"), using the effective yield method which includes the amortization of discount or premium arising at the time of purchase and the stated or coupon interest payments.

Impairment - Securities

In accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS No. 115"), when the estimated fair value of the security classified as available-for-sale has been below amortized cost for a significant period of time and the Company concludes that it no longer has the ability or intent to hold the security for the period of time over which the Company expects the values to recover to amortized cost, the investment is written down to its fair value. The resulting charge is included in income, and a new cost basis is established. Additionally, under EITF 99-20, when changes in estimated cash flows from the cash flows previously estimated occur due to actual prepayment and credit loss experience, and the present value of the revised cash flows using the current expected yield is less than the present value of the previously estimated remaining cash flows (adjusted for cash receipts during the intervening period), an other-than-temporary impairment is deemed to have occurred. Accordingly, the security is written down to fair value with the resulting change being included in income, and a new cost basis established. In both instances, the original discount or premium is written off when the new cost basis is established.

After taking into account the effect of an impairment charge, income is recognized under EITF 99-20 or SFAS No. 91, as applicable, using the market yield for the security used in establishing the write-down.

Variable interest entities

The consolidated financial statements include the financial statements of the Company and its subsidiaries, which are wholly-owned or controlled by the Company or entities which are variable interest entities ("VIEs") in which the Company is the primary beneficiary under FASB Interpretation No. 46, Consolidation of Variable Interest Entities (revised December 2003) ("FIN 46R"). FIN 46R requires a VIE to be consolidated by its primary beneficiary. The primary beneficiary is the party that absorbs the majority of the VIE's anticipated losses and/or the majority of the expected returns. The Company has evaluated its investments for potential variable interests by evaluating the sufficiency of the entities equity investment at risk to absorb losses. All significant inter-company balances and transactions have been eliminated in consolidation.

The Company has analyzed the governing pooling and servicing agreements for each of its Controlling Class CMBS and believes that the terms are industry standard and are consistent with the qualifying special-purpose entity ("QSPE") criteria. However, there is uncertainty with respect to QSPE treatment due to ongoing review by accounting standard setters, potential actions by various parties involved with the QSPE, as well as varying and evolving interpretations of the QSPE criteria under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("SFAS No. 140"). Additionally, the standard setters continue to review the FIN 46R provisions related to the computations used to determine the primary beneficiary of a VIE. Future guidance from the standard setters may require the Company to consolidate CMBS trusts in which the Company has invested.

Mortgage Loans

The Company purchases and originates commercial mortgage loans to be held as long-term investments. The Company also has investments in private opportunity funds that invest in commercial mortgage loans and are managed by the Manager. Management periodically evaluates each loan for possible impairment. Impairment is indicated when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. If a loan was determined to be impaired, the Company will establish a reserve for probable losses and a corresponding charge to earnings. Given the nature of the Company's loan portfolio and the underlying commercial real estate collateral, significant judgment of management is required in determining impairment and the resulting loan loss allowance, which includes but is not limited to making assumptions regarding the value of the real estate that secures the mortgage loan. To date, the Company has determined that no loan loss allowances have been necessary on the loans in its portfolio or held by the Carbon Capital Funds (as defined under Transactions with Affiliates, below).

Derivative Instruments

The Company utilizes various hedging instruments (derivatives) to hedge interest rate and foreign currency exposures or to modify the interest rate or foreign currency characteristics of related Company investments. All derivatives are carried at fair value, generally estimated by management based on valuations provided by the counterparty to the derivative contract. For accounting purposes, the Company's management must decide whether to designate these derivatives as either a hedge of an asset or liability, securities available-for-sale, securities held-for-trading, or foreign currency exposure. This designation decision affects the manner in which the changes in the fair value of the derivatives are reported.

Securitizations

When the Company sells assets in securitizations, it can retain certain tranches which are considered retained interests in the securitization. Gain or loss on the sale of assets depends in part on the previous carrying amount of the financial assets securitized, allocated between the assets sold and the retained interests based on their relative fair value at the date of securitization. To obtain fair values, quoted market prices are used. Gain or loss on securitizations of financial assets is reported as a component of sale of securities available-for-sale on the consolidated statement of operations. Retained interests are carried at estimated fair value on the consolidated statement of financial condition. Adjustments to estimated fair value for retained interests classified as securities available-for-sale are included in accumulated other comprehensive income on the consolidated statement of financial condition.

II. Results of Operations

Net income available to common stockholders for the three months ended March 31, 2006 was $18,794 or $0.33 per share (basic and diluted). Net income available to common stockholders for the three months ended March 31, 2005 was $14,368 or $0.27 per share (basic and diluted). Net income available to common stockholders increased to $0.33 per share for the three months ended March 31, 2006 as compared to $0.27 per share for the three months ended March 31, 2005.

Interest Income: The following tables set forth information regarding the total amount of income from certain of the Company's interest-earning assets.

	For the Three Months Ended March 31, 2006	2005	Amo
Commercial real estate securities	$37,791	$32,631	$5
Commercial mortgage loan pools	13,227	13,552	(
Commercial real estate loans	8,015	5,344	2
Residential mortgage-backed securities ("RMBS")	3,030	2,880	
Cash and cash equivalents	337	237	
Total interest income	$62,400	$54,644	$7

The following table reconciles interest income and total income for the three months ended March 31, 2006 and 2005.

	For the Three Months Ended March 31, 2006	2005
Interest Income	$62,400	$54,644
Earnings from BlackRock Diamond Property Fund		

("BlackRock Diamond")	5,542	-
Earnings from the Carbon Capital Funds	3,801	2,605
Earnings from real estate joint ventures	-	59
Total Income	$71,743	$57,308

For the three months ended March 31, 2006, interest income increased $7,756, or 14.2%, from the same three month period in 2005. The Company continued to increase its investments in commercial real estate securities and loans, resulting in an increase of $5,160, or 15.8%, and $2,671, or 49.9%, respectively. Income from BlackRock Diamond was $5,542 for the quarter ended March 31, 2006. The Company began investing in BlackRock Diamond in the fourth quarter of 2005, as a result, there was no income related to BlackRock Diamond during the quarter ended March 31, 2005. The $5,542 of income consists of $370 of income and $5,172 of unrealized gains on the underlying portfolio assets.

Interest Expense: The following table sets forth information regarding the total amount of interest expense from certain of the Company's borrowings and cash flow hedges.

	For the Three Months Ended March 31,		Variance	
	2006	2005	Amount	%
Collateralized debt obligations	$16,134	$15,747	$387	2.5
Commercial real estate securities	8,077	2,586	5,491	212.3
Commercial mortgage loan pools*	12,666	12,780	(114)	(0.9
Commercial real estate loans	2,964	1,335	1,629	122.0
RMBS	3,596	2,129	1,467	68.9
Junior subordinated notes - net	2,220	-	2,220	n/
Cash flow hedges	1,483	2,300	(817)	(35.5
Hedge ineffectiveness**	(615)	(261)	(354)	(135.6
Total Interest Expense	$46,525	$36,616	$9,909	27.1

* Includes $44 and $3 of interest expense for the three months ended March 31, 2006 and 2005 from short-term financings of securities related to the consolidation of commercial mortgage loan pools. **See Note 12 of the consolidated financial statements, Derivative Instruments and Hedging Activities, for a further description of the Company's hedge ineffectiveness.

For the three months ended March 31, 2006, interest expense increased $9,909, or 27.1%, from the same three month period in 2005. The financing of additional commercial real estate securities and commercial real estate loans along with higher short-term borrowing rates increased interest expense $5,491 and $1,629, respectively, for the same three month period of 2005. The issuance of $175,000 of trust preferred securities increased interest expense $2,220 for the three months ended March 31, 2006. Hedging expenses not related to the CDOs decreased $816, or 35.5%, from 2005 levels. This decrease is due to the cash flow hedges offsetting higher short-term interest rates.

Net Interest Margin and Net Interest Spread from the Portfolio: The Company considers its portfolio to consist of securities available-for-sale, securities held-for-trading, commercial mortgage loans, and cash and cash equivalents because these assets relate to its core strategy of acquiring and originating high yield loans and securities backed by commercial real estate, while at the same time maintaining a portfolio of investment grade securities to enhance the Company's liquidity.

Net interest margin from the portfolio is annualized net interest income divided by the average estimated fair value of interest-earning assets. Net interest income is total interest income less interest expense relating to collateralized borrowings. Net interest spread equals the yield on average assets for the period less the average cost of funds for the period. The yield on average assets is interest income divided by average amortized cost of interest earning assets. The average cost of funds is interest expense from the portfolio divided by average outstanding collateralized borrowings.

The following chart describes the interest income, interest expense, net interest margin and net interest spread for the Company's portfolio. The following interest income and interest expense amounts exclude income and expense related to hedge ineffectiveness, and the gross-up effect of the consolidation of a VIE that includes commercial mortgage loan pools. The Company believes interest income and expense excluding the effects of these items better reflects the Company's net interest margin and net interest spread from the portfolio.

	For the Three Months Ended March 31, 2006	2005
Interest income	$49,781	$42,096
Interest expense	$34,521	$24,101
Net interest margin	2.2%	3.2%
Average yield	7.2%	7.5%
Cost of funds	6.1%	5.2%
Net interest spread	1.1%	2.3%

Other Expenses: Expenses other than interest expense consist primarily of management fees and general and administrative expenses. The table below summarizes those expenses for the three months ended March 31, 2006 and 2005.

	For the Three Months Ended March 31,		Variance	
	2006	2005	Amount	%
Management fee	$3,050	$2,579	$471	18.3%
Incentive fee	1,169	-	1,169	-
General and administrative expense	1,104	820	284	34.6
Total other expenses	$5,323	$3,399	$1,924	56.6%

Management fees are based on 2% of average quarterly stockholders' equity. The increase of $471, 18.3%, is due to the increase in the Company's stockholders' equity. The Manager earned an incentive fee of $1,169 for the quarter ended March 31, 2006 as the Company achieved the necessary performance goals specified in the Management Agreement.

General and administrative expense is comprised of accounting agent fees, custodial agent fees, directors' fees, fees for professional services, insurance premiums, broken deal expenses, and due diligence costs. The increase in general and administrative expense for the quarter ended March 31, 2006 is primarily attributable to the Company's new investment accounting system and cost associated and increased professional fees.

Other Gains (Losses): Gains on securities available-for-sale were $34 and $10 for the three months ended March 31, 2006 and 2005, respectively. Gains (losses) on securities held-for-trading were $950 and $(1,372) for the three months ended March 31, 2006 and 2005, respectively. Foreign currency gains (losses) were $44 and $(168) for the three months ended March 31, 2006 and 2005, respectively, which represent the net impact of the Company's foreign currency exposure for the applicable quarters. The losses on impairment of assets of $781 and $159 for the three months ended March 31, 2006 and 2005, respectively, were related to the Company's write down of certain CMBS as required by EITF 99-20.

Dividends Declared: On March 24, 2006, the Company declared distributions to its stockholders of $0.28 per share, payable on May 1, 2006 to stockholders of record on March 31, 2006.

Changes in Financial Condition

Securities Available-for-sale: The Company's securities available-for-sale, which are carried at estimated fair value, included the following at March 31, 2006 and December 31, 2005:

Security Description	March 31, 2006 Estimated Fair Value	Percentage	December 2005 Estim Fair Value
Commercial mortgage-backed securities:			
CMBS IOs	$95,416	4.0%	$10
Investment grade CMBS	673,637	28.3	50
Non-investment grade rated subordinated securities	628,825	26.4	67
Non-rated subordinated securities	44,464	1.9	2
Credit tenant leases	24,702	1.0	2
Investment grade REIT debt	251,231	10.6	25
Multifamily agency securities	360,666	15.2	26
CDO investments	115,417	4.8	12
Total CMBS	2,194,359	92.2	1,98
Single-family RMBS:			
Agency adjustable rate securities	72,490	3.0	7
Residential CMOs	100,597	4.2	
Hybrid adjustable rate mortgages	14,464	.6	1
Total RMBS	187,551	7.8	9
Total securities available-for-sale	$2,381,910	100.0%	$2,07

During the quarter ended March 31, 2006, the Company purchased $322,642 of securities available-for-sale. In addition, the Company received principal payments of $12,538 related to securities available-for-sale.

Borrowings: As of March 31, 2006 and December 31, 2005, the Company's debt consisted of line-of-credit borrowings, CDO debt, junior subordinated notes, term loans and reverse repurchase agreements, collateralized by a pledge of most of the Company's securities available-for-sale, securities held-for-trading, and its commercial mortgage loans. The Company's financial flexibility is affected by its ability to renew or replace on a continuous basis its maturing short-term borrowings. As of March 31, 2006 and December 31, 2005, the Company has obtained financing in amounts and at interest rates consistent with the Company's short-term financing objectives.

Under the credit facilities, and the reverse repurchase agreements, the lender retains the right to mark the underlying collateral to estimated fair value. A reduction in the estimated fair value of its pledged assets would require the Company to provide additional collateral or fund margin calls. From time to time, the Company expects that it will be required to provide such additional collateral or fund margin calls.

The following table sets forth information regarding the Company's borrowings:

	For the Three Months Ended March 31, 2006		
	March 31, 2006 Balance	Maximum Balance	Range of Maturities
CDO debt*	$1,066,574	$1,066,930	5.7 to 7.8 years
Commercial mortgage loan pools	1,267,611	1,272,931	2.8 to 12.7 years
Reverse repurchase agreements	1,060,329	1,060,329	2 to 274 days
Credit facilities	254,015	301,923	40 days to 1.7 year
Junior subordinated notes	180,477	180,477	29.9 years**

* Disclosed as adjusted issue price. Total par of the Company's CDO debt as of March 31, 2006 was $1,078,860.
** $77,380 of the Company's junior subordinated notes can be redeemed at par beginning in October 2010, $51,550 can be redeemed at par beginning in March 2011 and $51,547 can be redeemed at par beginning in April 2011.

Hedging Instruments: From time to time, the Company may reduce its exposure to market interest rates by entering into various financial instruments that adjust portfolio duration. These financial instruments are intended to mitigate the effect of changes in interest rates on the estimated fair value of the Company's assets and the cost of borrowing.

Interest rate hedging instruments as of March 31, 2006 and December 31, 2005 consisted of the following:

As of March 31, 2006

	Notional Value	Estimated Fair Value	Unamortized Cost	Average
Cash flow hedges	$751,050	$25,254	$-	
CDO cash flow hedges	695,041	24,929	-	
Trading swaps	100,000	4,865	-	
CDO timing swaps	223,445	24	-	
CDO LIBOR cap	85,000	370	1,407	

	As of December 31, 2005			
	Notional Value	Estimated Fair Value	Unamortized Cost	Average
Cash flow hedges	$500,350	$6,234	$-	
CDO cash flow hedges	701,603	10,616	-	
Trading swaps	133,000	4,032	-	
CDO timing swaps	223,445	(37)	-	
CDO LIBOR cap	85,000	1,419	1,407	

Capital Resources and Liquidity

The Company requires capital to fund its investment activities and operating expenses. The Company has sufficient access to capital resources to fund its existing business plan. The Company's capital sources include cash flow from operations, borrowings under reverse repurchase agreements, credit facilities, CDOs, junior subordinated notes and the issuance of preferred and common equity securities.

The distribution requirements under the REIT provisions of the United States Internal Revenue Code of 1986, as amended (the "Code") limit the Company's ability to retain earnings and thereby replenish or increase capital committed to its operations. However, the Company believes that its access to significant capital resources and financing will enable the Company to meet current and anticipated capital requirements.

The Company believes that its existing sources of funds will be adequate for purposes of meeting its short- and long-term liquidity needs. The Company's ability to meet its long-term (i.e., beyond one year) liquidity requirements is subject to obtaining additional debt and equity financing. Any decision by the Company's lenders and investors to provide the Company with financing will depend upon a number of factors, such as the Company's compliance with the terms of its existing credit arrangements, the Company's financial performance, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders' and investors' resources and policies concerning the terms under which they make capital commitments and the relative attractiveness of alternative investment or lending opportunities.

Reverse Repurchase Agreements and Credit Facilities

As of March 31, 2006, $26,716 of the Company's $200,000 committed multicurrency credit facility with Deutsche Bank, AG was available for future borrowings and $6,966 of the Company's $75,000 committed credit facility with Greenwich Capital, Inc. was available. The Company had outstanding borrowings of $12,697 under a committed credit facility with Morgan Stanley Mortgage Capital, Inc.

On February 16, 2006, the Company entered into a $200,000 committed non-dollar credit facility with Morgan Stanley Mortgage Servicing, Inc. which matures in

February 2008. Outstanding borrowings under this credit facility bear interest at a LIBOR based variable rate. As of March 31, 2006, there were no borrowings under this facility.

On March 17, 2006, the Company entered into a $100,000 committed non-dollar credit facility with Bank of America, N.A. which matures in September 2008. Outstanding borrowings under this credit facility bear interest at a LIBOR based variable rate. As of March 31, 2006, there were no borrowings under this facility.

The Company is subject to various covenants in its credit facilities, including maintaining a minimum net worth measured on GAAP of $400,000, a recourse debt-to-equity of 3.0 to 1, a minimum cash requirement based upon certain debt-to-equity ratios, a minimum recourse debt service coverage ratio of 1.75 and a minimum liquidity reserve of $10,000. As of March 31, 2006, the Company was in compliance with all covenants in its credit facilities.

CDOs

Issuance of secured term debt is generally done through a CDO offering. This entails creating a special purpose entity that holds assets used to secure the payments required of the debt issued. Asset cash flows generally are matched with the debt service requirements over their respective lives and an interest rate swap is used to match the fixed or floating rate nature of the coupon payments where necessary. This type of transaction is usually referred to as "match funding" or "term financing" the assets. There is no mark to market requirement in this structure and the debt cannot be called or terminated by the bondholders. Furthermore, the debt issued is non-recourse to the issuer; and therefore permanent reductions in value do not affect the liquidity of the Company. However, since the Company expects to earn a positive spread between the income generated by the assets and the expense of the debt issued, a permanent impairment of any of the assets would negatively affect the spread over time.

On May 2, 2006, the Company announced the pricing of its sixth CDO issuance ("CDO HY3") resulting in the issuance of $417,000 of non-recourse debt. The debt will be secured by a portfolio of CMBS and subordinated commercial real estate loans. This debt, rated AAA through BBB-, will be privately placed, and the Company will receive additional CDO debt rated BB and 100% of the preferred shares issued by the CDO. The transaction is expected to close on May 23, 2006.

The terms of the offering permit the Company to contribute to the CDO up to $50,000 of additional CMBS during a ramp-up period. These CMBS assets will be contributed at par value. The debt issuance is intended to match fund existing Company assets to be contributed to the CDO at closing, and the assets to be purchased during the ramp-up period, with long-term liabilities. The Company intends to account for this transaction on its balance sheet as a financing. All debt placed will either carry a fixed rate or will be hedged to create a current cost of funds of approximately 6.3% after issuance expenses and will have a weighted average life of 8.1 years. The Company will use the net proceeds of the offering to pay down existing debt on the CDO collateral. Since the CDO collateral was not fully levered, the Company expects excess cash of $93,000 after the pay down of existing debt in addition to the $50,000 ramp facility. Following the closing of CDO HY3, approximately 93% of the Company's subordinated CMBS will be match funded in CDOs.

At March 31, 2006, the Company's collateralized borrowings had the following remaining maturities:

	Reverse Repurchase Agreements	Credit Facilities	Commercial Mortgage Loan Pools	Collateralized Debt Obligation
Within 30 days	$1,027,784	$-	$-	
31 to 59 days	4,244	12,698	-	
60 days to less than 1 year	28,301	86,445	-	
1 year to 3 years	-	154,873	-	
3 years to 5 years	-	-	-	
Over 5 years	-	-	1,267,611	1,066,5
	$1,060,329	$254,016	$1,267,611	$1,066,5

* As of March 31, 2006, collateralized debt obligations are comprised of $418,834 of CDO debt with a weighted average remaining maturity of 6.04 years, $292,585 of CDO debt with a weighted average remaining maturity of 6.42 years, and $367,440 of CDO debt with a weighted average remaining maturity of 7.14 years.

Trust Preferred

On January 31, 2006, the Company issued $50,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust II, a Delaware statutory trust ("Trust II"). The trust preferred securities have a thirty-year term ending April 30, 2036 with interest at a fixed rate of 7.73% for the first ten years and at a floating rate of three-month LIBOR plus 2.7% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in April 2011. Trust II issued $1,550 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust II to the Company for a purchase price of $1,550. The Company realized net proceeds from this offering of approximately $48,491.

On March 16, 2006, the Company issued $50,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust III, a Delaware statutory trust ("Trust III"). The trust preferred securities have a thirty-year term ending March 15, 2036 with interest at a fixed rate of 7.77% for the first ten years and at a floating rate of three-month LIBOR plus 2.7% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in March 2011. Trust III issued $1,547 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust III to the Company for a purchase price of $1,547. The Company realized net proceeds from this offering of approximately $48,435.

Equity Issuances

For the three months ended March 31, 2006, the Company issued 590,216 shares of its Common Stock, par value $0.001 per share (the "Common Stock"), under its Dividend Reinvestment and Stock Purchase Plan (the "Dividend Reinvestment Plan"). Net proceeds to the Company were approximately $6,270. For the three months ended March 31, 2005, the Company issued 7,706 shares of its Common Stock under its Dividend Reinvestment Plan. Net proceeds to the Company were approximately $91.

Off Balance Sheet Arrangements

The Company's ownership of the subordinated classes of CMBS from a single issuer gives it the right to influence the foreclosure/workout process on the underlying loans ("Controlling Class CMBS"). FIN 46(R)-5 has certain scope exceptions, one of which provides that an enterprise that holds a variable interest in a qualifying special-purpose entity ("QSPE") does not consolidate that entity unless that enterprise has the unilateral ability to cause the entity to liquidate. SFAS No. 140 provides the requirements for an entity to be considered a QSPE. To maintain the QSPE exception, the trust must continue to meet the QSPE criteria both initially and in subsequent periods. A trust's QSPE status can be impacted in future periods by activities by its transferors or other involved parties, including the manner in which certain servicing activities are performed. To the extent its CMBS investments were issued by a trust that meets the requirements to be considered a QSPE, the Company records the investments at the purchase price paid. To the extent the underlying trusts are not QSPEs the Company follows the guidance set forth in FIN 46(R)-5 as the trusts would be considered VIEs.

The Company has analyzed the governing pooling and servicing agreements for each of its Controlling Class CMBS and believes that the terms are industry standard and are consistent with the QSPE criteria. However, there is uncertainty with respect to QSPE treatment due to ongoing review by accounting standard setters, potential actions by various parties involved with the QSPE, as discussed above, as well as varying and evolving interpretations of the QSPE criteria under SFAS No. 140. Additionally, the standard setters continue to review the FIN 46(R)-5 provisions related to the computations used to determine the primary beneficiary of a VIE. Future guidance from the standard setters may require the Company to consolidate CMBS trusts in which the Company has invested.

At March 31, 2006, the Company owned securities of 24 Controlling Class CMBS trusts with a par of $965,275. The total current par amount of CMBS issued by the 24 trusts was $33,598,059. One of the Company's 24 Controlling Class trusts does not qualify as a QSPE and has been consolidated by the Company.

The Company's maximum exposure to loss as a result of its investment in these VIEs totaled $656,509 and $565,231 at March 31, 2006 and December 31, 2005, respectively.

In addition, the Company has completed two securizations that qualify as QSPE's under SFAS No. 140. Through CDO HY1 and HY2 the Company issued non-recourse liabilities secured by commercial related assets including portions of 17 Controlling Class CMBS. Should future guidance from the standard setters determine that Controlling Class CMBS are not QSPE's, the Company would be required to consolidate the assets, liabilities, income and expense of CDO HY1 and CDO HY2.

The Company's total maximum exposure to loss as a result of its investment in CDOs HY1 and HY2 at March 31, 2006 and December 31, 2005, respectively, is $113,655 and 109,003.

At March 31, 2006, the Company also owns non-investment debt and preferred securities in LEAFs CMBS I Ltd ("Leaf"), a QSPE under SFAS No. 140. Leaf issued non-recourse liabilities secured by investment grade commercial real estate securities.

At March 31, 2006 and December 31, 2005, the Company's total maximum exposure to loss as a result of its investment in Leaf is $3,603 and $3,573, respectively.

Cash Flows

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities including the Company's trading securities. Operating activities provided cash flows of $42,899 and $31,563 during the three months ended March 31, 2006 and 2005, respectively.

The Company's investing cash flow consists primarily of the purchase, sale, and repayments on securities activities available for sale, commercial loan pools, commercial mortgage loans and equity investments. The Company's investing activities (used) provided cash flows of $(350,104) and $40,139 during the three months ended March 31, 2006 and 2005, respectively. The variance in investing cash flows is primarily attributable to significant purchases of securities and commercial mortgage loans.

Financing cash flows consist primarily of borrowings, CDO and junior subordinated note issuances, common and preferred stock offerings offset by dividends on common and preferred stock and repayments of borrowings. The Company's financing activities provided (used) cash flows $294,239 and $(73,152) during the three months ended March 31, 2006 and 2005, respectively. The increase in financing cash flows in 2006 was primarily attributable to increases in borrowings under reverse repurchase agreements and credit facilities as well as the issuance of junior subordinated notes.

The Company's ability to execute its business strategy depends to a significant degree on its ability to obtain additional capital. Factors which could affect the Company's access to the capital markets, or the costs of such capital, include changes in interest rates, general economic conditions and perception in the capital markets of the Company's business, covenants under the Company's current and future credit facilities, results of operations, leverage, financial conditions and business prospects. Consequently, there can be no assurance that the Company will be able to effectively fund future growth. Except as discussed herein, management is not aware of any other trends, events, commitments or uncertainties that may have a significant effect on liquidity.

Contingent Liability

During 2000, the Company completed the acquisition of CORE Cap, Inc. At the time of the CORE Cap, Inc. acquisition, the Manager agreed to pay GMAC (CORE Cap, Inc.'s external advisor) $12,500 over a ten-year period ("Installment Payment") to purchase the right to manage the Core Cap, Inc. assets under the existing management contract ("GMAC Contract"). The GMAC Contract had to be terminated in order to allow the Company to complete the merger, as the Company's management agreement with the Manager did not provide for multiple managers. As a result the Manager offered to buy-out the GMAC Contract as the Manager estimated it would receive incremental fees above and beyond the Installment Payment, and thus was willing to pay for, and separately negotiate, the termination of the GMAC Contract. Accordingly, the value of the Installment Payment was not considered in the Company's allocation of its purchase price to the net assets acquired in the acquisition of CORE Cap, Inc. The Company agreed that should the Management Agreement with its Manager be terminated, not renewed or not extended for any reason other than for cause, the Company would pay to the Manager an amount equal to the Installment Payment less the sum of all payments made by the Manager to GMAC. As of March 31, 2006, the Installment Payment would be $5,000 payable over five years. The Company does not accrue for this contingent liability.

Transactions with Affiliates

The Company has a Management Agreement with the Manager, a majority owned indirect subsidiary of The PNC Financial Services Group, Inc. and the employer of certain directors and all of the officers of the Company, under which the Manager manages the Company's day-to-day operations, subject to the direction and oversight of the Company's Board of Directors. Pursuant to the Management Agreement, the Manager formulates investment strategies, arranges for the acquisition of assets, arranges for financing, monitors the performance of the Company's assets and provides certain other advisory and managerial services in connection with the operations of the Company. For performing these services, the Company pays the Manager a base management fee equal to 2.0% of the quarterly average total stockholders' equity for the applicable quarter.

To provide an incentive, the Manager is entitled to receive an incentive fee equal to 25% of the amount by which the rolling four-quarter GAAP net income before the incentive fee exceeds the greater of 8.5% or 400 basis points over the ten-year Treasury note multiplied by the adjusted per share issue price of the common stock ($11.36 per common share at March 31, 2006).

The Company's unaffiliated directors approved an extension of the Management Agreement to March 31, 2007 at the Board of Directors' February 2006 meeting. Additionally, pursuant to a resolution of the Company's Board of Directors adopted at the February 2006 meeting, up to 30% of the incentive fees earned in 2005 or after may be paid in shares of the Company's Common Stock subject to certain provisions. The Board of Directors also authorized the Company to seek stockholders' approval of a compensatory deferred stock plan. Pending stockholder approval, the Company would establish a stock based incentive plan where one half of one percent of common shares outstanding will be paid to the Manager in 2006.

The Company incurred $3,050 and $2,579 in base management fees in accordance with the terms of the Management Agreement for the three months ended March 31, 2006 and 2005, respectively. The Company incurred $1,169 in incentive fees for the three months ended March 31, 2006. The Company did not incur incentive fees for the three months ended March 31, 2005. As of March 31, 2006 and 2005, respectively, management and incentive fees of $4,095 and $2,438 are payable to the Manager. In accordance with the provisions of the Management Agreement, the Company recorded reimbursements to the Manager of $100 and $40 for certain expenses incurred on behalf of the Company for the three months ended March 31, 2006 and 2005, respectively, which are included in general and administrative expense on the accompanying consolidated statements of operations.

The Company has an administration and investment accounting agreement with the Manager. Under the terms of the administration agreement, the Manager provides financial reporting, audit coordination and accounting oversight services to the Company. Under the terms of the investment accounting agreement, the Manager provides investment accounting services to the Company. For the three months ended March 31, 2006 and 2005, the Company recorded administration and investment accounting fees of $182 and $51, respectively, which are included in general and administrative expense on the accompanying consolidated statements of operations.

The special servicer on 20 of the Company's 24 Controlling Class trusts is Midland Loan Services, Inc. ("Midland"), a wholly owned indirect subsidiary of PNC Bank, and therefore an affiliate of the Manager. The Company's fees for Midland's services are at market rates.

The Company has a $100,000 commitment to acquire shares of BlackRock Diamond. BlackRock Diamond is a private REIT managed by BlackRock Realty Advisors, Inc., a subsidiary of the Manager. At March 31, 2006, 80.6% of the commitment has been called and the Company owned approximately 34.6% of BlackRock Diamond. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in BlackRock Diamond. The Company's investment in BlackRock Diamond at March 31, 2006 was $86,116. The Company's unaffiliated directors approved this transaction in September 2005.

During 2001, the Company entered into a $50,000 commitment to acquire shares in Carbon Capital, Inc. ("Carbon I"), a private commercial real estate income opportunity fund managed by the Manager. The Carbon I investment period ended on July 12, 2004 and the Company's investment in Carbon I as of March 31, 2006 was $6,634. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in Carbon I. On March 31, 2006, the Company owned approximately 20% of the outstanding shares in Carbon I. The Company's unaffiliated directors approved this transaction in July 2001.

The Company entered into an aggregate commitment of $100,000 to acquire shares in Carbon Capital II, Inc., a private commercial real estate income opportunity fund managed by the Manager. At March 31, 2006, the Company's investment in Carbon II was $60,364 and the Company's remaining commitment to Carbon II is $39,472. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in Carbon II. The Company's unaffiliated directors approved this transaction in September 2004.

REIT Status: The Company has elected to be taxed as a REIT and therefore must comply with the provisions of the Code with respect thereto. Accordingly, the Company generally will not be subject to U.S. federal income tax to the extent of its distributions to stockholders and as long as certain asset, income and stock ownership tests are met. The Company may, however, be subject to tax at corporate rates or at excise tax rates on net income or capital gains not distributed.

During the first quarter, Anthracite and certain subsidiaries have elected to have the subsidiaries treated as taxable REIT subsidiaries. This election permits the subsidiaries to enter into activities that may not have constituted qualifying assets generating qualifying income for the REIT tests.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk: Market risk includes the exposure to loss resulting from changes in interest rates, credit curve spreads, foreign currency exchange rates, commodity prices and equity prices. The primary market risks to which the Company is exposed are interest rate risk and credit curve risk. Interest rate risk 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 the Company. Credit curve risk is highly sensitive to the dynamics of the markets for commercial mortgage securities and other loans and securities held by the Company. Excessive supply of these assets combined with reduced demand will cause the market to require a higher yield. This demand for higher yield will cause the market to use a higher spread over the U.S. Treasury securities yield curve, or other benchmark interest rates, to value these assets. Changes in the general level of the U.S. Treasury yield curve can have significant effects on the estimated fair value of the Company's portfolio.

The majority of the Company's assets are fixed-rate securities valued based on a market credit spread to U.S. Treasuries. As U.S. Treasury securities are priced to a higher yield and/or the spread to U.S. Treasuries used to price the Company's assets is increased, the estimated fair value of the Company's portfolio may decline. Conversely, as U.S. Treasury securities are priced to a lower yield and/or the spread to U.S. Treasuries used to price the Company's assets is decreased, the estimated fair value of the Company's portfolio may increase. Changes in the estimated fair value of the Company's portfolio may affect the Company's net income or cash flow directly through their impact on unrealized gains or losses on securities held-for-trading or indirectly through their impact on the Company's ability to borrow. Changes in the level of the U.S. Treasury yield curve can also affect, among other things, the prepayment assumptions used to value certain of the Company's securities and the Company's ability to realize gains from the sale of such assets. In addition, changes in the general level of the LIBOR money market rates can affect the Company's net interest income. At March 31, 2006, all of the Company's liabilities outside of the CDOs are floating rate based on a market spread to LIBOR. As the level of LIBOR increases or decreases, the Company's interest expense will move in the same direction.

The Company may utilize a variety of financial instruments, including interest rate swaps, caps, floors and other interest rate exchange contracts, in order to limit the effects of fluctuations in interest rates on its operations. The use of these types of derivatives to hedge interest-earning assets and/or interest-bearing liabilities carries certain risks, including the risk that losses on a hedge position will reduce the funds available for payments to holders of securities and that such losses may exceed the amount invested in such instruments. A hedge may not perform its intended purpose of offsetting losses or rising interest rates. Moreover, with respect to certain of the instruments used as hedges, the Company is exposed to the risk that the counterparties with which the Company trades may cease making markets and quoting prices in such instruments, which may render the Company unable to enter into an offsetting transaction with respect to an open position. If the Company anticipates that the income from any such hedging transaction will not be qualifying income for REIT income purposes, the Company may conduct part or all of its hedging activities through a to-be-formed corporate subsidiary that is fully subject to federal corporate income taxation. The profitability of the Company may be adversely affected during any period as a result of changing interest rates.

The Company monitors and manages interest rate risk based on a method that takes into consideration the interest rate sensitivity of the Company's assets and liabilities, including its preferred stock. The Company's objective is to acquire assets and match fund the purchase so that interest rate risk associated with financing these assets is reduced or eliminated. The primary risks associated with acquiring and financing these assets under 30-day repurchase agreements and committed borrowing facilities are mark-to-market risk and short-term rate risk. Certain secured financing arrangements provide for an advance rate based upon a percentage of the estimated fair value of the asset being financed. Market movements that cause asset values to decline would require a margin call or a cash payment to maintain the relationship between asset value and amount borrowed. A cash flow based CDO is an example of a secured financing vehicle that does not require a mark-to-market to establish or maintain a level of financing. When financed assets are subject to a mark-to-market margin call, the Company carefully monitors the interest rate sensitivity of those assets. The duration of the assets financed which are subject to a mark-to-market margin call was 2.01 years based on net asset value at March 31, 2006. This means that a 100 basis point increase in interest rates would cause a margin call of approximately $12,000.

Earnings per share sensitivity to changes in interest rates is analyzed using the assumptions that interest rates, as defined by the LIBOR curve, increase or decrease and that the yield curves of the LIBOR rate shocks will be parallel to each other. Estimated fair value in this scenario is calculated using the assumption that the U.S. Treasury yield curve remains constant even though changes in both long- and short-term interest rates can occur simultaneously.

Regarding the table below, all changes in income and value are measured as percentage changes from the respective values calculated in the scenario labeled as "Base Case." The base interest rate scenario assumes interest rates at March 31, 2006. Actual results could differ significantly from these estimates.

Projected Percentage Change In
Earnings Per Share
Given LIBOR Movements

Change in LIBOR, +/- Basis Points	Projected Change in Earnings per Share
-200	$0.04
-100	$0.02

-50	$0.01
Base Case	
+50	$(0.01)
+100	$(0.02)
+200	$(0.04)

The Company's GAAP book value incorporates the estimated fair value of the Company's interest bearing assets but it does not incorporate the estimated fair value of the Company's interest bearing fixed rate liabilities and preferred stock. The fixed-rate liabilities and preferred stock generally will reduce the actual interest rate risk of the Company from an economic perspective even though changes in the estimated fair value of these liabilities are not reflected in the Company's reported book value. The Company focuses on economic risk in managing its sensitivity to interest rates and maintains an economic duration within a band of 2.0 to 5.0 years. At March 31, 2006, economic duration for the Company's entire portfolio was 2.6 years. This implies that for each 100 basis points of change in interest rates the Company's economic value will change by approximately 2.6%. At March 31, 2006, the Company estimates its economic value, or net asset value of its common stock to be $545,361.

A reconciliation of the economic duration of the Company to the duration of the reported book value of the Company's common stock is as follows:

Duration - GAAP book value at March 31, 2006	7.3
Less:	
Duration contribution of CDO I liabilities	(1.2)
Duration contribution of CDO II liabilities	(1.1)
Duration contribution of CDO III liabilities	(1.1)
Duration contribution of Series C Preferred Stock	(0.2)
Duration contribution of Junior subordinated notes	(1.1)
Economic duration at March 31, 2006	2.6

The GAAP book value of the Company's common stock is $9.88 per share. As indicated in the table above a 100 basis point change in interest rates will change reported book value by approximately 7.3%, or $45,000. As indicated above, approximately $12,000 of that change would be required to meet margin calls in the event rates rise by 100 basis points.

Credit Risk: The Company's portfolios of commercial real estate assets are subject to a high degree of credit risk. Credit risk is the exposure to loss from loan defaults. Default rates are subject to a wide variety of factors, including, but not limited to, property performance, property management, supply/demand factors, construction trends, consumer behavior, regional economics, interest rates, the strength of the global economies, and other factors beyond the control of the Company.

All loans are subject to a certain probability of default. Before acquiring a Controlling Class security, the Company will perform an analysis of the quality of all of the loans proposed. As a result of this analysis, loans with unacceptable risk profiles are either removed from the proposed pool or the Company receives a price adjustment. The Company underwrites its Controlling Class CMBS investments assuming the underlying loans will suffer a certain dollar amount of defaults and these defaults will lead to some level of realized losses. Loss adjusted yields are computed based on these assumptions and applied to each class of security supported by the cash flow on the underlying loans. The most significant variables affecting loss adjusted yields include, but are not limited to, the number of defaults, the severity of loss that occurs subsequent to a default and the timing of the actual loss. The different rating levels of CMBS will react differently to changes in these assumptions. The lowest rated securities (B- or lower) are generally more sensitive to changes in timing of actual losses. The higher rated securities (B or higher) are more sensitive to the severity of losses and timing of cashflows.

The Company generally assumes that all of the principal of a non-rated security and a significant portion, if not all, of CCC and a portion of B- rated securities will not be recoverable over time. The loss adjusted yields of these classes reflect that assumption; therefore, the timing of when the total loss of principal occurs is the most important assumption in determining value. The interest coupon generated by a security will cease when there is a total loss of its principal regardless of whether that principal is paid. Therefore, timing is of paramount importance because the longer the principal balance remains outstanding, the more interest coupon the holder receives; which results in a larger economic return. Alternatively, if principal is lost faster than originally assumed, there is less opportunity to receive interest coupon; which results in a lower or possibly negative return.

If actual principal losses on the underlying loans exceed assumptions, the higher rated securities will be affected more significantly as a loss of principal may not have been assumed. The Company generally assumes that all principal will be recovered by classes rated B or higher. The Company manages credit risk through the underwriting process, establishing loss assumptions and careful monitoring of loan performance. After the securities have been acquired, the Company monitors the performance of the loans, as well as external factors that may affect their value.

Factors that indicate a higher loss severity or acceleration of the timing of an expected loss will cause a reduction in the expected yield and therefore reduce the earnings of the Company. Furthermore, the Company may be required to write down a portion of the adjusted purchase price of the affected assets through its consolidated statements of operations.

For purposes of illustration, a doubling of the losses in the Company's Controlling Class CMBS, without a significant acceleration of those losses, would reduce GAAP income going forward by approximately $0.19 per share of Common Stock per year and cause a significant write down at the time the loss assumption is changed. The amount of the write down depends on several factors, including which securities are most affected at the time of the write down, but is estimated to be in the range of $0.31 to $0.51 per share based on a doubling of expected losses. A significant acceleration of the timing of these losses would cause the Company's net income to decrease. The Company's exposure to a write down is mitigated by the fact that most of these assets are financed on a non-recourse basis in the Company's CDOs, where a significant portion of the risk of loss is transferred to the CDO bondholders. At March 31, 2006, securities with a total estimated fair value of $1,261,925 are collateralizing the CDO borrowings of $1,082,078; therefore, the Company's preferred equity interest in the three CDOs is $179,847 ($3.15 per share). The CDO borrowings are not marked-to-market in accordance with GAAP even though their economic value will change in response to changes in interest rates and/or credit spreads.

Asset and Liability Management: Asset and liability management is concerned with the timing and magnitude of the re-pricing and/or maturing of assets and liabilities. It is the Company's objective to attempt to control risks associated with interest rate movements. In general, management's strategy is to match the term of the Company's liabilities as closely as possible with the expected holding period of the Company's assets. This is less important for those assets in the Company's portfolio considered liquid, as there is a very stable market for the financing of these securities.

Other methods for evaluating interest rate risk, such as interest rate sensitivity "gap" (defined as the difference between interest-earning assets and interest-bearing liabilities maturing or re-pricing within a given time period), are used but are considered of lesser significance in the daily management of the Company's portfolio. Management considers this relationship when reviewing the Company's hedging strategies. Because different types of assets and liabilities with the same or similar maturities react differently to changes in overall market rates or conditions, changes in interest rates may affect the Company's net interest income positively or negatively even if the Company were to be perfectly matched in each maturity category.

Currency Risk: The Company has foreign currency rate exposures related to certain CMBS and commercial real estate loans. The Company's principal currency exposures are to the Euro and British pound. Changes in currency rates can adversely impact the fair values and earnings of the Company's non-U.S. holdings. The Company mitigates this impact by utilizing local currency-denominated financing on its foreign investments and foreign currency forward commitments to hedge the net exposure.

ITEM 4. Controls and Procedures

Under the direction of the Company's Chief Executive Officer and Chief Financial Officer, the Company's management evaluated the effectiveness of its disclosure controls and procedures as of March 31, 2006. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2006.

No change in internal control over financial reporting occurred during the quarter ended March 31, 2006 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

At March 31, 2006 there were no pending legal proceedings of which the Company was a defendant or of which any of its properties were subject.

Item 1A. Risk Factors

Certain factors may have a material adverse effect on our business, financial condition and results of operations and you should carefully consider them. For discussion of our potential risks our uncertainties, refer to Part I, "Item 1A., Risk Factors", included in our Annual Report on Form 10-K for the year ended December 31, 2005 as filed with the U.S. Securities Exchange Commission on March 16, 2006.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
4.1	Junior Subordinated Indenture, dated as of March 16, 2006, between the Registrant and Wilmington Trust Company, as Trustee
4.2	Amended and Restated Trust Agreement, dated as of March 16, 2006, among the Registrant, as depositor, Wilmington Trust Company, as property trustee, Wilmington Trust Company, as Delaware trustee and the three administrative trustees, each of whom is an officer of the Company.
10.1	Multicurrency Revolving Facility Agreement, dated as of March 17, 2006, among AHR Capital BofA Limited, as Borrower, Anthracite Capital, Inc. as Borrower Agent and Bank of America, N.A. as Lender.
24.1	Power of Attorney (included on signature page hereto)
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

SIGNATURES

Pursuant to the requirements 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.

ANTHRACITE CAPITAL, INC.

Dated: May 10, 2006

By: /s/ Christopher A. Milner

Name: Christopher A. Milner
Title: Chief Executive Officer
(duly authorized representative)

Dated: May 10, 2006

By: /s/ James J. Lillis

Name: James J. Lillis
Title: Chief Financial Officer