JER INVESTORS TRUST INC (JERT)

10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 05/12/2008
Filed Period 03/31/2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

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: 001-32564

JER INVESTORS TRUST INC.
(Exact name of registrant as specified in its charter)

Maryland **(State or other jurisdiction of incorporation or organization)**	**75-3152779** **(I.R.S. Employer Identification No.)**
1650 Tysons Blvd., Suite 1600 McLean, Virginia **(Address of principal executive offices)**	**22102** **(Zip Code)**

(703) 714-8000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, $0.01 par value

Name of each exchange on which registered
New York Stock Exchange (NYSE)
Securities registered pursuant to Section 12(g) of the Act:

None

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 proceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

As of May 7, 2008, the registrant had outstanding 25,901,035 shares of common stock, par value $0.01 per share.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Such statements are subject to various risks and uncertainties, including without limitation, statements relating to the performance of the investments of JER Investors Trust Inc. (the "Company") and the Company's financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "could," "project," "predict," "continue" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although the Company believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, the Company's actual results and performance could differ materially from those set forth in the forward-looking statements. Factors that could have a material adverse effect on the Company's operations and future prospects include, but are not limited to:

- changes in economic conditions generally and the real estate and capital markets specifically;
- legislative and regulatory changes (including changes to laws governing the taxation of real estate investment trusts);
- availability of capital to the Company;
- the Company's ability to maintain existing and obtain future financing arrangements;
- the Company's ability to maintain adequate liquidity, including satisfying margin call requirements and meeting distribution requirements to maintain its REIT status;
- changes in interest rates and interest rate spreads, including credit spreads;
- changes in generally accepted accounting principles or interpretations thereof;
- market trends;
- policies and rules applicable to real estate investment trusts;
- application and interpretation of the rules and regulations of the Investment Company Act of 1940; and
- other factors as may be detailed from time to time in the Company's public announcements and Securities and Exchange Commission filings.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this quarterly report and in other reports of the Company filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect management's views as of the date of this quarterly report. The "Risk Factors" and other factors noted throughout this report could cause our actual results to differ significantly from those contained in any forward-looking statement.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. The Company is under no duty to update any of the forward-looking statements after the date of this quarterly report to conform these statements to actual results.

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PART I

ITEM 1. Interim Financial Information

JER INVESTORS TRUST INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31, 2008 (unaudited)	December 31, 2007 (audited)
ASSETS		
Cash and cash equivalents	$ 12,665	$ 87,556
Restricted cash	1,159	6,687
CMBS financed by CDOs, at fair value	388,146	562,056
CMBS not financed by CDOs, at fair value	109,076	155,384
Real estate loans, held for investment, at fair value at March 31, 2008 and amortized cost at December 31, 2007	260,558	274,734
Real estate loans, held for sale, at lower of cost or fair value	189,209	221,599
Investments in unconsolidated joint ventures	40,853	40,764
Accrued interest receivable	9,844	10,415
Due from affiliate	62	199
Deferred financing fees, net	2,651	14,454
Other assets	2,173	2,333
Total Assets	**$ 1,016,396**	**$ 1,376,181**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
CDO notes payable, March 31, 2008 at fair value and face amount at December 31, 2007	$ 439,524	$ 974,578
Repurchase agreements	196,059	261,864
Junior subordinated debentures	61,860	61,860
Interest rate swap agreements, at fair value	57,367	32,881
Accounts payable and accrued expenses	1,528	921
Dividends payable	—	28,391
Due to affiliate	684	1,195
Other liabilities	3,352	3,693
Total Liabilities	760,374	1,365,383
Stockholders' Equity:		
Common stock, $0.01 par value, 100,000,000 shares authorized, 25,901,035 shares issued and outstanding	259	259
Additional paid-in capital	392,319	392,270
Cumulative dividends paid/declared	(132,186)	(132,186)
Cumulative earnings	21,676	68,437
Accumulated other comprehensive income (loss)	(26,046)	(317,982)
Total Stockholders' Equity	256,022	10,798
Total Liabilities and Stockholders' Equity	**$ 1,016,396**	**$ 1,376,181**

See notes to consolidated financial statements.

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JER INVESTORS TRUST INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(In thousands, except share and per share data)

	For the Three Months Ended March 31, 2008	For the Three Months Ended March 31, 2007
REVENUES		
Interest income from CMBS	$ 21,452	$ 17,823
Interest income from real estate loans	8,886	8,749
Interest income from cash and cash equivalents	422	1,987
Lease income from real estate assets	—	1,372
Equity in earnings, net, of unconsolidated joint ventures	933	—
Fee income	97	—
Total Revenues	31,790	29,931
EXPENSES		
Interest expense	15,415	15,631
Management fees, affiliate	1,827	1,855
Incentive fees, affiliate	—	152
Depreciation and amortization of real estate assets	—	206
General and administrative	1,980	2,280
Total Expenses	19,222	20,124
INCOME BEFORE OTHER GAINS (LOSSES)	12,568	9,807
OTHER GAINS (LOSSES)		
Unrealized loss on financial assets financed with CDOs	(179,669)	—
Unrealized gain, net, on CDO related financial liabilities	246,574	—
Loss on interest rate swaps	(2,775)	—
Loss on impairment of CMBS	(99,579)	—
Unrealized loss on real estate loans held for sale	(28,368)	—
Unrealized loss on non-CDO interest rate swap agreements	(15,600)	—
Total other gains (losses)	(79,417)	—
NET INCOME (LOSS)	$ (66,849)	$ 9,807
Net earnings per share:		
Basic	$ (2.60)	$ 0.38
Diluted	$ (2.60)	$ 0.38
Weighted average shares of common stock outstanding:		
Basic	25,708,303	25,692,035
Diluted	25,736,442	25,735,382
Dividends declared per common share	$ —	$ 0.44

See notes to consolidated financial statements.

JER INVESTORS TRUST INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Cumulative Dividends Paid/Declared	Cumulative Earnings (Losses)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2007	25,901	$ 259	$ 392,270	$ (132,186)	$ 68,437	$ (317,982)	$ 10,798
Cumulative effect of adoption of SFAS No. 159							
Assets					(248,313)	225,991	(22,322)
Liabilities					268,401	—	268,401
Total cumulative effect of adoption of SFAS No. 159					20,088	225,991	246,079
Comprehensive income (loss):							
Net income (loss)					(66,849)		(66,849)
Recognition of previously unrealized losses on non CDO- related interest rate swap agreements in other comprehensive income at December 31, 2007						10,795	10,795
Amortization of swap termination costs						124	124
Amortization of unrealized losses on CDO related interest rate swaps in other comprehensive income at December 31, 2007						569	569
Recognition of previously unrealized losses on non-CDO related CMBS in other comprehensive income at December 31, 2007						54,457	54,457
Total comprehensive income (loss)							$ (904)
Dividends declared				—			—
Stock based compensation- restricted share awards			41				41
Stock based compensation- stock options			8				8
Balance at March 31, 2008	25,901	$ 259	$ 392,319	$ (132,186)	$ 21,676	$ (26,046)	$256,022

See notes to consolidated financial statements.

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JER INVESTORS TRUST INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(In thousands)

	For the Three Months Ended March 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (66,849)	$ 9,807
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of original issue discount	179	480
Amortization of debt issuance costs	223	442
Amortization of other comprehensive income (loss) related to CDO interest rate swap agreements	696	—
Depreciation and amortization on real estate assets	—	206
Unrealized gain on CDO related financial assets and liabilities, net	(66,905)	—
Unrealized loss on impairment of CMBS	99,579	—
Unrealized loss on real estate loans held for sale	28,368	—
Unrealized loss on non-CDO hedge ineffectiveness	15,202	—
Equity in earnings, net, from unconsolidated joint ventures	(933)	—
Distributions from unconsolidated joint ventures	1,252	—
Straight line rental income	—	(406)
Compensation expense related to stock awards	49	76
Changes in assets and liabilities:		
Decrease (increase) in other assets	160	(72)
Increase (decrease) in accrued interest receivable	571	(1,659)
Decrease in due to/from affiliates, net	(374)	(503)
Increase in accounts payable and accrued expenses and other liabilities	267	1,529
Net cash provided by operating activities	11,485	9,900
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of CMBS	—	(175,871)
Purchase of real estate loans	—	(232,953)
Investment in unconsolidated joint ventures	(413)	—
Decrease in restricted cash, net	5,528	16,586
Proceeds from repayment of real estate loans	4,133	30,763
Net cash provided by (used in) investing activities	9,248	(361,475)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(28,391)	(18,523)
Proceeds from repurchase agreements	1,393	315,870
Repayment of repurchase agreements	(67,198)	(53,447)
Payment of financing costs	(1,428)	—
Net cash provided by (used in) financing activities	(95,624)	243,900
Net (decrease) increase in cash and cash equivalents	(74,891)	(107,675)
Cash and cash equivalents at beginning of period	87,556	143,443
Cash and cash equivalents at end of period	**$ 12,665**	**$ 35,768**
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 18,121	$ 14,662
Dividends declared but not paid	$ —	$ 11,320

See notes to consolidated financial statements.

JER INVESTORS TRUST INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except for share and per share data and as otherwise noted)

1. ORGANIZATION

JER Investors Trust Inc., a Maryland corporation (the "Company"), was formed on April 19, 2004 for the purpose of acquiring and originating a diversified portfolio of commercial real estate structured finance investments. References herein to "we," "us" or "our" refer to JER Investors Trust Inc. unless the context specifically requires otherwise.

The Company is organized and conducts its operations to qualify as a real estate investment trust ("REIT") for federal income tax purposes. To maintain our status as a REIT, we are required to distribute at least 90% of our ordinary taxable income to shareholders. Additionally, management believes that the Company conducts its operations so as not to be regulated as an investment company under the Investment Company Act of 1940. We are not subject to regulation as an investment company under the Investment Company Act because we do not meet the definition of an investment company under the Investment Company Act, including Section 3(a)(1)(C). From time to time in the past, we have relied on the exclusion from investment company status provided by Section 3(c)(5)(C) of the Investment Company Act (and Section 3(c)(6) if, from time to time, we engaged in our real estate business through one or more majority-owned subsidiaries).

Subject to certain restrictions and limitations, the business of the Company is managed by JER Commercial Debt Advisors LLC (the "Manager"). The consolidated financial statements of JER Investors Trust Inc. include the accounts of the Company, ten wholly-owned subsidiaries created in connection with the Company's collateralized debt obligations ("CDO"), three wholly-owned subsidiaries established for financing purposes and the Company's taxable REIT subsidiary ("TRS"). There are no balances or activities in the TRS and two of the financing subsidiaries.

2. RECENT DEVELOPMENTS IN THE CREDIT MARKETS AND THE COMPANY'S LIQUIDITY

Recently, significant disruptions in the global credit markets have had a substantial effect on market participants. These disruptions have led to, among other things, a significant decline in the fair value of many mortgage related investment securities, as well as a significant contraction in commercial paper and other short-term and long-term funding sources, including sources that the Company depends on to finance certain of its investments, specifically repurchase agreements and commercial real estate collateralized debt obligations (CRE CDOs). As a result, many companies have had difficulty valuing certain of their holdings as a result of market illiquidity as well as obtaining sustainable long-term sources of capital to adequately finance their business. The Company has had a similar experience in the current capital markets environment.

During the second half of 2007 and continuing through the first quarter of 2008, the Company has seen a significant widening of credit spreads in both the subordinate CMBS market which includes bonds rated BB+ through NR classes, and in the investment grade tranches of BBB- and above. For example, the credit spread over applicable swap rates for typical BBB- CMBS new-issue bonds was estimated to exceed 1800 basis points as of March 31, 2008 compared to approximately 900 basis points as of December 31, 2007 and approximately 95 basis points as of December 31, 2006. Additionally, the Company has seen widening of credit spreads on real estate loans, including B-Notes, mezzanine loans and whole loans, although not as dramatic as that seen in the CMBS market.

The Company finances certain of its investments with repurchase agreements that are subject to margin calls. Under the terms of the repurchase agreements, the value of assets underlying the debt is marked-to-market by the counterparty at its discretion, as frequently as on a daily basis. If the value of the underlying asset declines, the counterparty has the ability to require us to post additional margin – cash or other collateral – to compensate for the decline in value of the asset (conversely, if the value of the underlying asset increases, a portion of the margin we previously posted may be returned to us, although this hasn't happened to date). Primarily as a result of spread widening, the Company has had significant margin calls on its' repurchase agreement facilities based upon fair market value determinations of the underlying collateral. During the three months ended March 31, 2008, such margin calls totaled $65.8 million, and there have been $17.4 million of margin calls subsequent to March 31, 2008 through May 9, 2008. These events have had a significant adverse impact on the Company's liquidity position and its ability to achieve its long- term financing objectives. The Company's liquidity, results of operations and financial condition have been and may continue to be adversely impacted if market conditions continue to deteriorate and by continued margin calls under the repurchase agreements. Additionally, in order to obtain cash to satisfy margin calls the Company may liquidate assets at an inopportune time, which could result in significant losses. Given the current volatility in the capital markets, the Company cannot predict changes in the market value of collateral and potential margin call requirements, if any, under its repurchase agreement facilities.

In order to ensure that the Company continues to have adequate liquidity in this turbulent market environment, the Company sold its remaining 50% interest in the Charter Schools Joint Venture for approximately $39.4 million in April 2008 and has classified seven of its real estate loan investments as held for sale in order to provide additional potential sources of liquidity for general corporate purposes, including debt repayment and acquisitions, among other items. The Company's current liquidity plans involve extending and/or replacing certain of its repurchase agreement facilities and evaluating other potential financing and capital raise options. Although the Company cannot provide any assurances that these plans individually or collectively will be accomplished, management believes that achievement of certain of the plans should provide the Company with adequate liquidity.

The Company does not currently know the full extent to which the current market disruption will affect it or the markets in which it operates, and the Company is unable to predict its length or ultimate severity. If the challenging conditions continue, the Company may experience further tightening of liquidity, impairment charges and increased margin requirements as well as additional challenges in raising capital and obtaining investment financing on attractive terms. Decisions by investors and lenders to enter into transactions with the Company will depend upon a number of factors, such as our historical and projected financial performance, compliance with the terms of our current credit arrangements, industry and market trends, the availability of capital and investors' and lenders' policies and rates applicable thereto, and the relative attractiveness of alternative investment or lending opportunities.

Currently, the market for short-term credit facilities is very challenging and many lenders are actively seeking to reduce their balances outstanding by lowering advance rates on financed assets and increasing borrowing costs, to the extent such facilities continue to be available. In the event the Company is unable to maintain or extend existing and/or secure new lines of credit or collateralized financing on favorable terms, its ability to successfully implement its investment strategy may be significantly impacted and returns to investors may be reduced. In the event the Company's current short-term credit facilities are not extended or extended with lower advance rates on collateral, the Company may be required to sell assets to payoff such facilities which would likely reduce earnings and operating cash flow.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All intercompany transactions and balances have been eliminated in consolidation. In the Company's opinion, all material adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included. In preparing these consolidated financial statements, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash, time deposits, and money market funds with an original maturity of 90 days or less when purchased. Carrying value approximates fair value due to the short-term maturity of the investments.

Restricted Cash

Restricted cash consists of principal and interest payments received by the trustee on investments that serve as collateral for CDO I and CDO II, as defined in Note 9 with such interest payments remitted to the Company on a monthly basis. As of December 31, 2007, restricted cash also included cash posted with interest rate swap counterparties to secure out of the money positions on the Company's interest rate swap agreements. The Company was not required to post cash as collateral under its existing interest rate swap agreements as of March 31, 2008.

Fair Value Election

The Company elected, pursuant to Statement of Financial Accounting Standards No. 159 ("SFAS No. 159"), effective January 1, 2008, the fair value option ("FVO") for all financial assets and liabilities related to its CDO I and CDO II financings. The assets and liabilities include:

- CMBS investments pledged as collateral in CDOs
- Real estate loans pledged as collateral in CDOs, which currently represent our real estate loans held for investment
- CDO notes payable
- CDO related interest rate swaps

As a result of electing the FVO for our CDO notes payable, the related unamortized deferred financing fees were charged against cumulative earnings as of January 1, 2008. There were no financial assets or liabilities acquired during the first quarter of 2008, but the Company may elect the FVO for financial assets acquired or financial liabilities incurred in the future.

Under SFAS No. 159, the carrying value of the financial assets and liabilities for which the FVO was elected were reset to their fair values as of January 1, 2008. The Company elected the FVO to provide a consistent balance sheet presentation of the fair value of both the assets and liabilities associated with the CDO financings. The impact to stockholders' equity as of January 1, 2008 is outlined in Note 4. Subsequent to January 1, 2008, changes in the fair value of these elected financial assets and liabilities will be recognized in the statement of operations.

Fair Value Measurements

The Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS No. 157"), effective January 1, 2008. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants.

SFAS 157 establishes a fair value hierarchy which prioritizes the inputs into valuation techniques used to measure fair value. The hierarchy prioritizes observable data from active markets, placing measurement using those inputs in level 1 of the fair value hierarchy, and gives the lowest priority to unobservable inputs and classifies these as level 3 measurements. The three levels of the fair value hierarchy under SFAS 157 are described below:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable either directly or indirectly;
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measurement. Therefore, even when market assumptions are not readily available, management's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

Other than Temporary Impairment

The Company accounts for its commercial mortgage back securities ("CMBS") assets not pledged to its CDO's in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company generally classifies such CMBS investments as available-for-sale because the Company may dispose of them prior to maturity in response to changes in the market, liquidity needs or other events even though it does not hold the securities for the purpose of selling them in the near term.

With respect to the Company's CMBS investments not pledged to its CDOs, when the present value of current period estimates of future cash flows are lower than the present value of the previous period estimates, as adjusted for principal and loan payments, and the current estimated fair value is less than an asset's carrying value, the Company will write down the asset to the current estimated fair value and record impairment through a charge to current period earnings. After taking into account the effect of the impairment charge, income is recognized using the market yield for the security used in establishing the current estimated fair value.

Any unrealized gains and losses on available-for-sale securities which are determined to be temporary do not affect the Company's reported income or cash flows, but are reported as a component of accumulated other comprehensive income (loss) in stockholders' equity and, accordingly, affect stockholders' equity and book value per share. The Company must also assess whether unrealized losses on securities indicate other than temporary impairment, which would result in writing down the security to its fair value through a charge to earnings. The Company follows impairment guidance of Emerging Issues Task Force ("EITF") 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," in assessing potential other than temporary impairment of its CMBS investments. If deemed other than temporarily impaired, this will create a new carrying basis for the security and a revised yield will be calculated based on the future estimated cash flows as described below under *Revenue Recognition*.

The Company also follows the impairment guidance in FASB Staff Position ("FSP") FAS 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" and SEC Staff Accounting Bulletin No. 59 ("SAB 59"), Accounting for Noncurrent Marketable Equity Securities. In accordance with the applicable impairment literature, when the fair value of an available for sale security is less than its amortized cost for an extended period, the Company considers whether there is an other than temporary impairment in the value of the security. If an other than temporary impairment exists, the cost basis of the security is written down to the then-current fair value, and the unrealized loss is reflected as an immediate reduction of current earnings. The determination of other than temporary impairment is a subjective process, and different judgments and assumptions could affect the timing of loss recognition.

The Company considers the following factors when determining whether there is evidence of an other than temporary impairment for a security or investment: (i) the length of time and the extent to which the market value has been less than the amortized cost including current and future indicators of credit deterioration, and the outlook for such market for the near future, and (ii) our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in market value. In the future, if the Company's liquidity needs change, it may impact the Company's ability and intent to hold certain investments.

For assets in which the FVO was not elected under SFAS 159, if an other than temporary impairment charge is recorded, future increases in fair value of the impaired security will be recorded as increases in other comprehensive income in the consolidated statement of changes in stockholders equity.

Derivative Activities

The Company accounts for derivative and hedging activities using SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which requires all derivative instruments to be carried at fair value on the balance sheets.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking each hedge transaction and how ineffectiveness of the hedging instrument, if any, will be measured. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheets as either an asset or liability. To the extent hedges are effective, a corresponding amount, adjusted for swap payments, is recorded in accumulated other comprehensive income (loss) within stockholders' equity. Ineffectiveness, if any, is recorded in the income statement. The net gain or loss related to the termination of a derivative instrument remains in accumulated other comprehensive income (loss) and is amortized into earnings during the same period in which the original hedged transaction affects earnings when it is probable that the forecasted transaction will occur within the originally specified time period. The Company periodically reviews the effectiveness of each hedging transaction, which involves estimating future cash flows, at least quarterly as required by the standard. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, will be considered fair value hedges under SFAS No. 133. See Note 11 for information related to our interest rate swap agreements outstanding as of March 31, 2008 and December 31, 2007. As of March 31, 2008 and December 31, 2007, the Company had no fair value hedges.

In the event a cash flow hedge is no longer highly effective or it becomes probable that a forecasted transaction being hedged will not occur as anticipated, then cash flow hedge accounting is no longer applicable and the changes in fair value of the hedge will be recorded as unrealized gains and losses in the income statement. Additionally, any amount accumulated in other comprehensive income will be charged to earnings in the period in which the Company loses hedge accounting.

Real Estate Loans

The Company determines if its real estate loans should be accounted for as loans, real estate investments or equity method joint ventures in accordance with AICPA Practice Bulletin No. 1 on acquisition, development or construction ("ADC") arrangements. To date, the Company has accounted for all of its arrangements as loans based on the guidance set forth in the Practice Bulletin.

The Company acquires participating interests in commercial real estate first mortgage loans and mezzanine loans. When the Company initially invests in loan participations, they are evaluated under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," to determine whether the participation interest meets the definition of a debt security. To the extent a given loan participation meets the definition of a debt security, the participation will be accounted for according to the guidance in SFAS No. 115. Those loan participations that do not meet the definition of a debt security are accounted for as loans in accordance with SFAS No. 65, *Accounting for Certain Mortgage Banking Activities*, and are initially recorded at the purchase price, which is generally at or near par value, and are carried on the balance sheet at amortized cost for those loans classified as held for investment or at the lower of cost or market for those classified as held for sale. To date, the Company has determined that none of the participation interests acquired met the definition of a debt security. See additional information regarding loan accounting and revenue recognition below under *Revenue Recognition*.

In accordance with SFAS No. 65, real estate loans that the Company does not have the ability and/or intent to hold until maturity are classified as loans held for sale. Real estate loans held for sale are carried at the lower of cost or market value, on an individual loan basis, using available market information obtained through consultation with dealers or other originators of such investments.

Real Estate and Depreciation

The Company accounts for real estate acquisitions pursuant to SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects" and SFAS No. 141, "Business Combinations." Accordingly, the Company allocates the purchase price among land, buildings, improvements, lease intangibles, and any personal property acquired based on estimated relative fair values at the time of acquisition. All capital improvements that extend the useful life of the asset are capitalized and depreciated over their estimated useful lives. All tenant improvements are amortized over the shorter of the useful life of the improvements or the term of the related tenant lease. Depreciation on building and improvements is generally provided on a straight-line basis over 39 years for buildings or over the life of the respective improvement ranging from 5 to 20 years. Depreciation expense for the three months ended March 31, 2008 and 2007 was $0.4 million, respectively. Repairs and maintenance costs are expensed as incurred.

Deferred Financing Costs

Deferred financing costs represent commitment fees, legal and other third party costs associated with obtaining commitments for financing which result in a closing of such financing. These costs are amortized, using the effective interest method, into earnings through interest expense over the terms of the respective agreements. Unamortized deferred financing costs are expensed when the associated debt is refinanced or repaid before maturity. Costs incurred in seeking financing transactions which do not close are expensed in the period in which it is determined that the financing will not close.

As a result of the adoption of SFAS No. 159 on CDO notes payable, the Company recorded a charge against cumulative earnings for unamortized deferred financing costs related such notes payable as of January 1, 2008 and any future costs will be expensed as incurred.

Dividends to Stockholders

In order for corporate income tax not to apply to the earnings the Company distributes, the Company must distribute to its stockholders an amount at least equal to (i) 90% of its REIT taxable income (determined before the deduction for dividends paid and excluding any net capital gain), plus (ii) 90% of the excess of its net income from foreclosure property (as defined in Section 856(e) of the Internal Revenue Code) over the tax imposed on such income by the Internal Revenue Code, less (iii) any excess non-cash income (as determined under the Internal Revenue Code). The Company is subject to income tax on income that is not distributed, and to an excise tax to the extent that certain percentages of its income are not distributed by specified dates. The actual amount and timing of distributions is at the discretion of the Company's Board of Directors, and depends upon various factors. Dividends to stockholders are recorded on the declaration date.

Earnings per Share

The Company calculates basic and diluted earnings per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings per share ("EPS") is calculated using income available to common stockholders divided by the weighted average of common shares outstanding during the period. Diluted EPS is similar to basic EPS except that the weighted average of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been exercised using the treasury stock method. Vested equity awards are included in both basic and diluted EPS. Nonvested equity awards are included in diluted EPS to the extent that they are dilutive under the treasury stock method. At March 31, 2008, 168,854 restricted share awards are considered to be issued for purposes of issued and outstanding shares per the balance sheet but are excluded from basic EPS under SFAS No. 128 as nonvested equity awards. Nonvested equity awards with market or performance conditions are considered contingently issuable shares under SFAS No. 128 and are included in diluted EPS only to the extent that the condition would have been satisfied if the end of the reporting period were the end of the contingency period. The performance or market condition for 90,750 restricted share awards and 75,000 stock options would not have been satisfied as of March 31, 2008 and therefore these share awards have been excluded from the diluted EPS calculation for the three months ended March 31, 2008. The dilutive effect of 318,584 and 215,000 shares of non-vested restricted stock and unexercised stock options has been excluded from the calculation of basic EPS for the three months ended March 31, 2008 and March 31, 2007, respectively.

The following table presents a reconciliation of basic and diluted weighted average common shares for the three months ended March 31, 2008 and 2007:

	For the Three Months Ended March 31,	
	2008	2007
Basic weighted average common shares	25,708,303	25,692,035
Dilutive potential common shares		
Directors and officers stock awards	28,139	25,815
Officer stock options	—	17,532
Diluted weighted average common shares	25,736,442	25,735,382

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). The Company's accumulated other comprehensive income (loss) is comprised primarily of unrealized gains and losses on securities categorized as available-for-sale, swap termination costs amortized through a charge to interest expense over the life of the hedge and from net realized and unrealized gains and losses on certain derivative instruments accounted for as cash flow hedges. During the three months ended March 31, 2008 and 2007, the Company amortized a net amount of $0.1 million, respectively, from accumulated other comprehensive income (loss) to unrealized gain (loss) related to discontinued hedge accounting and terminated cash flow hedges more fully described in Note 11. Total comprehensive income (loss) for the three months ended March 31, 2008 was $(0.9) million.

Revenue Recognition

Interest income on loans and CMBS investments is recognized over the life of the investment using the effective interest method. Mortgage loans will generally be originated or purchased at or near par value and interest income will be recognized based on the contractual terms of the debt instrument. In accordance with SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases," any discounts or premiums on purchased loans and loan fees or acquisition costs on originated loans will be deferred and recognized over the term of the loan as an adjustment to yield. Any unamortized balance of purchased premiums or discounts and loan origination costs are included as a part of the cost basis of the asset in the accompanying consolidated balance sheets. Any exit fees received from prepayments of loans are recognized in the current period and included in interest income.

Interest income on CMBS investments is recognized on the effective interest method as required by EITF 99-20. Under EITF 99-20, management estimates, at the time of purchase, the future expected cash flows and determines the effective interest rate based on these estimated cash flows and the Company's allocated purchase prices. Subsequent to the purchase and on a quarterly basis, these estimated cash flows are updated and a revised yield is calculated based on the current amortized cost of the investment. In estimating these cash flows, there are a number of assumptions that are subject to uncertainties and contingencies. These include the amount and timing of principal payments (including prepayments, repurchases, defaults and liquidations), the pass through or coupon rate, and interest rate fluctuations. In addition, interest payment shortfalls due to delinquencies on the underlying mortgage loans, and the timing of and magnitude of projected credit losses on the mortgage loans underlying the securities have to be estimated. These uncertainties and contingencies are difficult to predict and are subject to future events that may impact management's estimates and the Company's interest income. As a result, actual results may differ significantly from these estimates.

With respect to the Company's CMBS investments, when the present value of current period estimates of future cash flows are lower than the present value of the previous period estimates, as adjusted for principal and loan payments, and the current estimated fair value is less than an asset's carrying value, the Company will write down the cost basis of the asset to the current estimated fair value and record impairment or unrealized losses through a charge to current period earnings. After taking into account the effect of the charge, income is recognized using the market yield for the security used in establishing the current estimated fair value.

Equity in the income or loss of unconsolidated joint ventures is recorded based on the equity method of accounting. The Company allocates income to equity participants based on the terms of the respective partnership agreements upon an assumed liquidation of the joint venture at its depreciated book value as of the end of the reporting period.

Lease income from leased real estate assets is recognized on a straight-line basis over the terms of the lease in accordance with SFAS No. 13. For the three months ended March 31, 2008 and 2007, $0.4 million, respectively, of rent recognized as income in excess of amounts contractually due pursuant to the underlying leases are included in lease income from real estate assets for the three months ended March 31, 2007 and equity in earnings from unconsolidated joint ventures for the three months ended March 31, 2008 on the consolidated statement of operations.

In accordance with the criteria established in SFAS No. 13, *Accounting for Leases*, the Company has evaluated each lease agreement related to the net leased real estate assets and determined all leases are operating leases through October 30, 2007 as more fully described in Note 7. In April 2008, the Company sold its remaining 50% interest in the Joint Venture for $39.4 million which approximates cost basis and no longer has any investment in net lease real estate assets subsequent to the sale.

Income Taxes

We operate in a manner that we believe will allow us to be taxed as a REIT and, as a result, we do not expect to pay substantial corporate-level income taxes. Many of the requirements for REIT qualification, however, are highly technical and complex. If we were to fail to meet these requirements and do not qualify for certain statutory relief provisions, we would be subject to Federal income tax, which could have a material adverse effect on our results of operations and amounts available for distributions to our stockholders.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48"). FIN 48 prescribes how the Company should recognize, measure and present in the Company's financial statements uncertain tax positions that have been taken or are expected to be taken in a tax return. Pursuant to FIN 48, the Company can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent the "more likely than not" standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement.

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The Company is subject to U.S. Federal income tax as well as income tax of multiple state and local jurisdictions but, as a REIT, the Company is generally not subject to income tax on net income distributed as dividends to shareholders. As required, the Company adopted FIN 48 effective January 1, 2007 and has concluded that there is no effect on the Company's consolidated financial statements. Accordingly, the Company did not record a cumulative effect adjustment related to the adoption of FIN 48.

The 2004 through 2006 tax years remain subject to examination by taxing authorities. The Company classifies interest and penalties related to uncertain tax positions, if any, in its general and administrative expense on its consolidated statements of operations. There were no penalties related to uncertain tax positions for the years ended December 31, 2007, 2006 and 2005, respectively.

Loan Loss Provisions

The Company purchases and originates commercial real estate mortgage and mezzanine loans to be held as long-term investments. The loans are evaluated for possible impairment on a quarterly basis. In accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," impairment occurs when it is deemed probable the Company will not be able to collect all amounts due according to the contractual terms of the loan. Impairment is then measured based on the present value of expected future cash flows or the fair value of the collateral, if the loan is collateral dependent. Upon measurement of impairment, the Company will establish a reserve for loan losses and a corresponding charge to earnings through the provision for loan losses. Significant judgments are required in determining impairment, which includes making assumptions regarding the value of the loan, the value of the real estate or partnership interests that secure the loan and any other applicable provisions, including guarantee and cross-collateralization features, if any. There were no loan loss reserves recorded as of March 31, 2008 and December 31, 2007, respectively, and there were no provisions for loan losses recorded during the three months ended March 31, 2008 and 2007, respectively.

Stock-Based Compensation

The Company has issued restricted shares of common stock and options to purchase common stock, or equity awards, to our directors, our Manager, employees of affiliates of our Manager and other related persons. The Company accounts for stock-based compensation related to these equity awards using the fair value based methodology under FASB Statement No. 123(R), or SFAS 123(R), "Share Based Payment" and EITF 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." Compensation expense for equity awards to individuals deemed to be employees for purposes of SFAS 123(R) is measured based on the grant date fair value and amortized into expense over the requisite service period. SFAS 123(R) requires that awards to non-employees be accounted for according to the fair value provisions of the Statement, but does not specify the measurement date for such non-employee awards. Accordingly, the measurement date for non-employee awards is determined based on the guidance in EITF 96-18. To the extent that non-employee awards do not contain a performance component as defined in EITF 96-18, compensation cost for equity awards issued to non-employees is initially measured at fair value at the grant date, remeasured at subsequent reporting dates to the extent the awards are unvested, and amortized to expense over the requisite service period.

Variable Interest Entities

In December 2003, the Financial Accounting Standards Board ("FASB") issued a revised version of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46(R)"). FIN 46(R) addresses the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which voting rights are not effective in identifying an investor with a controlling financial interest. An entity is considered a variable interest entity ("VIE") and subject to consolidation under FIN 46(R) if the investors either do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, are unable to direct the entity's activities, or are not exposed to the entity's losses or entitled to its residual returns. Variable interest entities within the scope of FIN 46(R) are required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, its expected returns, or both.

The Company's ownership of the subordinated classes of CMBS from a single issuer gives it the right to control the foreclosure/workout process on the underlying loans ("Controlling Class CMBS"). FIN 46(R) 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, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," 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 of its transferor(s) 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) 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) 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. In April 2008, the FASB voted to issue an exposure draft in the near future which may propose significant changes to SFAS No. 140. The Company will closely monitor any developments in this area and assess the impact on any such amendment to its financial statements.

The table below details information about the Company's CMBS investments, including the purchase date, the face amount of the total CMBS issuance, the original face amount of our CMBS investments, and the amortized cost of our CMBS investments as of March 31, 2008 and December 31, 2007:

CMBS Trust	Investment Date	Total Face Amount of CMBS Issuance	Original Face Amount of Investment	Amortized Cost[(1)] as of March 31, 2008	Amortized Cost[(1)] as of December 31, 2007
MACH One 2004-1	July 2004	$ 643,261	$ 50,637	$ 12,843	$ 19,672
CSFB 1998-C1	August 2004	2,482,942	12,500	9,051	9,565
CSFB 2004-C4	November 2004	1,138,077	52,976	11,763	22,575
MLMT 2004-BPC1	November 2004	1,242,650	76,986	14,925	26,174
JPMCC 2004-C3	December 2004	1,517,410	81,561	20,095	35,800
JPMCC 2005-CIBC11	March 2005	1,800,969	70,035	17,327	33,761
BACM 2005	April 2005	2,322,091	84,663	25,919	41,630
LB UBS 2005-C2	April 2005	1,942,131	7,000	2,391	4,328
CSFB 2005-C2	May 2005	1,614,084	82,261	22,253	37,695
LB UBS 2005-C3	June 2005	2,060,632	39,335	8,469	17,626
JPMCC 2005-CIBC12	July 2005	2,167,039	70,429	15,516	33,793
JPMCC 2005-LDP4	September 2005	2,677,075	90,352	23,597	48,731
MSCI 2005-IQ10	October 2005	1,546,863	55,274	14,225	30,694
MLMT 2005 CK11	December 2005	3,073,749	96,066	28,333	51,689
MSC 2006 HQ8	March 2006	2,731,231	105,707	32,770	62,181
JPMCC 2006-CIBC15	June 2006	2,118,303	71,493	16,980	37,436
CGCMT 2006-C4	June 2006	2,263,536	84,395	23,139	50,759
MSCI 2006- HQ9	August 2006	2,565,238	81,338	20,687	48,577
MLMT 2006- C2	August 2006	1,542,697	60,067	18,148	38,249
JPMCC 2006- LDP8	September 2006	3,066,028	107,158	29,035	64,231
CD 2006- CD3	October 2006	3,571,361	110,713	26,317	62,616
MSCI 2007- HQ11	February 2007	2,417,647	89,530	26,149	58,401
GCCFC 2007- GG9	March 2007	6,575,924	34,167	12,100	31,061
JPMCC 2007- LDP10	March 2007	5,331,517	151,616	42,111	85,343
WAMU 2007- SL3	June 2007	1,284,473	6,500	3,097	5,746
JPMCC 2007- LDP12	August 2007	2,310,556	81,402	19,948	39,554
Total		$ 62,007,484	$ 1,854,161	$ 497,188	$ 997,887

(1) The decline in amortized cost from December 31, 2007 to March 31, 2008 is due primarily to recognition of unrealized losses at December 31, 2007 of $280.5 million and increases to unrealized losses during the three months ended March 31, 2008, which, in total, reduced the cost basis by $500.7 million.

The Company's maximum exposure to loss as a result of its investment in these securities totaled $497.2 million and $997.9 million as of March 31, 2008 and December 31, 2007, respectively. However, the Company has reduced its maximum economic loss exposure through the use of non-recourse and partial recourse financing vehicles for these investments.

The financing structures that the Company offers to its borrowers on certain of its loans involve the creation of entities that could be deemed VIEs and, therefore, could be subject to FIN 46(R). Management has evaluated these entities and has concluded that none of them are VIEs that are subject to consolidation under FIN 46(R).

In April 2007, the Company created a trust subsidiary for the purpose of issuing trust preferred securities. The trust is considered a VIE under FIN 46(R) and it was determined that the Company is not the primary beneficiary of the trust. Accordingly, the trust is accounted for using the equity method of accounting. Refer to Note 9.

In October 2007, the Company sold a 50% interest in all twelve of its net leased real estate assets by forming a joint venture with an unrelated third party. The joint venture is not considered a VIE under FIN 46(R) and the Company accounts for its investment in the joint venture under the equity method of accounting. In April 2008, the Company sold its remaining 50% interest in the Joint Venture for $39.4 million which approximates cost basis.

In December 2007, the Company entered in an agreement to invest up to $10.0 million into a fund, defined as the JER US Debt Co-Investment Vehicle, L.P. (the "US Debt Fund") established to buy loans secured, directly or indirectly, by real estate, including B-Notes, mezzanine loans and whole mortgage loans, and also in preferred equity, CMBS and CMBS-related products such as CMBX and credit default swaps. Excluded investments for the US Debt Fund include non-performing loans, fee-simple ownership interests, single family residential mortgages and related securities (sub-prime, conforming, jumbo or Alt-A), whole loans originated directly by us or an affiliate of our Manager and net leased real estate assets. The US Debt Fund is not considered a VIE under FIN 46(R). Accordingly, the US Debt Fund is accounted for using the equity method of accounting.

New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. SFAS No. 157 establishes a hierarchy that prioritizes the information used in developing fair value estimates. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity's own data or assumptions of market participants. SFAS No. 157 requires fair value measurements to be disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and was adopted on January 1, 2008 by us. Under SFAS No. 157, valuations of assets and liabilities must reflect the value of the instrument including the values associated with credit risk. Consequently, the Company must value its derivative liabilities taking into account its credit risk and the credit risk of the counterparties and thus including in the valuation of the derivative instrument the value of the net credit differential between the counterparties to the derivative contract. Effective January 1, 2008, the Company updated its methodology to calculate the impact of both the counterparty and its own credit standing which had the impact of reducing by $9.8 million the aggregate value of our derivative liabilities as of March 31, 2008. The fair value of the derivative liability is determined under SFAS 157 as the price that would be paid to transfer the liability to a market participant with the same credit risk as the Company. However, if the Company were to terminate or settle all of its derivative liabilities with its counter parties, the amount due as of March 31, 2008 was $67.2 million.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities—Including an Amendment of SFAS No. 115.* SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company elected the fair value option for all financial assets and liabilities associated with its CDO I and CDO II financings. The impact of adopting SFAS No. 159 increased stockholders' equity by approximately $246 million as of January 1, 2008, which can be attributed to an increase in retained earnings of approximately $20 million and an increase in accumulated other comprehensive loss of approximately $226 million (See Note 4). The adoption of SFAS No. 159 did not have an impact on the operating cash flows of the Company. The primary reason the Company selected the fair value option for all assets and liabilities associated with our CDO I and CDO II financings was to provide a consistent balance sheet presentation of the fair value of both the assets and liabilities associated with those financings. The Company has not acquired assets or incurred debt during the first quarter of 2008 but expects to elect the fair value option in the future if we conduct similar long-term match funded financing transactions.

In June 2007, AICPA Statement of Position 07-1, "Clarification of the Scope of the Audit and Accounting Guide: Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" ("SOP 07-1") was issued. SOP 07-1 provides specific conditions for determining whether an entity is within the scope of the Guide. Additionally, for those entities that are investment companies under SOP 07-1, additional guidance is provided regarding the retention of specialized investment company industry accounting by a parent company in consolidation or by an investor that has the ability to exercise significant influence over the investment company and applies the equity method of accounting to its investment in the entity. In October 2007 and again in February 2008, the FASB voted to indefinitely defer the effective date of SOP 07-1 until they can reassess its provisions. Early adoption of the SOP is not permitted for entities that had not already adopted the standard as of the first deferral date. Accordingly, at this time, it is not possible to determine what impact, if any, SOP 07-1 will have on the Company.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" (SFAS 141(R)). This Statement replaces SFAS No.141, "Business Combinations", and requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS No. 141(R) also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS No. 141(R)). In addition, SFAS No. 141(R)'s requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. SFAS No. 141(R) amends SFAS No. 109, "Accounting for Income Taxes", to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. It also amends SFAS No. 142, "Goodwill and Other Intangible Assets", to, among other things, provide guidance on the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently assessing the potential impact that the adoption of SFAS No. 141(R) could have on its financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). SFAS No. 160 amends Accounting Research Bulletin 51, "Consolidated Financial Statements", to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No.160 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS No. 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently assessing the potential impact that the adoption of SFAS No. 160 could have on its financial statements.

In February 2008, the FASB issued Staff Position No. 140-3, or FSP No. 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions." FSP No. 140-3 provides guidance on the accounting for a purchase of a financial asset from a counterparty and contemporaneous financing of the acquisition through repurchase agreements with the same counterparty. Under this guidance, the purchase and related financing are linked, unless all of the following conditions are met at the inception of the transaction: 1) the purchase and corresponding financing are not contractually contingent; 2) the repurchase financing provides recourse; 3) the financial asset and repurchase financing are readily obtainable in the marketplace and are executed at market rates; and 4) the maturity of financial asset and repurchase are not conterminous. A linked transaction would require a determination under SFAS No. 140 to conclude if the transaction meets the requirements for sale accounting. If the linked transaction does not meet sale accounting requirements, the net investment in the linked transaction is to be recorded as a derivative with the corresponding change in fair value of the derivative being recorded through earnings. The value of the derivative would reflect changes in the value of the underlying debt investments and changes in the value of the underlying credit provided by the counterparty. The Company currently presents these transactions gross, with the acquisition of the financial assets in total assets and the related repurchase agreements as financing in total liabilities on the consolidated balance sheets and the interest income earned on the debt investments and interest expense incurred on the repurchase obligations are reported gross on the consolidated income statements. FSP No. 140-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company is currently evaluating the effect, if any, that this pronouncement will have on its future financial position or results of operations.

In March, 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." This statement provides for enhanced disclosures about how and why an entity uses derivatives and how and where those derivatives and related hedged items are reported in the entity's financial statements. The statement is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of SFAS No. 161 on its financial position, results of operations and financial disclosures.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

4. FAIR VALUE MEASUREMENTS

Election of the Fair Value Option (FVO') under SFAS No. 159

The Company adopted SFAS No. 159 on January 1, 2008 and elected the FVO to measure of all of its financial assets and liabilities associated with our CDO I and II financings at fair value. The Company elected the FVO to provide a consistent balance sheet presentation of the fair value of both the assets and liabilities associated with those CDO financings. As a result of our election of the FVO, all changes in fair value of the elected assets and liabilities are recorded with charges in fair value recognized through earnings. The following financial assets and liabilities were accounted for using the FVO as of March 31, 2008:

- CMBS investments pledged as collateral in CDOs
- Real estate loans pledged as collateral in CDOs, which currently represent our real estate loans held for investment
- CDO notes payable
- CDO related interest rate swaps

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Upon adoption of SFAS 159 on January 1, 2008, all assets and liabilities for which the FVO was elected were marked to fair value with the adjustment recorded to beginning cumulative earnings as of the election date. For CMBS assets and interest rate swaps, the amounts accumulated in other comprehensive income as of January 1, 2008 were reclassified to beginning cumulative earnings. Additionally, as a result of electing the FVO for our CDO notes payable, the related unamortized deferred financing fees were charged against cumulative earnings as of January 1, 2008. The table below reconciles cumulative earnings on January 1, 2008 as a result of the Company's election of the FVO:

	Carrying Value Prior to Adoption	Impact on Cumulative Earnings	Carrying Value After Adoption
Assets			
Real estate loans	$ 274,734	$ (9,311)	$ 265,423
CDO deferred financing fees	13,011	(13,011)	—
Liabilities			
CDO notes payable	974,578	(268,401)	706,177
Cumulative effect of adoption on stockholders' equity at January 1, 2008		246,079	
Reduction of cumulative earnings due to CMBS fair value adjustment reclassified from other comprehensive income		(225,991)	
Cumulative effect on cumulative retained earnings, January 1, 2008		$ 20,088	

Fair Value Determination under SFAS No. 157

Pursuant to the provisions of SFAS No. 157, the fair values of our assets and liabilities are determined through the use of market based and observable inputs, to the extent available, and generally represent prices that would be used to sell the assets or transfer the liabilities between market participants in orderly transactions. Given the unique nature of many of our assets and liabilities and the lack of clearly determinable market based valuation inputs, many of our assets are valued using internal estimates and models. Based on the high level of subjectivity which exists with respect to many of our valuation inputs, the fair values we have disclosed may not equal prices that may ultimately be realized if the assets are sold or liabilities transferred with third parties.

Below is a description of the valuation methods for our assets and liabilities recorded at fair value.

- CMBS investments are carried at fair value on a recurring basis- The fair value of CMBS investments is determined by management based on discounted cash flow models which utilize prepayment and loss assumptions based upon historical experience, economic factors and forecasts and the characteristics of the underlying cash flows. Management determines the applicable discount rates based on current credit spreads as reflected in information provided by issuers of the securities who consider market participant assumptions, comparable deals purchased or traded in the marketplace, if available, the CMBX indices and other derivative trading markets and market interest rates. In addition, management validates its fair value estimates with information from dealers who make markets in these securities as well as lenders on our repurchase agreement facilities. The Company classifies all CMBS investments as Level 3 assets.

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- Real estate loans – The Company generally receives values provided by lenders on our repurchase agreements that are used to determine the fair value the Company's real estate loans to the extent that such values are generally consistent with other market participants inputs received. To the extent the Company does not receive values from lenders, the Company uses discounted cash flow models employing discount rates that are based on management's best estimate of market participant assumptions. The Company has classified all real estate loans as Level 3 assets.
- Interest rate swap agreements – The fair value of our interest rate swap agreements is determined using market observable inputs such as a market based yield curve and other factors determined by management, such as the credit valuation adjustment related to our credit risk and the counterparty credit risk. The Company classifies all interest rate swap agreements as Level 3 assets or liabilities due to the unobservable nature of the credit risk adjustment, which may be significant to the valuation.
- CDO notes payable – The Company generally receives pricing from third party broker/dealers familiar with the securities to determine the fair value of our CDO notes payable. To the extent a bid-ask range of pricing is provided by the broker/dealers, the Company marks its notes payable to the mid-point of such bid-ask range. The Company classifies all CDO notes payable as Level 3 liabilities, as there are no observable transactions related to these notes.

Assets and liabilities carried at fair value on a recurring basis

The following table sets forth assets and liabilities carried at fair value on a recurring basis on the balance sheet as of March 31, 2008. Assets and liabilities have been grouped in their entirety based on the lowest level of input that is significant to the fair value measurement as required by SFAS 157.

($ in thousands)	Fair Value Measurement as of March 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
CMBS, at fair value:				
CMBS financed by CDOs, at fair value	$ 388,146	$ —	$ —	$ 388,146
CMBS not financed by CDOs, at fair value	109,076	—	—	109,076
Real estate loans, held for investment, at fair value	260,558	—	—	260,558
Real estate loans, held for sale, at lower of costs or fair value	189,209			189,209
Total Assets	**$ 946,989**	**$ —**	**$ —**	**$ 946,989**
Liabilities:				
CDO Notes Payables, at fair value	$ 439,524	$ —	$ —	$ 439,524
Derivative Liability—Interest Rate Swap, at fair value, related to CDOs	41,820	—	—	41,820
Derivative Liability—Interest Rate Swap, at fair value, not related to CDOs	15,544	—	—	15,544
Total Liabilities	**$ 496,888**	**$ —**	**$ —**	**$ 496,888**

The following table presents a summary of the changes in the fair values of Level 3 assets and liabilities carried at fair value as of March 31, 2008.

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Level 3 Fair Value Measurements for the period Ending March 31, 2008

	FVO Election (Yes/No)	Beginning Balance as of January 1, 2008	Unrealized Gains/(Losses) Included in Income	Unrealized Gains/(Losses) Transfer from Accumulated Other Comprehensive Income to Gains (Losses)	Total Gains (Losses)	Purchases, Sales, Repayments, Issuances, & Settlements, net	Premium/ Discount Amortization	Transfers In/(Out) of Level 3	Ending Balance as of March 31, 2008	Unrealized Gains/(Losses) Included in Earnings Related to Assets/ Liabilities held at March 31, 2008
Assets:										
CMBS, at fair value:										
CMBS, financed by CDOs, at fair value	Yes	$ 562,056	$ (174,761)	$ —	$(174,761)	$ —	$ 851	$ —	$ 388,146	$ (174,761)
CMBS, not financed by CDOs, at fair value	No	155,384	(45,119)	(54,460)	(99,579)	—	(1,189)	—	109,076	(99,579)
Real estate loans, held for investment, at fair value	Yes	265,423	(4,908)	—	(4,908)	—	43		260,558	(4,908)
Real estate loans, held for sale, at lower of cost or fair value	No	221,599	(28,368)	—	(28,368)	(4,133)	111		189,209	(28,368)
Total Assets		**$1,204,462**	**$ (253,156)**	**$ (54,460)**	**$(307,616)**	**$ (4,133)**	**$ (184)**	**$ —**	**$ 946,989**	**$ (307,616)**
Liabilities:										
CDO notes payable, at fair value, related to CDOs	Yes	$ (706,177)	$ 266,653	$ —	$ 266,653	$ —	$ —	$ —	$ (439,524)	$ 266,653
Interest rate swap agreements, at fair value, related to CDOs	Yes	(21,741)	(20,082)	—	(20,082)	—	—	—	(41,823)	(20,082)
Interest rate swap agreements, at fair value, not related to CDOs	No	(11,139)	(4,405)	(11,195)	(15,600)	—	—	—	(15,544)	(15,600)
Total Liabilities		**$ (739,057)**	**$ 242,166**	**$ (11,195)**	**$ 230,971**	**$ —**	**$ —**	**$ —**	**$ (496,891)**	**$ 230,971**

Gains and Losses (Realized and Unrealized) Included In Earnings for the Three Months Ended March 31, 2008

	Unrealized Loss on CMBS Financed by CDO's	Loss on CMBS Not Financed by CDOs	Unrealized Loss on Real Estate Loans Held for Investment	Unrealized Loss on Real Estate Loans Held for Sale	Total Losses
Total gains (losses) included in earnings for the period	$ (174,761)	$ (99,579)	$ (4,908)	$ (28,368)	(307,616)
Change in unrealized gains or losses related to financial assets still held at reporting date	$ (174,761)	$ (99,579)	$ (4,908)	$ (28,368)	$ (307,616)

	Gain on CDO Notes Payable	Unrealized Loss on CDO Related Interest Rate Swaps	Unrealized Loss on Non-CDO Related Interest Rate Swaps	Total Gains (Losses)
Total gains (losses) included in earnings for the period	$ 266,653	$ (20,082)	$ (15,600)	230,971
Change in unrealized gains or losses related to financial liabilities still held at reporting date	$ 266,653	$ (20,082)	$ (15,600)	$ 230,971

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5. CMBS

The following is a summary of the Company's CMBS as of March 31, 2008 and December 31, 2007:

	March 31, 2008							
		Amortized	Gross Unrealized		Estimated	Weighted Average		
Security Description	Face Amount	Cost	Gains	Losses	Fair Value	Coupon	Yield (3)	Term (yrs)
CMBS not financed by CDOs (1)	$ 453,105	$ 109,041	$ 35	$ —	$ 109,076	5.2%	20.3%	8.7
CMBS financed by CDOs (2)	1,309,052	388,146	—	—	388,146	5.1%	20.0%	9.7
	$ 1,762,157	$ 497,187	$ 35	$ —	$ 497,222	5.1%	20.0%	9.5

(1) CMBS not financed by CDOs are fair valued based on SFAS No 157 and accounted for as available for sale securities pursuant to SFAS No. 115 and EITF 99-20 and thereby subject to potential other than temporary impairment charges. As a result of taking the other than temporary charge at March 31, 2008, these CMBS securities have been written down to their estimated fair value. In the future, unrealized gains/losses, if any, that are not other than temporary impairment will be included in other comprehensive income (loss).

(2) CMBS financed by CDOs are fair valued based on SFAS No. 157 and accounted for using the fair value election pursuant to SFAS No. 159 as of January 1, 2008, and changes in fair value are recorded as a component of other gains (losses) in the consolidated statement of operations.

(3) Yield is based on amortized cost.

	December 31, 2007							
		Amortized	Gross Unrealized		Estimated	Weighted Average		
Security Description	Face Amount	Cost	Gains	Losses	Fair Value	Coupon	Yield (1)	Term (yrs)
CMBS not financed by CDOs	$ 453,105	$ 209,840	$ 548	$ (55,004)	$ 155,384	5.2%	9.0%	9.6
CMBS financed by CDOs	1,309,052	788,047	2,069	(228,060)	562,056	5.1%	8.6%	10.4
	$ 1,762,157	$ 997,887	$ 2,617	$ (283,064)	$ 717,440	5.1%	8.7%	10.2

The unrealized gains (losses) are primarily the result of changes in spreads and market interest rates subsequent to the purchase of a CMBS investment.

The Company's valuation and income recognition processes involves estimating loss adjusted cash flows over the expected term of the securities and determining an effective yield to maturity based on those cash flow estimates. For CMBS, if there is an adverse change in the net present value of projected cash flows from those estimated in the previous period, and the fair value of the security is below its amortized cost basis, the Company will reduce the amortized cost basis to fair value, pursuant to EITF 99-20. Additionally, if CMBS assets are in a significant unrealized loss position for an extended period of time, the Company will consider reducing the amortized cost basis to fair value pursuant to guidance outlined in EITF 99-20, FSP 115-1 and SAB 59. For assets in which we did not elect the FVO, this would result in an other than temporary impairment charge on the consolidated statement of operations. During the three months ended March 31, 2008 and March 31, 2007, the Company recorded other than temporary non-cash impairment charges related to its CMBS investments of $99.6 million and $0, respectively. The 2008 other than temporary impairment charges include a $2.1 million charge related to declines in the projected net present value of future cash flows pursuant to EITF 99-20. Additionally, the Company reforecasted the timing of collection of interest shortfalls of approximately $1.8 million that it projected to receive during the first quarter of 2008. These interest shortfalls are associated with individual loans within the CMBS pools and in some cases the shortfalls are expected to be fully recovered at the time of the resolution of the loan. For loans that are expected to incur losses upon resolution, the shortfall amounts have been incorporated into the forecasted loss amounts which are included in the Company's cash flow projections for each respective bond. The bonds associated with these shortfalls were in an unrealized loss position of $6.4 million as of March 31, 2008 before recognizing the $99.6 million other than temporary impairment charge reflected in the consolidated statement of operations. The remaining non-cash CMBS impairment charge of $97.5 million relates to other than temporary declines in fair value which is due to widening of credit spreads for CMBS investments which began in the first half of 2007 and accelerated through the first quarter of 2008, resulting in both increased severity of the level of unrealized losses as well as increased duration of such losses.

As a result of the write-down in value of our CMBS assets financed by CDO's due to adoption of FVO and the write-down in value of our CMBS assets not financed by CDO's due to other than temporary impairment, the overall costs basis has been reduced to reflect the decline in estimated fair value. Accordingly, the weighted average yields on CMBS assets have increased due to a reduction in cost basis, without a corresponding reduction in projected cash flows. Projected future cash flows remain generally consistent with original underwriting. For example, according to information received from the master servicer, delinquency rates on collateral for the Company's CMBS portfolio in which the Company owns the first-loss position remain at low levels with a 60 day delinquency rate of approximately 32 basis points. As a result, the Company has no securities in an unrealized loss position at March 31, 2008.

The following table sets forth the amortized cost, fair values and gross unrealized losses, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2007 (there is no table presented for the three months ended March 31, 2008 as the Company has written down the cost basis of all CMBS investments to fair value as of that date):

	December 31, 2007			
	Amortized Cost	Unrealized Loss > 12 Months	Unrealized Loss < 12 Months	Fair Value
Security Description				
CMBS not financed through CDOs	$ 207,387	$ (41,157)	$ (13,847)	$ 152,383
CMBS financed through CDOs	771,009	(168,658)	(59,402)	542,949
	$ 978,396	$ (209,815)	$ (73,249)	$ 695,332

As of March 31, 2008 and December 31, 2007, the mortgage loans in the underlying collateral pools for all CMBS were secured by properties of the types and at the locations identified below:

Location (1)	March 31, 2008	December 31, 2007
California	15.5%	14.8%
New York	11.8%	10.4%
Texas	6.7%	6.6%
Florida	5.8%	5.6%
Virginia	4.4%	4.8%
Pennsylvania	4.0%	3.6%
Other (3)	50.9%	53.3%
Re-REMIC (4)	0.9%	0.9%
Total	**100.0%**	**100.0%**

Property Type (1)	March 31, 2008	December 31, 2007
Retail	30.3%	29.0%
Office	32.5%	31.8%
Residential (2)	15.6%	15.4%
Hospitality	7.3%	6.9%
Industrial	5.4%	5.2%
Other (3)	8.0%	10.8%
Re-REMIC (4)	0.9%	0.9%
Total	**100.0%**	**100.0%**

(1) Percentages are based on the unpaid principal balance of the underlying loans in our CMBS investments. Classifications are based on the National Council of Real Estate Investment Fiduciaries' ("NCREIF") standard categories.
(2) Residential primarily consists of multi-family apartment buildings, mobile home parks, and student housing.
(3) No other individual state or property type comprises more than 4.0% of the total as of March 31, 2008 and December 31, 2007, respectively.
(4) The Company's investment in a Re-REMIC backed by CMBS from 41 previous conduit securitizations is not included in the above categories due to the stratification information on the original loan collateral not being meaningful.

The non-investment grade and unrated tranches of the CMBS owned by the Company provide credit support to the more senior classes of the related securitizations. Cash flow from the underlying mortgages generally is allocated first to the senior tranches, with the most senior tranches having a priority right to the cash flow. Any remaining cash flow is allocated, generally, among the other tranches in order of their relative seniority. To the extent there are defaults and unrecoverable losses on the underlying mortgages resulting in reduced cash flows, the remaining CMBS classes will bear such losses in order of their relative subordination.

As of March 31, 2008, the Company's CMBS investments were financed by CDOs and repurchase agreements as follows. For the CMBS investments financed via repurchase agreements, total borrowings outstanding at March 31, 2008 and December 31, 2008 were $53.3 million and $96.1 million, respectively.

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As of March 31, 2008					
Financing Source	Face Amount	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Weighted Average Yield Based on Amortized Cost
CDO	$ 1,309,051	$ 388,146	$ 388,146	$ —	20.0%
Repurchase agreement	384,560	98,596	98,596	—	19.9%
Unlevered	68,546	10,445	10,480	35	24.9%
	$ 1,762,157	$ 497,187	$ 497,222	$ 35	20.0%

As of December 31, 2007					
Financing Source	Face Amount	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Weighted Average Yield Based on Amortized Cost
CDO	$ 1,309,051	$ 788,047	$ 562,056	$ (225,991)	8.6%
Repurchase agreement	384,560	196,189	143,022	(53,167)	8.2%
Unlevered	68,546	13,651	12,362	(1,289)	20.5%
	$ 1,762,157	$ 997,887	$ 717,440	$ (280,447)	8.7%

During the three months ended March 31, 2008, we made no new investments in CMBS investments.

For the three months ended March 31, 2007, the Company invested a total of $177.2 million, prior to closing credits, in three newly issued conduit transactions. The CMBS bonds are rated BBB- and below with loss-adjusted yields ranging from 6.0% to 10.1%.

6. REAL ESTATE LOANS

At March 31, 2008 and December 31, 2007, the Company's real estate loans consisted of the following:

	As of March 31, 2008					
Description	Unpaid Principal Balance	Amortized Cost	Carrying Value	Unrealized Gain/(Loss)	Weighted Average Effective Interest Rate Based on Amortized Cost	Range of Initial Maturity Dates
Real estate loans, held for investment [(1)]						
First mortgage loan participations	$ 47,077	$ 47,077	$ 45,893	$ (1,184)	5.2%	February 2009
Mezzanine loans	227,923	227,700	214,665	(13,035)	5.8%	August 2008 - June 2009
	$ 275,000	$ 274,777	$ 260,558	$ (14,219)	5.7%	
Real estate loans, held for sale[(2)]						
Whole mortgage loans	$ 110,000	$ 111,264	$ 91,508	$ (19,756)	5.8%	December 2016 - January 2017
First mortgage loan participations	48,696	48,538	46,237	(2,301)	6.0%	February 2009 - June 2011
Mezzanine loans	75,119	71,641	51,463	(20,178)	9.1%	April 2008 - December 2016 [(3)]
	$ 233,815	$ 231,443	$ 189,208	$ (42,235)	6.9%	

(1) Carrying value based on fair value in accordance with SFAS No. 157.
(2) Carrying value based on lower of cost or fair value in accordance with SFAS No. 65 and SFAS No. 157.
(3) As of March 31, 2008, the Company had a mezzanine loan with an unpaid principal balance of $3.2 million which was subsequently repaid in full during April 2008.

	As of December 31, 2007					
Description	Unpaid Principal Balance	Amortized Cost	Carrying Value	Unrealized Gain/(Loss)	Weighted Average Effective Interest Rate Based on Amortized Cost	Range of Initial Maturity Dates
Real estate loans, held for investment						
First mortgage loan participations	$ 47,077	$ 47,077	$ 47,077	$ —	7.3%	February 2009
Mezzanine loans	227,923	227,657	227,657	—	8.0%	August 2008 - June 2009
	$ 275,000	$ 274,734	$ 274,734	$ —	7.9%	
Real estate loans, held for sale						
Whole mortgage loans	110,000	111,291	107,507	(3,784)	5.8%	December 2016 - January 2017
First mortgage loan participations	48,860	48,667	48,467	(200)	7.9%	February 2009 - June 2011
Mezzanine loans	79,089	75,507	65,625	(9,882)	8.5%	March 2008 - December 2016 [(1)]
	$ 237,949	$ 235,465	$ 221,599	$ (13,866)	7.1%	

(1) As of December 31, 2007, the Company had a mezzanine loan with an unpaid principal balance of $7.2 million which was paid down to $3.2 million at March 31, 2008 and subsequently repaid in full during April 2008.

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As of March 31, 2008 and December 31, 2007, real estate loans were directly or indirectly secured by properties of the types and at the locations identified below:

Location (1)	March 31, 2008	December 31, 2007
Real estate loans, held for investment		
New York	17.9%	17.9%
Hawaii	15.0%	15.0%
California	12.4%	12.4%
Texas	7.6%	7.6%
Florida	6.5%	6.5%
Puerto Rico	6.4%	6.4%
Georgia	5.4%	5.4%
Other (3)	28.8%	28.8%
	100.0%	**100.0%**
Real estate loans, held for sale		
New York	55.7%	54.7%
Florida	25.6%	26.8%
Other (3)	18.8%	18.5%
	100.0%	**100.0%**
Real estate loans, held for investment		
Hospitality	60.4%	60.4%
Office	22.4%	22.4%
Multi-use	11.7%	11.7%
Retail	5.5%	5.5%
Multifamily	0.0%	0.0%
Healthcare	0.0%	0.0%
	100.0%	**100.0%**
Real estate loans, held for sale		
Office	27.7%	27.2%
Retail	27.7%	27.2%
Multifamily (2)	26.9%	28.1%
Healthcare	12.2%	12.1%
Hospitality	5.5%	5.4%
	100.0%	**100.0%**

(1) Percentages are based on the unpaid principal balance of the underlying loans.

(2) Includes a real estate mezzanine loan collateralized by garden-style apartments that have been converted to for-sale condominiums with an outstanding loan balance of $3.2 million and $7.2 million at March 31, 2008 and December 31, 2007, respectively. This loan was repaid in full in April 2008.

(3) No other individual state comprises more than 5.0% of the total as of March 31, 2008 and December 31, 2007.

As of March 31, 2008, the Company's real estate loans were financed through CDOs and repurchase agreements as follows. For the real estate loans financed via repurchase agreements, total borrowings outstanding at March 31, 2008 and December 31, 2007 were $142.8 million and $165.8 million, respectively.

Financing Source	As of March 31, 2008 Unpaid Principal Balance	Amortized Cost	Carrying Value	Weighted Average Interest Rate Based on Amortized Cost
Real estate loans held for sale [1]				
Repurchase agreement	$ 230,594	$ 228,222	$ 185,987	6.7%
Unlevered [3]	3,221	3,221	3,221	21.0%
	$ 233,815	$ 231,443	$ 189,208	6.9%
Real estate loans held for investment [2]				
CDO	$ 275,000	$ 274,777	$ 260,558	5.7%
	$ 275,000	$ 274,777	$ 260,558	5.7%

(1) Carrying value based on lower of cost or fair value in accordance with SFAS No. 65 and SFAS No. 157.
(2) Carrying value based on fair value in accordance with SFAS No. 157.
(3) In April 2008, the remaining $3.2 million of this mezzanine loan was repaid in full.

Financing Source	As of December 31, 2007 Unpaid Principal Balance	Amortized Cost	Carrying Value	Weighted Average Interest Rate Based on Amortized Cost
Real estate loans held for sale				
Repurchase agreement	$ 230,758	$ 228,274	$ 214,408	6.6%
Unlevered	7,191	7,191	7,191	23.2%
	$ 237,949	$ 235,465	$ 221,599	7.1%
Real estate loans held for long-term investment				
CDO	$ 275,000	$ 274,734	$ 274,734	7.9%
	$ 275,000	$ 274,734	$ 274,734	7.9%

The Company has classified seven real estate loans not financed by CDOs which were previously classified as held to maturity as held for sale effective December 31, 2007 and as of March 31, 2008 in order to provide a potential source of additional liquidity to the Company for general corporate purposes including debt repayment and acquisitions, among other items. As a result, these loans have been marked to the lower of cost or fair value, on an individual loan basis, resulting in an aggregated unrealized loss of $42.2 million, of which $28.4 million occurred during the three months ended March 31, 2008 and is reflected in the consolidated statement of operations for such period. Although the real estate loans held for sale were in an unrealized loss position at March 31, 2008, these loans were not considered impaired as all required payments are still expected to be received based on the loans contractual terms. These loans had a face amount of $233.8 million with an unamortized cost basis of $231.4 million, an estimated fair value of $189.2 million, and outstanding borrowings against such loans of $142.8 million as of March 31, 2008.

During the three months ended March 31, 2008, we made no investments in real estate loans.

During the three months ended March 31, 2007, the Company invested $167.8 million, net of $2.2 million in discounts, in three fixed rate real estate loans. The loans bear interest ranging from 5.8% to 6.4% and have maturity dates between December 2016 and January 2017. In addition, the Company invested $65.1 million in three floating rate real estate loans. The loans bear interest based on LIBOR plus a spread ranging from 1.75% to 3.25% and have maturity dates between February 2008 and June 2011.

During the three months ended March 31, 2008, the Company received repayments of $4.1 million related to outstanding principal balances on certain real estate loans.

During the three months ended March 31, 2007, the Company received repayments of $14.1 million related to outstanding principal balances on certain real estate loans.

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7. REAL ESTATE ASSETS

On December 22, 2006, the Company acquired a portfolio of six net leased real estate assets for an aggregate purchase price of $38.8 million through a sale-leaseback transaction and on June 29, 2007, the Company acquired an additional six net leased real estate assets for an aggregate purchase price of $38.7 million, increasing its total cost basis to $77.5 million. On October 30, 2007 the Company sold a 50% interest in the entity that owns all twelve net leased real estate assets for $39.2 million. The sale resulted in no gain or loss to the Company. Subsequent to the sale of the 50% interest in the entity that owns the net leased real estate assets, the Company has accounted for its remaining interest in the venture using the equity method of accounting. At March 31, 2008 and December 31, 2007, the Company's 50% share of the entity that owns the real estate assets including equity in earnings and distributions was $39.4 million and $39.6 million, respectively and is included in investments in unconsolidated joint ventures on the Company's consolidated balance sheets. In April 2008, the Company sold its remaining 50% interest in the Joint Venture for $39.4 million which approximates cost basis and no longer has any investment in net leased real estate assets subsequent to the sale.

8. INVESTMENT IN U.S DEBT FUND

In December 2007, the Company and JER Real Estate Partners IV, L.P. and JER Real Estate Qualified Partners IV, L.P. (together, "JER Fund IV"), investment funds managed by J.E. Robert Company, Inc. (the "J.E. Robert Company"), the parent of the Company's manager, JER Commercial Debt Advisors LLC, entered into a Limited Partnership Agreement pursuant to which the Company and JER Fund IV agreed to co-manage a new private equity fund, to be known as JER US Debt Co-Investment Vehicle, L.P. (the "US Debt Fund"). The California Public Employees' Retirement System ("CalPERS") committed $200.0 million and the Company and JER Fund IV each committed $10.0 million to the US Debt Fund.

The US Debt Fund will invest in loans secured, directly or indirectly, by real estate, including, B-Notes, mezzanine loans and whole mortgage loans, and also in preferred equity, CMBS and CMBS-related products, such as CMBX and credit default swaps (the "Targeted Investments"). Excluded investments from the US Debt Fund include non-performing loans, fee-simple ownership interests, single family residential mortgages and related securities (sub-prime, conforming, jumbo or Alt-A), whole loans originated directly by the Company and JER Fund IV, and net lease real estate assets.

Targeted Investments that meet the investment guidelines of the US Debt Fund are allocated directly and exclusively by J.E. Robert Company to the US Debt Fund until the earlier of April 11, 2008 or the date at which 90% of the US Debt Fund's committed capital has been invested or otherwise committed. Thereafter, if the US Debt Fund is not fully invested or committed and through the earlier of December 11, 2008 or until 90% of the US Debt Fund's committed capital has been invested or otherwise committed, the Company and/or JER Fund IV will be permitted to share Targeted Investments on a 50%-50% pari-passu basis with the US Debt Fund.

The US Debt Fund will pay to the Company and JER Fund IV a base management fee equal to 1.5% on drawn capital and up to 20% of the aggregate profits earned and distributed by the US Debt Fund (after limited partners receive distributions equal to their initial investment and a specified preferred rate of return thereon). The Company and JER Fund IV will divide the management and incentive fees on a 50%-50% basis. For the three months ended March 31, 2008, the Company recognized $0.1 million of management fees from the US Debt Fund.

The Company's interest in the US Debt Fund is accounted for using the equity method of accounting and the assets and liabilities are not consolidated into the Company's financial statements due to the Company's determination that the Trust is not a VIE under FIN46(R). As of March 31, 2008 and December 31, 2007, the Company had invested $1.6 million and $1.2 million, respectively, into the US Debt Fund which is reflected in investments in unconsolidated joint ventures on the Company's consolidated balance sheets. For the three months ended March 31, 2008, the Company recorded $(0.2) million of equity in earnings (losses) from the US Debt Fund.

9. NOTES PAYABLE, REPURCHASE AGREEMENTS AND JUNIOR SUBORDINATED DEBENTURES

Notes Payable

On October 17, 2006, the Company issued its second CDO through two wholly-owned subsidiaries of the Company, JER CRE CDO 2006-2, Limited and JER CRE CDO 2006-2, LLC (collectively "CDO II"). CDO II is secured by $1.2 billion par value of collateral interests consisting of CMBS, mezzanine loan interests, first mortgage loan interests, Re-REMIC securities, and real estate CDO securities. CDO II issued privately placed notes totaling $768.4 million rated AAA through BBB- ("CDO II Investment Grade Notes"). The Company purchased a portion of the CDO II Investment Grade Notes and retained all of the non-investment grade notes and preferred shares. $708.3 million of Investment Grade Notes were issued to third parties consisting of $47.0 million of fixed rate notes with a weighted average interest rate of 5.8% and $661.3 million of floating rate notes with a weighted average interest rate of LIBOR plus 62 basis points, excluding amortization of fees and expenses, over applicable LIBOR rates. The CDO II Investment Grade Notes have a remaining expected average maturity of 7.7 years as of March 31, 2008. CDO II included a ramp facility of approximately $230.9 million dedicated to finance additional collateral interests, as well as a replenishment collateral pool of up to $275.0 million that will allow replenishment of proceeds of real estate loans that are paid off within five years from the closing of the transaction, subject to the replenishment collateral meeting certain criteria outlined in the CDO II indenture. The Company incurred $10.5 million of debt issuance costs. During the year ended December 31, 2007, the Company contributed CMBS of $61.2 million and mortgage loan interests of $90.3 million as collateral to CDO II and received $69.4 million of mezzanine loan repayments on CDO II collateral. During the three months ended March 31, 2008, the Company did not contribute any collateral interest to CDO II and received no mezzanine loan repayments on CDO II collateral. As of March 31, 2008, the available replenishment pool balance was $1.1 million, which is reflected in restricted cash on our consolidated balance sheets.

In November 2005, the Company issued its first CDO through two wholly-owned subsidiaries of the Company, JER CRE CDO 2005-1, Limited and JER CRE CDO 2005-1, LLC (collectively "CDO I"). CDO I is secured by a static pool of $418.7 million par value of fixed rate subordinate CMBS. CDO I issued privately placed notes totaling $275.6 million rated AAA through BBB- ("CDO I Investment Grade Notes"). The Company retained a portion of the BBB- rated notes, all of the non-investment grade notes and all of the preferred shares. Two of the CDO I Investment Grade Notes, totaling $119.2 million, were issued with floating rate coupons with a weighted average interest rate of LIBOR plus 39 basis points, excluding amortization of fees and expenses. The remaining CDO I Investment Grade Notes totaling $147.0 million, net of the portion retained by the Company, were issued with fixed rate coupons with a weighted average interest rate of 6.0%, excluding amortization of fees and expenses. The Investment Grade Notes have a remaining expected average maturity of 7.4 years as of March 31, 2008. The Company incurred $4.3 million of debt issuance costs.

The terms of both CDOs issued by the Company include coverage tests, including over-collateralization and interest coverage tests, used primarily to determine whether and to what extent principal and interest proceeds on the underlying collateral debt securities and other assets may be used to pay principal of and interest on the non-investment grade notes in the applicable CDO. In the event the coverage tests are not satisfied, interest and principal that would otherwise be payable on the non-investment grade notes may be re-directed to pay principal on the investment grade notes. Therefore, failure to satisfy the coverage tests could adversely affect cash flows received by the Company from the CDOs and thereby the Company's liquidity and operating results. As of March 31, 2008, none of the collateral debt securities or other assets in the applicable CDOs is in a condition that would cause expedited amortization to the investment grade notes of the respective CDO.

The Company has accounted for the CDO I and CDO II transactions as financings due to certain permitted activities of CDO trusts that are not consistent with activities of a QSPE permitted under SFAS No. 140, such as having the ability to sell impaired securities and acquire replenishment securities with the proceeds at the discretion of the collateral administrator. Accordingly, the assets transferred to the respective CDO trusts are reflected in the Company's balance sheets and notes issued to third parties are reflected as notes payable in the accompanying consolidated financial statements. In adopting FAS 159 the Company has elected to carry its CDO notes payable at fair value in the accompanying consolidated financial statements. The total fair value of CDO I and CDO II at March 31, 2008 and January 1, 2008 were $439.5 million and $706.2 million, respectively. However, the Company currently projects that these liabilities will be settled at their face amount of, $974.6 million, based upon expected proceeds from underlying collateral. The resulting change in fair value is reflected in current period earnings. Unamortized debt issuance costs of $13.0 million for CDO I and CDO II were included as a component of deferred financing fees on the consolidated balance sheet at December 31, 2007, however with the adoption of SFAS No. 159, the Company wrote off the $13 million as part of the SFAS No. 159 cumulative transition adjustment on January 1, 2008.

Repurchase Agreements

In August 2007 and as subsequently amended in September 2007 and March 2008, the Company and a wholly owned subsidiary, respectively, entered into a repurchase agreement with JPMorgan Chase Bank, N.A. (the "JPMorgan Facility"). This repurchase agreement provides financing up to $250.0 million to be secured by rated and unrated CMBS and various types of real estate loans and is scheduled to terminate on August 22, 2008. This repurchase agreement provides for a series of extension options subject to approval by both parties that could extend its term through August 24, 2010. This repurchase agreement is limited recourse (25% of the outstanding balance) to the Company. As of March 31, 2008, $35.3 million was outstanding under the repurchase agreement at a weighted average borrowing rate of 4.0%, and CMBS investments with an estimated fair value of $63.3 million were pledged as collateral under this repurchase agreement.

In March 2007, the Company and a wholly-owned subsidiary, respectively, entered into a repurchase agreement with Liquid Funding, an affiliate of Bear Stearns & Co. Inc. which was subsequently amended in June 2007, with an available borrowing capacity of $150.0 million (the "Liquid Funding Facility"). In connection with the June 2007 amendments, the Company entered into a guaranty agreement with Liquid Funding. In March 2008, The Liquid Funding Facility was replaced by a new repurchase agreement with Bear Stearns (the "Bear Stearns Facility") that provides available borrowing capacity of $25.0 million and matures in September 2008. In connection with this new facility, CMBS with outstanding borrowings of $22.2 million were transferred to the JPMorgan Facility. At March 31, 2008, $18.0 million was outstanding under the Bear Stearns Facility at a weighted average borrowing rate of 4.2% and CMBS investments with an estimated fair value of $35.3 million were pledged as collateral.

In September 2006, a wholly owned subsidiary of the Company entered into a repurchase agreement with Goldman Sachs Mortgage Company ("Goldman Sachs Facility"), which was subsequently amended in September 2007 and March 2008. The repurchase agreement provides financing of up to $150.0 million secured by various types of real estate loans is scheduled to terminate at July 1, 2008. The facility has five remaining three-month extension options which can extend the facility to October 1, 2009. If the Company decides to exercise an extension option, it will be required to pay a fee on each extension. As part of the March 2008 amendment, the Company exercised the first extension option, paid an extension fee and paid down the facility by $11.9 million in April 2008. The facility allowed the Company to borrow against eligible loan collateral and is fully recourse to the Company. At March 31, 2008, there was $142.8 million outstanding under the repurchase agreement at a weighted average borrowing rate of 4.5% and real estate loans with a cost basis of $228.2 million and a carrying value of $186.0 million were pledged as collateral under this repurchase agreement.

Each of the repurchase agreement facilities is subject to margin calls based upon fair market value determinations of the underlying collateral. During the three months ended March 31, 2008, such margin calls totaled $65.8 million, with $5.8 million related to the JPMorgan facility, $37.1 million related to the Liquid Funding (Bear Stearns) facility and $22.9 million related to the Goldman Sachs facility. The Goldman Sachs and JPMorgan facilities each have covenants related to (i) minimum tangible net worth, (ii) maximum leverage and (iii) minimum liquidity.

The Company has considered an interpretation of GAAP relating to the treatment of transactions where investments acquired by the Company from a particular counterparty are simultaneously or subsequently financed via a repurchase agreement with that same counterparty or an affiliate thereof. The Company has recorded such transactions as a sale of the investment to us and such related debt provided to the Company as a financing. An alternative interpretation of GAAP, however, concerns whether such investments should be treated as a derivative. Over the past two years, the Company has made several investments that may be affected by such alternative interpretation. During the year ended December 31, 2007, the Company acquired $39.9 million of subordinate CMBS and financed $25.3 million of the purchase via an existing repurchase agreement with the seller. In the year ended December 31, 2007, the Company acquired a first mortgage loan participation investment from a counterparty for $35.0 million and concurrent with closing, the same counterparty provided financing of $29.8 million via an existing repurchase agreement. In the three months ended June 30, 2006, the Company acquired four mezzanine loans from a counterparty and subsequently financed these same four mezzanine loans through an existing repurchase agreement with the seller. The repurchase agreement provided by the counterparty was fully repaid in October 2006 in connection with CDO II. As of March 31, 2008, $28.7 million of borrowings were outstanding with these counterparties related to a cost basis of the two related investments of $39.9 million, each of which are carried on the consolidated balance sheet at the estimated fair value of approximately $39.0 million. As a result, the alternative accounting treatment would reduce total assets and liabilities by $28.7 million and reported net income for the three months ended March 31, 2008 increased by $8.5 million and for the year ended December 31, 2007 decreased by $9.4 million. Future adoption of FSP 140-3 may require the Company to adjust the accounting for the assets in which the Company has invested.

Junior Subordinated Debentures

In April 2007, the Company issued $60.0 million of trust preferred securities through its unconsolidated subsidiary, JERIT TS Statutory Trust I ("the Trust"), in a private transaction exempt from registration under the Securities Act of 1933, as amended. Concurrently, the Company issued $61.9 million in junior subordinated debentures to the Trust and made a $1.9 million common equity investment in the Trust. The trust preferred securities have a 30-year term ending April 2037, are redeemable at par on or after April 30, 2012 and pay distributions at a fixed rate of 7.2%, excluding amortization of fees and expenses, for the first five years ending April 2012, and, thereafter, at a floating rate of three month LIBOR plus 225 basis points, excluding amortization of fees and expenses. The assets of the Trust consist solely of the $61.9 million of junior subordinated notes concurrently issued by us, with terms that mirror the trust preferred securities. The Company incurred $1.0 million of debt issuance costs, which were deferred and are amortized on an effective yield basis over the life of the junior subordinated debentures. Unamortized debt issuance costs of $1.0 million and $1.0 million are included as a component of deferred financing fees on the consolidated balance sheet at March 31, 2008 and December 31, 2007, respectively.

The Company's interest in the Trust is accounted for using the equity method and the assets and liabilities are not consolidated into the Company's financial statements due to the Company's determination that the Trust is a variable interest entity under FIN46(R) and that we are not the primary beneficiary of the entity. Interest on the junior subordinated debentures, net of interest income on the Company's common equity interest in the Trust, is included in interest expense on our consolidated income statements and the junior subordinated debentures are presented as a liability on our consolidated balance sheet.

If the Company defaults in the payment of interest or principal on any debt, breach any representation or warranty in connection with any borrowing or violate any covenant in any loan document, lenders may accelerate the maturity of such debt, requiring the Company to immediately repay all outstanding principal. If the Company is unable to make such payments, our lender could force us to sell our securities or foreclose on our assets pledged as collateral to such lender. The lender could also force the Company into bankruptcy or bring other legal action against the Company. Any of these events would likely have a material adverse effect on the value of an investment in the Company's common stock. At March 31, 2008, the Company was in compliance with all covenants and requirements under its repurchase agreements, collateralized debt obligations, and junior subordinated debentures.

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10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company presents its financial instruments at estimated fair value in the accompanying consolidated financial statements in accordance with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," by applying the fair value principles of SFAS No. 157.

The Company has estimated that the fair value of its junior subordinated debentures with an aggregate principal balance of $61.9 million approximates $29.9 million at March 31, 2008. The fair value estimates for the junior subordinated debentures represent management's best estimates of these values, based on management's judgment as well as consideration of input from other market sources but do not necessarily reflect the prices that would be realized in an actual transaction involving such debentures.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The following table presents our pay-fixed interest rate swaps as of March 31, 2008 and December 31, 2007, respectively:

Trade Date	Effective Date	Initial Notional Balance	Notional Balance at March 31, 2008	Ending Notional Balance	Fair Value at March 31, 2008 [4]	Fair Value at December 31, 2007	Termination Date	Pay-Fixed Interest Rate
October 2005	November 2005[1]	$ 109,977	$ 109,977	$ 5,697	$ (9,251)	$ (4,106)	June 2015	4.9%
September 2006	October 2006 [2]	386,324	340,047	219,929	(27,076)	(12,860)	August 2016	5.1%
September 2006	October 2009 [2]	—	—	80,071	(667)	(1,056)	August 2016	5.2%
February 2007	October 2007 [2]	—	46,277	86,324	(4,829)	(3,719)	October 2014	5.1%
January 2007	November 2007[3]	100,000	100,000	100,000	(7,214)	(6,185)	December 2016	5.3%
February 2007	November 2007[3]	45,000	45,000	45,000	(3,861)	(2,079)	September 2016	5.0%
February 2007	November 2007[3]	26,000	26,000	26,000	(2,287)	(1,244)	February 2017	5.1%
March 2007	November 2007[3]	40,000	40,000	40,000	(2,182)	(1,631)	January 2017	5.0%
		$ 707,301	$ 707,301	$ 603,021	$ (57,367)	$ (32,881)		

(1) Swap related to our CDO I financing and is reflected at fair value with the change in value subsequent to December 31, 2007 recorded in other gains (losses) on the consolidated statement of operations due to our election to account for this swap using the FVO effective January 1,2008.
(2) Swaps related to our CDO II financing and is reflected at fair value with the change in value subsequent to December 31, 2007 recorded in other gains (losses) on the consolidated statement of operations due to our election to account for these swaps using the FVO effective January 1, 2008.
(3) Swaps related to our current and future anticipated financings were intended to hedge future long-term floating rate debt and is not considered probable as of March 31, 2008 and as a result, the fair value at March 31, 2008 of $(15.5) million has been recorded in other gains (losses) in the consolidated statement of operations during the three months ended March 31, 2008.
(4) The settlement amount of our interest rate swap liabilities was $(67.2) million as of March 31, 2008. This liability is partially offset by a $9.8 million credit valuation adjustment driven by the SFAS No. 157 requirement to incorporate a valuation adjustment for the difference between our and our counter party's credit rating to arrive at fair value.

As of March 31, 2008 and December 31, 2007, $(21.2) and $(32.5) million, respectively, is reflected in accumulated other comprehensive income (loss) in the consolidated balance sheets representing the fair value of the effective portions of the Company's outstanding cash flow hedges, which are further discussed below.

In connection with the adoption of SFAS No. 159 on January 1, 2008, the Company discontinued hedge accounting for its swaps related to its CDO I and II financings, representing $496.3 million of notional balance as of March 31, 2008. The changes in the fair market value of these cash flow hedges from January 1, 2008 have been reflected in other gains (losses) in the consolidated statements of operations. The $21.7 million of fair value related to these swaps reflected in accumulated other comprehensive income as of December 31, 2007 will be amortized into the consolidated statement of operations over the remaining life of the cash flow hedge and the hedged item, and $0.6 million was recognized as an expense in other gains (losses) during the three months ended March 31, 2008.

Between January 2007 and March 2007, the Company entered into a total of four forward-starting interest rate swaps to mitigate the risk of change in the interest-related cash outflows on existing and forecasted issuance of debt. Under these swaps, the Company agreed to pay the counterparties a weighted average fixed interest rate of 5.2% per annum in exchange for floating rate payments on the total notional amount of $211.0 million. During the first quarter of 2008, the Company determined that four swaps, aggregating $211.0 million in notional balance, intended to hedge anticipated future and current floating rate financings were no longer effective as such future long-term financings not considered probable at this time due to continued market disruptions. As a result, the Company recorded a charge of $15.6 million and reflected the change in market value of this cash flow hedge in unrealized loss on non-CDO interest rate swap agreements in the consolidated statement of operations. The Company recorded this charge as a result of uncertainty related to the Company's ability to obtain future long-term match funded financing due to continued market disruptions as well as the potential for sales of certain real estate loans held for sale which would ideally be financed by such borrowings. As of March 31, 2008 the combined fair value of the four interest rate swaps was $(15.5) million.

In connection with the pricing of CDO II in September 2006, the Company, through JER CRE CDO 2006-2, Limited, a wholly-owned subsidiary, entered into an amortizing interest rate swap with an initial notional balance of approximately $386.3 million, which declines to approximately $219.9 million. This interest rate swap, which matures in August 2016, is expected to hedge the interest rate risk exposure on amortizing principal amounts of floating-rate Investment Grade Notes issued by the Company upon the closing of CDO II and a portion of the Company's other anticipated or existing indebtedness. In September 2006 and February 2007, in connection with CDO II and other anticipated or existing indebtedness, the Company also entered into two accreting interest rate swaps. The first swap has an initial notional balance of zero increasing to approximately $33.8 million in October 2009 and increasing thereafter to approximately $80.1 million. The second swap has an initial notional balance of zero increasing to approximately $46.3 million in October 2007 and increasing thereafter to approximately $86.3 million. Pursuant to adopting SFAS No. 159, the Company elected the fair value option for the debt being hedged by these swaps and as a result, these swaps no longer qualify for hedge accounting under SFAS No. 133 and the changes in fair value from December 31, 2007 forward are recorded as a component of unrealized gain (loss) on CDO related financial liabilities in the consolidated statement of operations. At December 31, 2007, the fair value of these swaps was $(17.6) million. This amount will be amortized into earnings over the remaining life of the swap as the swap no longer qualifies for hedge accounting due to the election of the fair value option for debt associated with this derivative. Based on the terms of the swaps, the Company has agreed to pay the counterparties a weighted average fixed interest rate of 5.1% per annum in exchange for floating payments tied to USD-LIBOR on the applicable notional amount. As of March 31, 2008 and December 31, 2007, the combined fair value of the three interest rate swaps was $(32.6) million and $(17.6) million, respectively, which is recorded in interest rate swap liabilities on the consolidated balance sheets. Of the existing balance in accumulated other comprehensive income (loss) related to this interest rate swap, the Company estimates that approximately $1.9 million will be reclassified from accumulated other comprehensive income (loss) as an increase to interest expense in the next twelve months.

In connection with the pricing of CDO I in October 2005, through JER CRE CDO 2005-1, Limited, the Company entered into an amortizing interest rate swap with an initial notional balance of approximately $110.0 million. The amortizing interest rate swap hedges the interest rate risk exposure on an amortizing principal amount of the floating-rate Investment Grade Notes issued by the Company. This swap is designated as a cash flow hedge and is expected to be effective in hedging the risk of changes in interest cash outflows attributable to changes in the applicable USD-LIBOR swap rate over the term of the hedging relationship. Under the swap, the Company has agreed to pay the counterparty a fixed interest rate of 4.9% per annum in exchange for floating payments on the applicable notional amount. As of March 31, 2008 and December 31, 2007, the fair value of the amortizing interest rate swap related to CDO I was $(9.3) million and $(4.1) million, respectively, which is recorded in interest rate swap liabilities on the consolidated balance sheets. Pursuant to adopting SFAS No. 159, the Company elected the fair value option for the debt being hedged by these swaps, and as a result, these swaps no longer qualify for hedge accounting under SFAS No. 133 and the changes in fair value from December 31, 2007 forward are recorded as a component of unrealized gains (losses), net, on CDO related financial assets and liabilities in the consolidated statement of operations. At December 31, 2007, the fair value of this swap was $(4.1) million and was classified within accumulated in OCI when these swaps qualified for hedge accounting. This amount will be amortized into earnings over the remaining life of the swap as the swap no longer qualifies for hedge accounting due to the election of the fair value option for this derivative. Of the existing balance in accumulated other comprehensive income (loss) related to this interest rate swap, the Company estimates that approximately $0.5 million will be reclassified from accumulated other comprehensive income (loss) as an increase to interest expense in the next twelve months.

In June and August 2006, the Company entered into a total of four forward-starting interest rate swaps to mitigate the risk of changes in the interest-related cash outflows on existing and forecasted issuance of debt. Under these swaps, the Company agreed to pay the counterparties a weighted average fixed interest rate of 5.4% per annum in exchange for floating payments on the total notional amount of $177.0 million. In connection with the pricing of CDO II in September 2006 and other anticipated or existing indebtedness, the Company effectively terminated or assigned for value these four outstanding interest rate swaps. The net costs from termination of $6.1 million were recorded in accumulated other comprehensive income and are being amortized from accumulated other comprehensive income (loss) as an increase to interest expense over the life of CDO II based on the effective yield method. For the three months ended March 31, 2008 and 2007, $0.1 million, respectively, was amortized from accumulated other comprehensive income (loss) as an increase to interest expense. Of the existing balance in accumulated other comprehensive income (loss) related to this interest rate swap, the Company estimates that approximately $0.6 million will be reclassified from accumulated other comprehensive income (loss) as an increase to interest expense in the next twelve months.

In connection with the pricing of CDO I in October 2005, the Company effectively terminated or assigned for value $201.0 million notional amount of interest rate swaps outstanding. The net proceeds from termination of $0.6 million were recorded in accumulated other comprehensive income (loss) and are being amortized from accumulated other comprehensive income (loss) as a decrease to interest expense over the life of CDO I based on the effective yield method. For the three months ended March 31, 2008 and 2007, $12 and $11, respectively, has been amortized from accumulated other comprehensive income (loss) as a reduction to interest expense. Of the existing balance in accumulated other comprehensive income (loss) related to this interest rate swap, the Company estimates that approximately $0.1 million will be reclassified from accumulated other comprehensive income (loss) as an decrease to interest expense in the next twelve months.

The Company's derivative financial instruments contain credit risk to the extent that its bank counterparties may be unable to meet the terms of the agreement. The Company minimizes such risk by limiting its counterparties to major financial institutions with acceptable credit ratings. All counterparties currently have Standard and Poor's equivalent credit ratings ranging from AA- to AA. Additionally, the potential risk of loss with any one party resulting from this type of credit risk is monitored.

12. DIFFERENCES BETWEEN FINANCIAL STATEMENTS NET INCOME AND TAXABLE INCOME

The differences between GAAP net income and taxable income are generally attributable to differing treatment, including timing related thereto, of unrealized/realized gains and losses associated with certain assets, the bases, income, impairment, and/or credit loss recognition related to certain assets, primarily CMBS, accounting for derivative instruments, accounting for lease income on net leased real estate assets, investments in unconsolidated joint ventures and amortization of various costs. The distinction between GAAP net income and taxable income is important to the Company's stockholders because dividends or distributions, if any, are declared and paid on the basis of annual estimates of taxable income or loss. The Company does not pay Federal income taxes on income that it distributes on a current basis, provided that it satisfies the requirements for qualification as a REIT pursuant to the Internal Revenue Code. The Company calculates its taxable income or loss as if it were a regular domestic corporation. This taxable income or loss level determines the amount of dividends, if any, the Company is required to distribute over time in order to reduce or eliminate its tax liability pursuant to REIT requirements.

Income on CMBS investments is computed for GAAP purposes based upon a yield, which assumes credit losses will occur (See Note 3—Revenue Recognition for further discussion). 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. Furthermore, due diligence expenses incurred related to the acquisition of CMBS and loan investments not originated are required to be expensed as incurred for GAAP purposes but are included as a component of the cost basis of the asset and amortized for tax purposes. In addition, straight line rental income recognized for GAAP purposes is not recognized for tax purposes as taxable income is generally based on contractual rental income. Primarily as a result of these differences, the net difference between the GAAP and tax basis of the underlying CMBS investments was approximately $553.2 million and $50.6 million at March 31, 2008 and December 31, 2007, respectively, with tax basis being greater than GAAP basis. The difference between the tax bases and GAAP bases related to real estate loans, derivatives, due diligence expenses and lease income was in the aggregate $(1.0) million and $2.3 million at March 31, 2008 and December 31, 2007, respectively, with GAAP basis being greater (less) than tax basis.

13. COMMON STOCK

In June 2004, the Company sold 11,500,000 shares of its common stock through transactions that were exempt from the registration requirements of the Securities Act of 1933 pursuant to Rule 144A, Regulation S and Regulation D (the "144A Offering"). Gross proceeds were $172.1 million. Net proceeds after deducting the initial purchaser's discount and other offering expenses were $160.1 million. In July 2005, the Company completed its initial public offering of 12,000,000 shares of its common stock at a price of $17.75 per share. In August 2005, the underwriters exercised their option to purchase an additional 1,832,025 shares at the public offering price less the underwriting discount to cover over-allotments. The net proceeds to the Company on the sale of 12,000,000 shares in the initial public offering and the 1,832,025 shares pursuant to the over-allotment option was $226.4 million after deducting the underwriting discount and offering expenses and was primarily used to pay down indebtedness.

In connection with the 144A Offering, the Company issued 335,000 shares to its Manager pursuant to its Nonqualified Option and Incentive Award Plan. In addition, as of March 31, 2008, the Company has granted an aggregate of 40,000 shares of restricted stock to its independent directors, granted 137,000 shares of restricted stock to certain officers and employees of an affiliate of its Manager (although 3,000 of such shares have been forfeited to date) and 60,000 shares of restricted stock to Mark Weiss, its President, as further discussed in Note 14.

At each of March 31, 2008 and December 31, 2007, the Company had issued and outstanding common shares of 25,901,035.

14. RELATED PARTY TRANSACTIONS

The Company entered into a management agreement (the "Management Agreement") with the Manager in June 2004 for an initial term of two years. After the initial term, the Management Agreement was renewed for additional one-year periods in June 2006 and June 2007 and will automatically be renewed each year for an additional one-year period unless the Company or the Manager terminates the Management Agreement. The Manager must be provided adequate notice of termination, as defined, according to the terms of the Management Agreement. Upon notice, a termination fee equal to four times the sum of the Manager's base management fees plus incentive fees for the 12-month period preceding the date of termination would be paid. Any accrued compensation due to the Manager would also be paid.

In addition, if the Management Agreement is terminated without cause due to fees that the independent directors have determined to be unfair, the Manager may agree to perform its management services at fees the independent directors determine to be fair, and the Management Agreement would not terminate. The Manager may give notice it wishes to renegotiate the fees, in which case the Company and the Manager must negotiate in good faith. If a renegotiated fee cannot be agreed upon within a specified period, the agreement will terminate, and the Company must pay the termination fees described above.

The Company may also terminate the Management Agreement with 60 days' prior notice for cause, which is defined as (i) the Manager's fraud or gross negligence, (ii) the Manager's willful noncompliance with the Management Agreement, (iii) the commencement of any proceeding relating to the Manager's bankruptcy or insolvency or a material breach of any provision of the Management Agreement, uncured for a period of 60 days or (iv) a change in control of the Manager. The Manager may at any time assign certain duties under the Management Agreement to any affiliate of the Manager provided that the Manager shall remain liable to the Company for the affiliate's performance.

Pursuant to the Management Agreement and subject to the supervision and direction of the Company's Board of Directors, the Manager performs services for the Company including the purchase, financing, sale and management of real estate and other real estate-related assets, the day-to-day management of the Company and the performance of certain administrative duties. For performing these services, the Company pays the Manager a monthly base management fee in arrears equal to 1/12 of the sum of (i) 2.0% of the first $400 million of the Company's equity, (ii) 1.5% of equity in excess of $400 million and up to $800 million and (iii) 1.25% of equity in excess of $800 million. For purposes of calculating the base management fee, the Company's equity equals the month-end value, computed in accordance with generally accepted accounting principles, of the Company's stockholders' equity, adjusted to exclude the effect of any unrealized gains, losses or other items that do not affect realized net income.

In addition, the Manager is entitled to receive a quarterly incentive fee in an amount, not less than zero, equal to the product of (i) 25% of the dollar amount by which (a) funds from operations (as defined in the Management Agreement) of the Company for such quarter per share of Common Stock (based on the weighted average number of shares outstanding for such quarter) exceeds (b) an amount equal to (A) the weighted average of the price per share of Common Stock in the 144A Offering, and the prices per share of Common Stock in any subsequent offerings by the Company multiplied by (B) the greater of (1) 2.25% and (2)0.875% plus one fourth of the ten-year U.S. treasury rate for such quarter, multiplied by (ii) the weighted average number of shares of Common Stock outstanding during such quarter. Funds From Operations, ("FFO"), as defined in the Management Agreement, is net income (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring, gains (or losses) from sales of property and unrealized depreciation and/or appreciation, effective January 1, 2008, plus depreciation and amortization on real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. The following table summarizes management fees incurred by the Company for the three months ended March 31, 2008 and 2007, respectively:

	For the Quarter Ended March 31,		
	2008	2007	Increase (decrease)
Base management fees	$ 1,827	$ 1,855	$ (28)
Incentive fees	—	152	(152)
Total management fees	$ 1,827	$ 2,007	$ (180)

At March 31, 2008 and December 31, 2007, $0.6 million and $1.2 million, respectively, related to unpaid base management fees are included in due to affiliate in the accompanying consolidated balance sheets. In addition, there was no unpaid incentive fee as of March 31, 2008 and December 31, 2007.

The Management Agreement also provides that the Company is required to reimburse the Manager for certain expenses incurred by the Manager on the Company's behalf, including the Company's pro rata share of overhead expenses of the Manager required for the Company's operations. In November 2006, effective retroactively to January 1, 2006, the independent members of the Board of Directors approved an amendment to the Management Agreement to provide that 2007 and in each calendar year thereafter, subject to approval by the independent members of the Board of Directors, the allocable overhead reimbursement will be $0.5 million multiplied by the sum of (a) one plus (b) the percentage increase in the Consumer Price Index ("CPI") for the applicable year over the CPI for the calendar year 2006. For the three months ended March 31, 2008 and 2007, overhead reimbursements were approximately $0.1 million, respectively. The Manager may also be paid or reimbursed for the costs of providing other services that outside professionals or consultants otherwise would provide on the Company's behalf. If such services are provided by the Manager, the reimbursement for such services will be no greater than what management believes would be paid to outside professionals, consultants or other third parties on an arm's length basis. In accordance with the provisions of the Management Agreement, the Company recorded reimbursements for other services provided by the Manager of $21 and $17 in the three months ended March 31, 2008 and 2007, respectively, which are included in general and administrative expenses in the accompanying consolidated statements of operations. At March 31, 2008 and December 31, 2007, $0.1 million and $30, respectively, of expenses to be reimbursed were unpaid and included in due to affiliate in the accompanying consolidated balance sheets.

The Manager is responsible for all costs, except as otherwise noted, incidental to the performance of its duties under the Management Agreement, including employment compensation (other than awards made by us under the equity incentive plan) of J.E. Robert Company, an affiliated entity, personnel who perform services for us pursuant to the Management Agreement.

Each CMBS securitization requires that a special servicer be appointed by the purchaser controlling the most subordinated non-investment grade class of securities. Because the Manager does not have special servicer status, it appoints J.E. Robert Company or another entity that has special servicer status, as the special servicer whenever the Company acquires a controlling interest in the most subordinated non-investment grade class of a CMBS securitization. J.E. Robert Company earned $1.3 million and $1.1 million in fees as special servicer during the three months ended March 31, 2008 and 2007, respectively. All fees due to J.E. Robert Company as special servicer are paid either by the applicable securitization vehicles or the borrower and not directly by the Company and such fees are consistent with traditional, well established market standards and are set as part of the arms-length negotiations to acquire such CMBS bonds from the issuer. However, because we generally own the first loss position in these same CMBS issuances, payment of special servicing fees to J.E. Robert Company may reduce the amounts available to pay us pursuant to the terms of the applicable CMBS trusts.

In connection with CDO II (See Note 9—Loans, Notes Payable, Repurchase Agreements and Junior Subordinated Debentures), a wholly owned subsidiary of the Company entered into a Collateral Administration Agreement with J.E. Robert Company (the "Collateral Administrator"), pursuant to which the Collateral Administrator has agreed to advise the wholly owned subsidiary of the Company on certain matters regarding the collateral interests and other eligible investments securing the notes. The Collateral Administrator will receive two fees payable on a monthly basis, with the first fee equal to 1/12 of 0.075% of the Monthly Asset Amount, as defined in the CDO II indenture, and the second fee equal to 1/12 of 0.05% of the Monthly Asset Amount, as defined in the CDO II indenture, each fee payable with different priorities as set forth in the applicable indenture. During the three months ended March 31, 2008 and 2007, $0.4 million and $0.3 million, respectively, of collateral administration fees are reflected in general and administrative expenses in the accompanying consolidated statements of operations. At March 31, 2008 and December 31, 2007, $29 and $25, respectively, of unpaid collateral administration fees were unpaid and included in due to affiliate in the accompanying consolidated balance sheets. These collateral administration fee schedules within the collateral administration agreement were approved by the independent members of the Company's Board of Directors.

During the year ended December 31, 2007, the Company invested in a first mortgage loan participation with a cost basis of $30.0 million and two mezzanine loan participations with a cost basis of $49.4 million where an affiliate of the Manager held a controlling equity interest in the borrower. During the year ended December 31, 2006, we invested in mezzanine loans totaling $65.0 million where an affiliate of the Manager held a controlling equity interest in the borrower. The acquisition of these loans to affiliated borrowers was approved by the independent members of the Company's Board of Directors as required by our investment guidelines. During the three months ended March 31, 2008, we received repayments on loans to affiliated borrowers aggregating $0.2 million. At March 31, 2008, loans to affiliated entities had an unamortized cost basis of $122.6 million and an unpaid principal balance of $123.2 million and a carrying value of $114.7 million.

During the year ended December 31, 2005, the Company originated mezzanine loans with an affiliate of the Manager totaling $63.4 million. The ownership was allocated equally between the Company and the affiliated entity, with the Company's share of the initial loans equal to $31.7 million. At March 31, 2008, there was $3.2 million outstanding related to these loans and these loans were repaid in full in April 2008.

The US Debt Fund will invest in loans secured, directly or indirectly, by real estate, including, B-Notes, mezzanine loans and whole mortgage loans, and also in preferred equity, CMBS and CMBS-related products, such as CMBX and credit default swaps (the "Targeted Investments"). Excluded investments from the US Debt Fund include non-performing loans, fee-simple ownership interests, single family residential mortgages and related securities (sub-prime, conforming, jumbo or Alt-A), whole loans originated directly by the Company and JER Fund IV, and net lease real estate assets.

Targeted Investments that meet the investment guidelines of the US Debt Fund are allocated directly and exclusively by J.E. Robert Company to the US Debt Fund until the earlier of April 11, 2008 or the date at which 90% of the US Debt Fund's committed capital has been invested or otherwise committed. Thereafter, if the US Debt Fund is not fully invested or committed and through the earlier of December 11, 2008 or until 90% of the US Debt Fund's committed capital has been invested or otherwise committed, the Company and/or JER Fund IV will be permitted to share Targeted Investments on a 50%-50% pari-passu basis.

The US Debt Fund will pay to the Company and JER Fund IV a base management fee equal to 1.5% on drawn capital and up to 20% of the aggregate profits earned and distributed by the US Debt Fund (after limited partners receive distributions equal to their initial investment and a specified preferred rate of return thereon). The Company and JER Fund IV will divide the management and incentive fees on a 50%-50% basis.

15. STOCK OPTION AND INCENTIVE AWARD PLAN

In June 2004, the Company adopted the Nonqualified Stock Option and Incentive Award Plan, (the "Plan"), which provides for awards under the Plan in the form of stock options, stock appreciation rights, restricted stock, other equity-based incentive awards and cash. Officers, directors and employees of the Company and of the Manager and its affiliates as well as the Manager and other third parties are eligible to receive awards under the Plan. The Plan has a term of ten years and limits the awards to a maximum of 1,150,000 shares of Common Stock, unless the Plan is amended.

In accordance with the Plan, a total of 345,000 shares of Common Stock were issued to the Manager and the independent directors in 2004. As consideration for the Manager's role in raising capital for the Company, the Manager was granted an award of 335,000 shares of stock upon the closing of the 144A Offering. As discussed below under "Registration Rights Agreement," one-half of the shares granted to the Manager are subject to a risk of forfeiture. Additionally, each independent director was granted 2,000 shares of restricted stock upon the date of the first board meeting of the Board of Directors attended by the independent director. Each independent director receives an additional 2,000 shares of restricted stock annually pursuant to the Plan. One-half of the shares granted to the independent directors vest immediately and the remaining one-half vest one year from the date of grant, subject to the grantee's continued service as a member of the Board of Directors of the Company. As of March 31, 2008, 40,000 shares of restricted stock had been granted to the independent directors.

In accordance with the Plan, in May 2006, Mark Weiss, our President and an employee of an affiliate of the Manager, was awarded 60,000 restricted shares of common stock and 150,000 stock options on the Company's common stock subject to vesting over five years. 50% of these shares and options vest ratably over five years, subject to continued employment with affiliates of our Manager. The remaining 50% of these shares and options vest subject to continued employment with affiliates of our Manager and graded vesting commencing in June 2009 based on achievement of certain market or performance conditions. The options expire ten years from the grant date.

In April 2007, certain officers of the Company and employees of an affiliate of the Manager were awarded 124,500 restricted shares of common stock subject, in each case, to vesting over three years. 50% of these shares vest ratably over three years, subject to continued employment with affiliates of our Manager. The remaining 50% of these shares vest subject to continued employment with affiliates of our Manager and graded vesting commencing in March 2008 based on achievement of certain market conditions. As of March 31, 2008, 3,000 of these restricted shares had been forfeited.

On May 30, 2007, our stockholders approved an amendment to the Plan (the "Amended Plan") and adopted the Nonqualified Stock Option and Incentive Award Plan for Manager Only (the "Manager Plan"). The Amended Plan applies to directors, officers, employees, advisors, consultants and other personnel of the Company, our manager and J.E. Robert Company who are natural persons and the Manager Plan applies to our manager or other consultants to the Company that are not natural persons. The aggregate number of shares of Common Stock that may be issued under the Plan and the Manager Plan (collectively, the "Amended Plans") is subject to a combined maximum limit (subject to the exceptions described below), which means that if shares of Common Stock are issued under the Amended Plan, less shares of Common Stock will be available for issuance under the Manager Plan. Correspondingly, if shares of Common Stock are issued under the Manager Plan, less shares of Common Stock will be available for issuance under the Amended Plan. The Amended Plans are administered by and all awards granted in accordance with the Amended Plans are subject to the approval of our Board of Directors or, at the Board of Directors' sole discretion, by a committee the Board of Directors may appoint to administer the Plan (the "Committee").

The Amended Plans provide for the granting of (i) nonqualified stock options, (ii) stock appreciation rights, (iii) restricted stock, (iv) performance awards, (v) outperformance awards and (vi) other stock-based and non-stock based awards, as may be determined by the Committee. The Amended Plans provide that (1) 106,250 shares may be awarded as restricted stock; (2) up to 1,000,000 shares may be issued as outperformance awards; and (3) 0.5% of the number of shares of Common Stock outstanding as of the effective date of the Amended Plans may be awarded as restricted stock, options or other awards under the Amended Plans. The Amended Plans also provide that the number of shares described in (3) above will increase each year by the lesser of 500,000 or 0.5% of the number of shares of Common Stock outstanding on the last day of the immediately preceding fiscal year.

The Amended Plans also allow for the granting of outperformance awards. Outperformance awards (which are described in more detail below) will be awarded to designated members of the Company's senior management team or other key employees of J.E. Robert Company. Outperformance awards are designed to deliver value only if the Company successfully creates value for stockholders based on the total return to stockholders in excess of a threshold amount as determined by the Committee and subject to certain conditions. Pursuant to the adoption of the outperfomance awards, we increased the maximum number of shares of Common Stock reserved and available for issuance at any time under the Plan by 1,000,000 shares of Common Stock for the outperformance awards. Such shares may only be issued as outperformance awards pursuant to the terms and conditions of the Amended Plans.

In accordance with the Amended Plans, on the first business day after the annual stockholders' meeting of the Company, and on the first business day after each such annual meeting of the Company thereafter during the term of the Amended Plans, each person who is a non-officer director at the time of such meeting will be granted such amount of shares of restricted stock or restricted stock units as determined by the Committee prior to the applicable annual stockholders' meeting. One-half of the shares or share units subject to each non officer director award will not be subject to a risk of forfeiture on the date of grant, and the other one-half of the shares or share units will be subject to a risk of forfeiture for one year from the date of grant. In addition, the non officer director will not be able to sell, assign, transfer, pledge, hypothecate or otherwise dispose of any of the shares or share units subject to each non officer director award for one year from the date of grant. With respect to grants of restricted share units, units will be payable to each non officer director in shares within such time period following separation from service with the Company as a non officer director as determined by the committee prior to the applicable annual shareholders' meeting.

In June 2007, 10,000 total shares of restricted stock were awarded to the five independent directors as part of their regular annual awards program. In July 2007, 12,500 restricted shares were awarded to an employee of an affiliate of the Manager. These shares vest ratable over an approximately three year period beginning in April 2008, subject to continued employment with an affiliate of the Manager.

A reconciliation of unvested restricted stock awards to directors and employees of an affiliate of the Manager at March 31, 2008 is as follows:

	Directors	Non-Employees
Unvested shares at January 1, 2008	5,000	188,000
Granted	—	—
Vested	—	(24,416)
Forfeiture	—	—
Unvested Shares at March 31, 2008	5,000	163,584

In accordance with the provisions of SFAS 123(R), non-employee directors are deemed employees for purposes of applying the statement. Accordingly, the awards granted to directors are measured at their grant date fair value. Compensation expense related to the immediately vesting shares is recognized on the grant date and the remaining compensation expense is recognized on the straight line basis over the one year vesting period.

Based on the definition of an employee in SFAS 123(R), the awards to the Manager, and employees of affiliates of the Manager are considered non-employee awards. In accordance with EITF 96-18, and as no performance commitment existed at the grant date for any of the awards, compensation expense related to these non-employee awards is initially measured at fair value at the grant date, remeasured at subsequent dates to the extent the awards are unvested, and amortized into expense over the requisite service period on a straight-line basis for awards with service conditions only. Awards with a graded vesting schedule that contain performance or market conditions are treated as in-substance separate awards and the fair value, as remeasured at each reporting date to the extent the awards are unvested, is amortized to expense over the requisite service period on a straight-line basis for each vesting tranche.

The fair value of restricted share awards with service or performance conditions only is equal to the closing stock price on the measurement date, which varies for employee and non-employee awards as discussed above. In accordance with SFAS 123(R), the amount of expense recorded over the requisite service period is adjusted based on estimated and actual forfeitures and whether the performance conditions are considered probable of achievement.

The fair value of restricted share awards that contain market conditions is determined using a stochastic model employing a Monte Carlo method as of each measurement date. This model evaluates the awards for changing stock prices over the term of vesting and uses random simulations that are based on past stock characteristics as well as income growth and other factors. The following are the average assumptions used to value awards as of March 31, 2008:

	2007 Awards	2006 Awards
Dividend growth rate	0%	0%
Expected volatility	35.0%	35.0%
Risk-free interest rate	1.6%	1.9%
Expected life (from grant date)	2.7-3.0 years	3.9-5.0 years
Price of underlying stock at measurement date	$ 8.48	$ 8.48
Base share price	$ 8.28	$ 15.49

The expected volatility was based upon the historical volatility of our daily share closing prices. The risk-free interest rate used was based on a yield curve derived from U.S. Treasury zero-coupon bonds on the measurement date with a maturity equal to the market condition performance periods. The expected term is based on the derived service period, or expected time to vesting from the grant date, which is an output of the valuation model.

At each measurement date, the fair value of stock options is determined using the Black-Scholes option pricing model for options with service or performance conditions only. For options with market conditions, a discount is taken from such fair value based on the probability of achievement of the market condition, which is determined using a Monte Carlo method simulation similar to those described above for the restricted share awards. The following assumptions were used in determining the fair value of the May 2006 option grants as of March 31, 2008:

Exercise price	$ 17.75
Dividend yield	12.0%
Risk-free interest rate	2.51%-3.17%
Expected stock price volatility	35.0%
Expected remaining life	4.0-5.7 years

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The expected volatility was based upon the historical volatility of our daily share closing prices. The risk-free interest rate used was based on a yield curve derived from U.S. Treasury zero-coupon bonds on the date of grant with a maturity equal to the market condition performance periods. The expected life used was calculated using the simplified method in SAB 107.

Share-based payment compensation expense of $48 and $0.1 million was recognized during the three months ended March 31, 2008 and 2007, respectively, and is included as part of general and administrative expenses in the consolidated statement of operations. As of March 31, 2008, unrecognized compensation expense related to nonvested awards was $0.6 million to vest over the next 3.3 years. The total fair value of restricted shares and stock options vested during the three months ended March 31, 2008 was $0.2 million.

Summary information about the Company's stock options outstanding at March 31, 2008 is as follows:

	Options Outstanding	Weighted-Average Exercise Price	Average Remaining Contractual Term (Years)
Outstanding at January 1, 2008	150,000	$ —	—
Granted	—	$ 17.75	8.2
Exercised	—	$ —	—
Expired or forfeited	—	$ —	—
Outstanding at March 31, 2008	150,000	$ 17.75	8.2
Options exercisable at March 31, 2008	15,000		

16. SUBSEQUENT EVENTS

Real Estate Loan Repayments

Subsequent to March 31, 2008 and through May 9, 2008, the Company received $3.3 million of aggregate repayments on real estate loans.

Financing

On April 2, 2008, the Company sold its remaining 50% interest in the joint venture which owns twelve net leased real estate assets for $39.4 million which, approximates cost, and post sale no longer has any investment in net leased real estate assets.

Other

On May 6, 2008, the Company paid dividends of $7.7 million, or $0.30 per share of common stock, to shareholders of record on May 1, 2008.

In April 2008, Fitch Ratings announced a downgrade to the ratings of various bonds within CDO II. However, at May 9, 2008, our investments that serve as collateral for CDO II generally continue to perform consistently with original underwriting.

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

The following should be read in conjunction with the consolidated financial statements and notes included herein. Amounts are presented in thousands except for share and per share data and as otherwise noted.

General

JER Investors Trust Inc. is a specialty finance company organized by J.E. Robert Company primarily to originate and acquire real estate debt securities and loans and fee interests in net leased real estate assets. We were formed in April 2004 and we completed our initial public offering in July 2005. We are externally managed and advised by JER Commercial Debt Advisors LLC (our "manager"), an affiliate of J.E. Robert Company. J.E. Robert Company and its affiliates are a fully integrated real estate investment management firm. We capitalize on the knowledge and substantial resources of J.E. Robert Company and its affiliates to take advantage of the growing volume and complexity of commercial real estate structured finance products. We invest primarily in loans and debt securities that we believe will yield high risk-adjusted returns. Our target investments include commercial real estate structured finance products such as commercial mortgage backed securities (commonly known as CMBS), mezzanine loans and B-Note participations in mortgage loans, as well as whole commercial mortgage loans, loans to real estate companies, preferred equity, and net leased real estate. Although we have not to date, we may also invest in single-family residential mortgages and related securities. We pursue a selective investment strategy, targeting specific transactions based on an analysis of debt structure and taking into account the underlying real estate and borrower credit risk. We are organized and conduct our operations in a manner intended to qualify as a real estate investment trust, or REIT, for federal income tax purposes.

J.E. Robert Company was founded in 1981 to provide expertise to public and private financial institutions in resolving real estate loan workout situations. Since its founding, the firm has been active in all facets of the commercial real estate debt markets, including sourcing, due diligence, valuation, acquisition, asset management and disposition. J.E. Robert Company primarily conducts its real estate investment management activities on a global basis through a series of private equity funds, which we refer to as the JER Funds.

We are organized and conduct our operations to qualify as a REIT for Federal income tax purposes. As a REIT, among other restrictions and limitations, we will generally not be subject to Federal income tax on that portion of our income that is distributed to stockholders if we distribute at least 90% of our REIT taxable income to our stockholders by the due date of our federal income tax return and comply with various other requirements.

Trends

During the second half of 2007 and the first quarter of 2008, severe credit and liquidity issues in the subprime residential lending and single family housing sectors negatively impacted the asset-backed and corporate fixed income markets, as well as the equity securities of financial institutions, homebuilders and real estate companies. As the severity of residential sector issues increased, nearly all securities markets experienced decreased liquidity and greater risk premiums as concerns about the outlook for the U.S. and world economic growth increased. These concerns continue and risk premiums in many capital markets remain at or near all-time highs with liquidity extremely low compared to historical standards or virtually non-existent. As a result, most commercial real estate finance and financial services industry participants, including us, have reduced new investment activity until the capital markets become more stable, the macroeconomic outlook becomes clearer and market liquidity increases. In this environment, we are focused on actively managing credit risk and maintaining liquidity.

Credit Market and Spreads: The value of our real estate securities and loans are influenced by changes in spreads, which measure the yield demanded by the market on securities and loans relative to a specific benchmark, generally a risk free rate of return for a comparable term. Credit spreads applicable to our targeted investments will periodically fluctuate based on changes in supply and demand, the availability of financing for such investments and other market factors. We expect demand to vary based on investor perception of the associated credit risk in current underwriting practices, the adequacy of ratings provided by the rating agencies, the availability and terms of financing for such investments and investor assessment of the current and future real estate market fundamentals. Demand may be further influenced by investor expectations regarding the ability to finance these assets, currently or in the future. We generally expect that credit spreads will increase during periods of perceived higher credit risk and decline during periods of perceived lower credit risk, and increase during periods where financing is not readily available and decrease when financing is readily available.

CMBS Issuance and Valuation: While we expect that supply will vary from quarter to quarter, we expect the securitization market over the long-term to generally remain a key source of real estate lending capacity and liquidity. We believe the total issuance for CMBS, inclusive of non-investment grade securities, will be significantly less in 2008 than in recent years. In fact, in 2008 through March 31, 2008, only four CMBS transactions totaling $5.9 billion were priced. This compares to total first quarter 2007 issuances of approximately $79.4 billion. This is a direct result of the dramatic slowdown in the pace of lending by CMBS originators.

The slow down in originations has also resulted in a substantial reduction of new opportunities in the mezzanine, B-note mortgage loan, bridge loan, preferred equity and non-investment CMBS markets. As originations at traditional high leverage lenders decline and there is a reduction in the volume of real estate transactions generally, new investment opportunities in this sector have been reduced accordingly. We believe market supply will not increase significantly until stability in the real estate lending market returns.

Recently, significant disruptions in the global credit markets have had a substantial effect on market participants. These disruptions have led to, among other things, a significant decline in the fair value of many mortgage related investment securities, as well as a significant contraction in commercial paper and other short-term and long-term funding sources. As a result, many investment vehicles indicate difficulty valuing certain of their holdings as a result of market illiquidity.

During this period, we have seen a significant widening of credit spreads in both the subordinate CMBS market which includes bonds rated BB+ through NR classes, and in the investment grade tranches of BBB- and above. For example, the credit spread over applicable swap rates for typical BBB- CMBS new-issue bonds was estimated to exceed 1800 basis points as of March 31, 2008 compared to in excess of 900 basis points as of December 31, 2007 and approximately 95 basis points as of December 31, 2006. Additionally, we have seen widening of credit spreads on real estate loans, including B-Notes, mezzanine loans and whole loans. Given the current volatility in the capital markets, we cannot predict changes in the market value of collateral and potential margin call requirements, if any, under our repurchase agreement facilities.

Primarily as a result of such spread widening, we have had margin calls on our repurchase agreement facilities based upon fair market value determinations of the underlying collateral. During the three months ended March 31, 2008, such margin calls totaled $65.8 million, and there have been $17.4 million of margin calls subsequent to March 31, 2008 through May 9, 2008.

Competition: Over the long-term, we expect to face increased competition for our targeted investments. However, overall, we expect the market for these investments, as well as the continuing trend of tranching and further retranching commercial mortgage loans into new securities that are packaged and resold, will continue over the long term to provide us with a variety of investment opportunities. In the short to medium term, there are likely to be periods of growth and contraction in the market. However, over the long-term, we believe borrowers need a full range of financing opportunities to make acquisitions, particularly on larger assets where substantial equity commitments are required.

We believe that the overall subordinated debt market, which includes B-notes, mezzanine debt and preferred equity, has grown because purchasers of commercial real estate are increasingly using subordinated debt financing to reduce their required equity investment and to attain greater leverage on their equity. However, at the same time, over the long term, we believe that there is and will continue to be significant competition among providers of subordinated debt financing, which could result in declining interest rate spreads on B-note, mezzanine debt and preferred equity investments. There are also likely to be periods of growth and contraction in the market and significant changes in credit spreads and overall interest rates on B-notes, mezzanine debt and preferred equity investments. Finally, with an increase in competition for our targeted investments, we believe some lenders may be willing to accept relatively higher levels of risk with respect to the type of assets that collateralize the loans as well as the terms under which they are willing to lend monies. If we are unwilling to accept the relatively higher levels of risk associated with these loans, we may not be able to acquire or originate investments associated with such relatively higher risk loans. Alternatively, if we are willing to accept the relatively higher levels of risk associated with these loans and do acquire or originate investments that are associated with such loans, we may increase our overall risk of impairment and loss associated with such loans.

Rising Interest Rate and Financing Environment: We believe that interest rates are likely to increase over the long term and there are likely to be periods of significant fluctuation in interest rates. With respect to our existing and future floating rate investments, we believe such interest rate increases should result in increases in our net interest income. Similarly, we believe such an increase in interest rates should generally result in an increase in our net interest income on future fixed interest rate investments made by us. Conversely, in periods of rising interest rates, existing investments may be exposed to more credit risk due to potentially higher capitalization rates resulting in a possible decline in collateral property values potentially decreasing the proceeds from refinancing as well as the impact of higher debt service requirements for floating rate loans. Further, in periods of rising interest rates, prepayments on mortgage loans generally decrease, in which case we would not have the prepayment proceeds available to invest in assets with higher yields. With respect to our existing fixed rate investments, we believe our strategy of financing such assets through match-funded collateralized debt obligations ("CDOs"), combined with utilizing interest rate swaps prior to the execution of a CDO, allows us to mitigate potential reductions in net interest income. Nevertheless, depending upon market conditions, we may not be able to successfully match fund liabilities associated with our investments. Most recently, we have seen a significant widening of borrowing spreads and dramatic decreases in available leverage in the commercial real estate market and the related commercial real estate commercial debt obligations ("CRE CDOs") market such that the CMBS and CDO markets are effectively closed for new issuances. The current state of the CMBS and CRE CDO markets could have a negative impact on our leveraged returns and our ability to successfully match fund liabilities associated with our investments.

Issuances of Common Stock

In June 2004, we sold 11,500,000 shares of common stock in a private placement offering for net proceeds of approximately $160.1 million. Additionally, we issued 335,000 shares of common stock to our manager and an aggregate of 6,000 shares of restricted common stock to our independent directors pursuant to our Nonqualified Stock Option and Incentive Plan (the "Plan") at the time of the closing of the private placement. In July 2004, when James Kimsey and Frank Caufield joined our Board of Directors, we issued each of them 2,000 additional shares of restricted common stock pursuant to the Plan.

In July 2005, the Securities and Exchange Commission ("SEC") declared effective our registration statement on Form S-11 (No. 333-122802) (the "Registration Statement") relating to (a) our initial public offering (the "IPO") of up to 13,832,025 shares of common stock, including 1,832,025 shares of common stock pursuant to an over-allotment option granted to the underwriters and (b) the offering by selling stockholders of 213,499 shares of common stock through the underwriters. On July 19, 2005, we issued a total of 12,000,000 shares of common stock in the IPO, at a price to the public of $17.75 per share. We did not receive any proceeds from the sale by the selling stockholders of 213,499 shares of common stock, at a price to the public of $17.75 per share.

In August 2005, the underwriters exercised their option to purchase an additional 1,832,025 shares of common stock at $17.75 to cover over-allotments. The net proceeds to us on the sale of 12,000,000 shares in the IPO and the 1,832,025 pursuant to the over-allotment option was $226.4 million after deducting the underwriting discount and offering expenses. The net proceeds of the IPO were primarily used to pay down indebtedness.

During 2007, we granted 137,000 shares of restricted stock to certain officers and employees of an affiliate of our manager, of which 3,000 shares have been forfeited. In May 2006, we granted Mark Weiss, our president, 60,000 shares of restricted stock and 150,000 stock options on our common stock. As of March 31, 2008, we had a total of 25,901,035 shares of common stock issued and outstanding. As of March 31, 2008, we had granted an aggregate of 40,000 shares of restricted stock to our independent directors.

Critical Accounting Policies

Our most critical accounting policies relate to investment consolidation, revenue recognition, securities valuation and impairment, loan loss provisions, derivative accounting and income taxes. Each of these items involves estimates that require management to make judgments that are subjective in nature. We rely on J.E. Robert Company and its affiliates' experience and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates. Under different conditions, we could report materially different amounts using these critical accounting policies.

Investment Consolidation. For each investment we make, we evaluate the underlying entity that issued the securities we acquired or to which we made a loan in order to determine the appropriate accounting. We refer to guidance in SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* and FIN 46(R), *Consolidation of Variable Interest Entities*, in performing our analysis. FIN 46(R) addresses the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which voting rights are not effective in identifying an investor with a controlling financial interest. An entity is considered a variable interest entity ("VIE") and subject to consolidation under FIN 46(R) if the investors either do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, are unable to direct the entity's activities, or are not exposed to the entity's losses or entitled to its residual returns. Variable interest entities within the scope of FIN 46(R) are required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, its expected returns, or both.

Our ownership of the subordinated classes of CMBS from a single issuer gives us the right to control the foreclosure/workout process on the underlying loans ("Controlling Class CMBS"). FIN 46(R) 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 of its transferor(s) or other involved parties, including the manner in which certain servicing activities are performed. To the extent our CMBS investments were issued by a trust that meets the requirements to be considered a QSPE, we record the investments at the purchase price paid. To the extent the underlying trusts are not QSPEs, we follow the guidance set forth in FIN 46(R) as the trusts would be considered VIEs.

We have analyzed the governing pooling and servicing agreements for each of our subordinated class CMBS investments and believe the terms are consistent with industry standards and 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. Future guidance from the standard setters may require us to consolidate CMBS trusts in which we have invested. In April 2008, the FASB voted to issue an exposure draft in the near future which may propose significant changes to SFAS No. 140. We will closely monitor any developments in this area and assess the impact on any such amendments to our financial statements.

The non-investment grade and unrated tranches of the CMBS owned by us provide credit support to the more senior classes of the related commercial securitizations. Cash flow from the underlying mortgages is generally allocated first to the senior tranches, with the most senior tranches having a priority right to the cash flow. Any remaining cash flow is allocated, generally, among the other tranches in order of their relative seniority. To the extent there are defaults and unrecoverable losses on the underlying mortgages resulting in reduced cash flows, the remaining CMBS classes will bear such losses in order of their relative subordination.

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The table below details information about our CMBS investments, including the purchase date, the face amount of the total CMBS issuance, the original face amount of our CMBS investments, and the amortized cost of our CMBS investments as of March 31, 2008 and December 31, 2007:

	Investment		Original Face	Amortized Cost[(1)] as of	
		Total Face Amount	Amount of	March 31,	December 31,
CMBS Trust	Date	of CMBS Issuance	Investment	2008	2007
MACH One 2004-1	July 2004	$ 643,261	$ 50,637	$ 12,843	$ 19,672
CSFB 1998-C1	August 2004	2,482,942	12,500	9,051	9,565
CSFB 2004-C4	November 2004	1,138,077	52,976	11,763	22,575
MLMT 2004-BPC1	November 2004	1,242,650	76,986	14,925	26,174
JPMCC 2004-C3	December 2004	1,517,410	81,561	20,095	35,800
JPMCC 2005-CIBC11	March 2005	1,800,969	70,035	17,327	33,761
BACM 2005	April 2005	2,322,091	84,663	25,919	41,630
LB UBS 2005-C2	April 2005	1,942,131	7,000	2,391	4,328
CSFB 2005-C2	May 2005	1,614,084	82,261	22,253	37,695
LB UBS 2005-C3	June 2005	2,060,632	39,335	8,469	17,626
JPMCC 2005-CIBC12	July 2005	2,167,039	70,429	15,516	33,793
JPMCC 2005-LDP4	September 2005	2,677,075	90,352	23,597	48,731
MSCI 2005-IQ10	October 2005	1,546,863	55,274	14,225	30,694
MLMT 2005 CK11	December 2005	3,073,749	96,066	28,333	51,689
MSC 2006 HQ8	March 2006	2,731,231	105,707	32,770	62,181
JPMCC 2006-CIBC15	June 2006	2,118,303	71,493	16,980	37,436
CGCMT 2006-C4	June 2006	2,263,536	84,395	23,139	50,759
MSCI 2006- HQ9	August 2006	2,565,238	81,338	20,687	48,577
MLMT 2006- C2	August 2006	1,542,697	60,067	18,148	38,249
JPMCC 2006- LDP8	September 2006	3,066,028	107,158	29,035	64,231
CD 2006- CD3	October 2006	3,571,361	110,713	26,317	62,616
MSCI 2007- HQ11	February 2007	2,417,647	89,530	26,149	58,401
GCCFC 2007- GG9	March 2007	6,575,924	34,167	12,100	31,061
JPMCC 2007- LDP10	March 2007	5,331,517	151,616	42,111	85,343
WAMU 2007- SL3	June 2007	1,284,473	6,500	3,097	5,746
JPMCC 2007- LDP12	August 2007	2,310,556	81,402	19,948	39,554
Total		$ 62,007,484	$ 1,854,161	$ 497,188	$ 997,887

(1) The decline in amortized cost from December 31, 2007 to March 31, 2008 is due primarily to recognition of unrealized losses at December 31, 2007 of $280.5 million and increases to unrealized losses during the three months ended March 31, 2008, which, in total, reduced the cost basis by $500.7 million.

Our maximum exposure to loss as a result of our investment in these securities totaled $497.2 million and $997.9 million as of March 31, 2008 and December 31, 2007, respectively. However, we have reduced our maximum economic loss exposure through the use of non-recourse and partial recourse financing vehicles for these investments.

The financing structures we offer to our borrowers on certain of our loans involve the creation of entities that could be deemed VIEs and, therefore, could be subject to FIN 46(R). We have evaluated these entities and have concluded that none of them are VIEs that are subject to consolidation under FIN 46(R).

In April 2007, we created a trust subsidiary for the purpose of issuing trust preferred securities. The trust is considered a VIE under FIN 46(R) and it was determined that the Company is not the primary beneficiary of the trust. Accordingly, the trust is accounted for using the equity method of accounting. See *Liquidity and Capital Resources- Junior Subordinated Debentures* for additional information.

In October 2007, we sold a 50% interest in the entity that owns all twelve of our net leased real estate assets, forming a joint venture with an unrelated third party. The joint venture is not considered a VIE under FIN 46(R) and we account for our investment in the joint venture under the equity method of accounting.

In December 2007, we entered into an agreement to invest up to $10.0 million into a fund, defined as the JER US Debt Co-Investment Vehicle, L.P. (the "US Debt Fund"), established to buy loans secured, directly or indirectly, by real estate, including B-Notes, mezzanine loans and whole mortgage loans, and also in preferred equity, CMBS and CMBS-related products such as CMBX and credit default swaps. Excluded investments for the US Debt Fund include non-performing loans, fee-simple ownership interests, single family residential mortgages and related securities (sub-prime, conforming, jumbo or Alt-A), whole loans originated directly by us or an affiliate of our Manager and net leased real estate assets. The US Debt Fund is not considered a VIE under FIN 46(R). Accordingly, the US Debt Fund is accounted for using the equity method of accounting.

Although the entity that owns the net leased real estate assets and the US Debt Fund are not VIE's under FIN 46(R), we determined that these entities should not be consolidated under EITF 04-5 given the rights afforded to the other partners in those entities.

We determine if our real estate loans should be accounted for as loans, real estate investments or equity method joint ventures in accordance with AICPA Practice Bulletin No. 1 on acquisition, development or construction ("ADC") arrangements. To date, we have accounted for all of our arrangements as loans based on the guidance set forth in the Practice Bulletin.

We acquire participating interests in commercial real estate first mortgage loans and mezzanine loans. When we initially invest in loan participations, they are evaluated under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, to determine whether the participation interest meets the definition of a debt security. To the extent a given loan participation meets the definition of a debt security, the participation will be accounted for according to the guidance in SFAS No. 115. Those loan participations that do not meet the definition of a debt security are accounted for as loans, and are initially recorded at the purchase price, which is generally at or near par value, and are carried on the balance sheet at amortized cost. To date, the Company has determined that none of the participation interests acquired met the definition of a debt security. See additional information regarding loan accounting and revenue recognition below under *Revenue Recognition*.

In accordance with SFAS No. 65, *Accounting for Certain Mortgage Banking Activities*, real estate loans that may sell for general corporate liquidity purposes are classified as loans held for sale. Real estate loans available for sale are carried at the lower of cost or market value, on an individual loan basis, using available market information obtained through consultation with dealers or other originators of such investments.

Fair Value Election. We adopted SFAS No. 159 on January 1, 2008 and elected, the fair value option ("FVO") for all financial assets and liabilities related to our CDO I and CDO II financings. We have not elected the FVO for any financial assets or liabilities acquired during the first quarter of 2008, but may elect the elect the FVO for future acquisitions and financings. The assets and liabilities include:

- CMBS investments pledged as collateral for CDOs
- Real estate loans pledged as collateral for CDOs, which currently represents real estate loans held for investment
- CDO notes payable
- CDO interest rate swaps

Upon adoption of SFAS 159 on January 1, 2008, all assets and liabilities for which the FVO was elected were marked to fair value with the adjustment recorded to beginning cumulative earnings as of the election date. For CMBS assets and interest rate swaps, the amounts accumulated in other comprehensive income as of January 1, 2008 were reclassified to beginning cumulative earnings. Additionally, as a result of electing the FVO for our CDO notes payable, the related unamortized deferred financing fees were charged against cumulative earnings as of January 1, 2008.

Fair Value Measurements - The use of fair value to measure many of our financial assets and liabilities, with certain changes in fair value reported in the consolidated statement of operations and/or shareholders equity, is one of our most critical accounting policies. Specifically, we carry our CMBS, real estate loans held for sale and investment, interest rate swap agreements and notes payable at fair value on either a recurring or non-recurring basis with unrealized fair value changes reported either in earnings or accumulated other comprehensive income / (loss) depending on the nature of the asset or liability and its related accounting treatment. In determining the appropriate fair value measurement for each of our assets and liabilities, we apply the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements,* which we adopted effective January 1, 2008.

SFAS No. 157, *Fair Value Measurements,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants.

SFAS No. 157 establishes a fair value hierarchy which prioritizes the inputs into valuation techniques used to measure fair value. The hierarchy prioritizes observable data from active markets, placing measurements using those inputs in Level 1 of the fair value hierarchy, and gives the lowest priority to unobservable inputs and classifies these as Level 3 measurements. The three levels of the fair value hierarchy under SFAS No. 157 are described below:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable either directly or indirectly;
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measurement. Therefore, even when market assumptions are not readily available, management's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

In accordance with SFAS No. 157, it is our policy to maximize the use of observable market based inputs to value our financial instruments carried at fair value on a recurring basis or to determine whether an adjustment to fair value is needed for assets carried at fair value on a non-recurring basis. All of our financial instruments carried at fair value, whether on a recurring or non-recurring basis, are valued using internal assumptions and are therefore classified as Level 3 within the SFAS No. 157 hierarchy.

The estimations of fair values reflect our best judgments regarding the appropriate valuation methods and assumptions that market participants would use in determining fair value. The selection of a method to estimate fair value for each type of financial instrument depends on the reliability and availability of relevant market data. The amount of judgment involved in estimating the fair value of a financial instrument is affected by a number of factors, such as the type of instrument, the liquidity of the markets for the instrument and the contractual characteristics of the instrument. Judgments in these cases include, but are not limited to:

- Selection of third-party market data sources;
- Evaluation of the expected reliability of the estimate; and,
- Selection of proxy instruments, as necessary.

For financial instruments that are actively traded in the marketplace or whose values are based on readily available market value data and therefore fall within either Level 1 or Level 2 within the SFAS No. 157 hierarchy, little, if any, subjectivity is applied when determining the instrument's fair value. Whether a financial instrument is classified as Level 1 or Level 2 will depend largely on its similarity with other financial instruments in the marketplace and our ability to obtain corroborative data regarding whether the market in which the financial instrument trades is active.

When observable market prices and data do not exist, significant management judgment is necessary to estimate fair value. In those cases, small changes in assumptions could result in significant changes in valuation. The financial instruments we hold that require the most complex judgments and assumptions relate to our CMBS investments, real estate loans held for sale and investment, interest rate swaps and notes payable all of which are classified as Level 3. The fair value of CMBS is determined by management based on discounted cash flow models which utilize prepayment and loss assumptions based upon historical experience, economic factors and forecasts and the characteristics of the underlying cash flows. Management determines the applicable discount rates based on current credit spreads as reflected in information provided by issuers of the securities, comparable deals purchased or traded in the marketplace, if available, the CMBX indices and other derivative trading markets and market interest rates. In addition, management validates its fair value estimates with information from dealers who make markets in these securities as well as lenders on our repurchase agreement facilities. The determination of future cash flows and the appropriate discount rate is inherently subjective and actual results may vary significantly from management's estimates. For our CMBS investments designated as available for sale, when the market values are less than amortized cost for an extended period, we consider whether other than temporary impairment exists in the values of the securities. If other than temporary impairment exists, the cost basis of the securities are written down to the then-current fair values, and the unrealized losses are reflected as an immediate reduction of current earnings. The determination of other than temporary impairment is a subjective process, and different judgments and assumptions could affect the timing of loss recognition.

We consider the following factors when determining other than temporary impairment for a security: (i) the length of time and the extent to which the market value has been less than the amortized cost, (ii) the underlying fundamentals of the relevant market, including indicators of credit deterioration, and the outlook for such market for the near future, and (iii) our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in market value. The Company also follows the impairment guidance in FASB Staff Position (FSP) FAS 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" and SEC Staff Accounting Bulletin No. 59 (SAB 59), Accounting for Noncurrent Marketable Equity Securities. In accordance with the applicable impairment literature, when the fair value of an available for sale security is less than its amortized cost for an extended period, the Company considers whether there is an other than temporary impairment in the value of the security. In the future, if our liquidity needs change, it may impact our ability and intent to hold certain investments.

For liabilities carried at fair value, we generally derive value using pricing obtained from independent broker/dealers familiar with the securities to determine the fair value. The brokers/dealers typically either supply us with a bid - ask range or we derive it based on information supplied from the broker/dealers and record our liabilities at fair value using the mid-point within the bid-ask range. Given the lack of market observable information, we have determined that recording our CDO notes payable at the mid point in the bid - ask range is reasonable.

Because of the inherent uncertainty of determining the fair value of assets and liabilities carried at fair value where there is no readily ascertainable market value, the fair values of the assets and liabilities may differ significantly from the values that would have been used had a ready market existed for the instruments, and the differences could be material.

As of March 31, 2008, of the financial assets and liabilities carried at fair value, all were classified as Level 3 under the valuation hierarchy outlined in SFAS No. 157.

Revenue Recognition. The most significant source of our revenue comes from interest income on our CMBS and real estate loan investments. Interest income on real estate loans and CMBS investments is recognized over the life of the investment using the effective interest method. Mortgage loans will generally be originated or purchased at or near par value and interest income will be recognized based on the contractual terms of the debt instrument. Any discounts or premiums on purchased loans and loan fees or acquisition costs on originated loans will be deferred and recognized over the term of the loan as an adjustment to yield in accordance with SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*. Any unamortized balance of purchased premiums or discounts and loan origination costs are included as a part of the cost basis of the asset. Exit fees received from prepayments of loans are recognized in the current period and included in interest income. Interest income on CMBS is recognized by the effective interest method as required by EITF 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*. Under EITF 99-20, management estimates, at the time of purchase, the future expected cash flows and determines the effective interest rate based on these estimated cash flows and our purchase prices. Subsequent to the purchase and on a quarterly basis, these estimated cash flows are updated and a revised yield is calculated based on the current amortized cost of the investment. In estimating these cash flows, there are a number of assumptions that are subject to uncertainties and contingencies. These include the rate and timing of principal payments (including prepayments, repurchases, defaults and liquidations), the pass through or coupon rate and interest rate fluctuations. In addition, interest payment shortfalls due to delinquencies on the underlying mortgage loans, and the timing of and magnitude of credit losses on the mortgage loans underlying the securities have to be judgmentally estimated. These uncertainties and contingencies are difficult to predict and are subject to future events that may impact management's estimates and our interest income. As a result, actual results may differ significantly from these estimates.

For our CMBS investments not financed by our CDOs, when the net present value of current period estimates of future cash flows are lower than the net present value of the previous period estimates, as adjusted for principal and loan payments, and the current estimated fair value is less than an asset's carrying value, we will write down the asset to the current estimated fair market value and record an other than temporary impairment through a charge to current period earnings. After taking into account the effect of the impairment charge, future income is recognized using the market yield for the security used in establishing the current fair market value.

Equity in the income or loss of unconsolidated joint ventures is recorded based on the equity method of accounting. We allocate income to equity participants based on the terms of the respective partnership agreements upon an assumed liquidation of the joint venture at its depreciated book value as of the end of the reporting period.

Lease income from leased real estate assets is recognized on a straight-line basis over the terms of the lease in accordance with SFAS No. 13. During the three months ended March 31, 2008 and 2007, $0.4 million, respectively, of rent recognized as income in excess of amounts contractually due pursuant to the underlying leases was included in lease income from real estate assets.

Accounting Treatment for an Investment Acquired from and Financed with a Repurchase Agreement from the Same Counterparty. We have considered an interpretation of GAAP relating to the treatment of transactions where investments acquired by us from a particular counterparty are simultaneously or subsequently financed via a repurchase agreement with that same counterparty or an affiliate thereof. We have recorded such transactions as a sale of the investment to us and such related debt provided to us as a financing. An alternative interpretation of GAAP, however, concerns whether such investments should be treated net of the amount financed, or as a derivative. Over the past two years, we have made several investments that may be affected by such alternative interpretation. In the three months ended September 30, 2007, we acquired $39.9 million of subordinate CMBS and financed $25.3 million of the purchase via an existing repurchase agreement with the seller. In the three months ended March 31, 2007, we acquired a first mortgage loan participation investment from a counterparty for $35.0 million and concurrent with closing, the same counterparty provided financing of $29.8 million via an existing repurchase agreement. In the three months ended June 30, 2006, we acquired four mezzanine loans from a counterparty and in September 2006 financed these same four mezzanine loans through an existing repurchase agreement with the seller. The repurchase agreement provided by the counterparty was fully repaid in October 2006 in connection with CDO II. In February 2008, effective December 15, 2008, the FASB issued FSP No. 140-3, "Accounting for Transfers of

Financial Assets and Repurchase Financing Transactions" which provides additional guidance with respect to this issue. As of March 31, 2008, $28.7 million of borrowings were outstanding with these counterparties related to a cost basis of the two related investments of $39.9 million, each of which are carried on the consolidated balance sheet at the estimated fair value of approximately $39.0 million as of March 31, 2008. As a result, the alternative accounting treatment would reduce total assets and liabilities by $28.7 million and reported net income for the three months ended March 31, 2008 increased by $8.5 million, and for the year ended December 31, 2007 decreased by $9.4 million. Future adoption of FSP 140-3 may require us to adjust the accounting for these assets in which we have invested.

Loan Loss Provisions. We purchase and originate commercial real estate mortgage and mezzanine loans to be held as long-term investments. The loans are evaluated for possible impairment on a quarterly basis. In accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, impairment occurs when it is deemed probable we will not be able to collect all amounts due according to the contractual terms of the loan. Impairment is then measured based on the present value of expected future cash flows or the fair value of the collateral, if the loan is collateral dependent. Upon measurement of impairment, we will establish a reserve for loan losses and a corresponding charge to earnings through the provision for loan losses. Significant judgments are required in determining impairment, which includes making assumptions regarding the value of the loan, the value of the real estate or partnership interests that secure the loan, and any other applicable provisions, including guarantees and cross-collateralization features, if any.

In accordance with the criteria established in SFAS No. 13, *Accounting for Leases*, we have evaluated each lease agreement related to the net leased real estate assets more fully described in Note 6. We accounted for this lease as an operating lease under SFAS No. 13 from inception through October 30, 2007 at which time we sold a 50% interest in the entity that owns all twelve net leased real estate assets as more fully discussed above in "Our Investments-Net Leased Real Estate Assets."

Derivative Accounting. We account for our derivative and hedging activities, using SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which requires all derivative instruments to be carried at fair value on the consolidated balance sheets.

We formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking each hedge transaction and how ineffectiveness of the hedging instrument, if any, will be measured. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. We periodically review the effectiveness of each hedging transaction, which involves estimating future cash flows. Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheets as either an asset or liability, with a corresponding amount, adjusted for swap payments, recorded in accumulated other comprehensive income (loss) within stockholders' equity. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges under SFAS No. 133. As of March 31, 2008 and December 31, 2007, we had no fair value hedges.

In connection with the adoption of SFAS No. 159 on January 1, 2008, we discontinued hedge accounting for our swaps related to our CDO I and II financings, representing $496.3 million of notional balance as of March 31, 2008. The changes in the fair market value of these cash flow hedges from January 1, 2008 have been reflected in other gains (losses) in the consolidated statement of operations. The $21.7 million of fair value related to these swaps reflected in accumulated other comprehensive income as of December 31, 2007 will be amortized into the consolidated statement of operations over the remaining life of the cash flow hedge, and expenses of $0.6 million were recognized during the three months ended March 31, 2008.

During the first quarter of 2008, we determined that four interest rate swaps, aggregating $211.0 million in notional balance, intended to hedge anticipated future and current floating rate financings were no longer effective as such future long-term financings not considered probable at this time due to continued market disruptions. As a result, we recorded a charge of $15.6 million and reflected the change in market value during the three months ending March 31, 2008 of these interest rate swaps in unrealized loss on non-CDO interest rate swap agreements in the consolidated statement of operations. We recorded this charge as a result of uncertainty related to our ability to obtain future long-term match funded financing due to continued market disruptions as well as the potential for sales of certain real estate loans held for sale which would ideally be financed by such borrowings. As of March 31, 2008 the combined fair value of the four interest rate swaps was $(15.5) million.

Income Taxes. We operate in a manner that we believe will allow us to be taxed as a REIT and, as a result, we do not expect to pay substantial corporate-level income taxes. Many of the requirements for REIT qualification, however, are highly technical and complex. If we were to fail to meet these requirements and do not qualify for certain statutory relief provisions, we would be subject to Federal income tax, which could have a material adverse effect on our results of operations and amounts available for distributions to our stockholders.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48"). FIN 48 prescribes how we should recognize, measure and present in our financial statements uncertain tax positions that have been taken or are expected to be taken in a tax return. Pursuant to FIN 48, we can recognize a tax benefit only if it is "more likely than not" that a particular tax position will be sustained upon examination or audit. To the extent the "more likely than not" standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement.

We are subject to U.S. Federal income tax as well as income tax of multiple state and local jurisdictions but, as a REIT, we are generally not subject to income tax on net income distributed as dividends to shareholders. As required, we adopted FIN 48 effective January 1, 2007 and have concluded that there is no effect on our consolidated financial statements. Accordingly, we did not record a cumulative effect adjustment related to the adoption of FIN 48.

The 2004 through 2006 tax years remain subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in its general and administrative expense on its consolidated statements of operations. There were no penalties related to uncertain tax positions for all periods prior to December 31, 2007.

New Accounting Standards. In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. SFAS No. 157 establishes a hierarchy that prioritizes the information used in developing fair value estimates. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity's own data or assumptions of market participants. SFAS No. 157 requires fair value measurements to be disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and was adopted by us on January 1, 2008. Under SFAS No. 157, valuations of assets and liabilities must reflect the value of the instrument including the values associated with credit risk. Consequently, we must value our derivative liabilities taking into account our credit risk and thus including in the valuation of the derivative instrument the value of the net credit differential between the counterparties to the derivative contract. Effective January 1, 2008, we updated our methodology for derivatives to calculate the impact of both the counterparty and our own credit standing which had the impact of reducing the aggregate value of our derivative liabilities by $9.8 million as of March 31, 2008. The fair value of the derivative liability is determined under SFAS 157 as the price that would be paid to transfer the liability to a market participant with the same credit risk as the Company. However, if the Company were to terminate or settle all of its derivative liabilities with its counter parties, the amount due as of March 31, 2008 was $67.2 million.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities—Including an Amendment of SFAS No. 115.* SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We elected the fair value option for all financial assets and liabilities associated with our CDO I and CDO II financings. The impact of adopting SFAS No. 159 increased stockholders' equity by approximately $246 million as of January 1, 2008, which can be attributed to an increase in retained earnings of approximately $20 million and an increase in accumulated other comprehensive loss of approximately $226 million. The primary reason we selected the fair value option for all assets and liabilities associated with our CDO I and CDO II financings was to propose a consistent balance sheet presentation of the fair value of both assets and liabilities associated with the CDO financings. We have not elected the fair value option for any financial assets or liabilities acquired or incurred during the first quarter of 2008 but may elect the fair value option in the future.

The table below reconciles retained earnings as a result of the Company's election of the FVO pursuant to SFAS No. 159:

	Carrying Value Prior to Adoption	Impact on Cumulative Earnings	Carrying Value After Adoption
Assets			
Real estate loans	$ 273,485	$ (9,311)	$ 264,174
CDO deferred financing fees	13,011	(13,011)	—
Liabilities			
CDO notes payable	974,578	(268,401)	706,177
Cumulative effect of adoption on stockholders' equity at January 1, 2008		246,079	
Reduction of cumulative earnings due to CMBS fair value adjustment reclassified from other comprehensive income		(225,991)	
Cumulative effect on cumulative retained earnings, January 1, 2008		$ 20,088	

In June 2007, AICPA Statement of Position 07-1, "Clarification of the Scope of the Audit and Accounting Guide: Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" ("SOP 07-1") was issued. SOP 07-1 provides specific conditions for determining whether an entity is within the scope of the Guide. Additionally, for those entities that are investment companies under SOP 07-1, additional guidance is provided regarding the retention of specialized investment company industry accounting by a parent company in consolidation or by an investor that has the ability to exercise significant influence over the investment company and applies the equity method of accounting to its investment in the entity.

In October 2007 and again in February 2008, the FASB voted to indefinitely defer the effective date of SOP 07-1 until they can reassess its provisions. Early adoption of the SOP is not permitted for entities that had not already adopted the standard as of the first deferral date. Accordingly, at this time, it is not possible to determine what impact, if any, SOP 07-1 will have on our financial statements.

In December 2007, the FASB issued SFAS 141(R), "Business Combinations" (SFAS 141(R)). This Statement replaces SFAS 141, "Business Combinations", and requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141(R) also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141(R)). In addition, SFAS 141(R)'s requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. SFAS 141(R) amends SFAS No. 109, "Accounting for Income Taxes", to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. It also amends SFAS 142, "Goodwill and Other Intangible Assets", to, among other things, provide guidance on the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are currently assessing the potential impact that the adoption of SFAS 141(R) could have on our financial statements.

In December 2007, the FASB issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). SFAS 160 amends Accounting Research Bulletin 51, "Consolidated Financial Statements", to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008. We are currently assessing the potential impact that the adoption of SFAS 160 could have on our financial statements.

In February 2008, the FASB issued Staff Position No. 140-3, or FSP No. 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions." FSP No. 140-3 provides guidance on the accounting for a purchase of a financial asset from a counterparty and contemporaneous financing of the acquisition through repurchase agreements with the same counterparty. Under this guidance, the purchase and related financing are linked, unless all of the following conditions are met at the inception of the transaction: 1) the purchase and corresponding financing are not contractually contingent; 2) the repurchase financing provides recourse; 3) the financial asset and repurchase financing are readily obtainable in the marketplace and are executed at market rates; and 4) the maturity of financial asset and repurchase are not conterminous. A linked transaction would require a determination under SFAS No. 140 to conclude if the transaction meets the requirements for sale accounting. If the linked transaction does not meet sale accounting requirements, the net investment in the linked transaction is to be recorded as a derivative with the corresponding change in fair value of the derivative being recorded through earnings. The value of the derivative would reflect changes in the value of the underlying debt investments and changes in the value of the underlying credit provided by the counterparty. We currently present these transactions gross, with the acquisition of the financial assets in total assets and the related repurchase agreements as financing in total liabilities on the consolidated balance sheets and the interest income earned on the debt investments and interest expense incurred on the repurchase obligations are reported gross on the consolidated income statements. FSP No. 140-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008. We are currently evaluating the effect, if any, that this pronouncement will have on its future financial position or results of operations.

In March, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. This statement provides for enhanced disclosures about how and why an entity uses derivatives and how and where those derivatives and related hedged items are reported in the entity's financial statements. The statement is effective for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact of SFAS No. 161 on its financial position, results of operations and financial disclosures.

Balance Sheet Review

As of March 31, 2008, total assets were approximately $1.0 billion, a decrease of $359.8 million, or 26.1%, from December 31, 2007. The decline in total assets was primarily due to continued spread widening on our CMBS and real estate loan investments which reduced the fair value of these investments. Income earning assets decreased by $347.1 million, or 25.7%, from $1.3 billion at December 31, 2007. The decline in amortized cost from December 31, 2007 to March 31, 2008 is due primarily to recognition of unrealized losses at December 31, 2007 of $280.5 million and increases to unrealized loss during the three months ended March 31, 2008, which, in total, reduced the cost basis by $500.7 million. At March 31, 2008, income earning assets, including cash, had a weighted average yield of 13.0%, based on their amortized cost, compared to 8.2% at December 31, 2007.

The level of investment related income is directly related to the balance of the interest-bearing assets, net leased real estate assets and investments in unconsolidated subsidiaries outstanding during the period and the weighted average yields on such investments. The cost basis of interest-bearing, net leased real estate assets and investments in unconsolidated subsidiaries related and weighted average yields (based on case basis) at March 31, 2008 and December 31, 2007 were as follows:

	March 31, 2008[(1)]		December 31, 2007	
	Cost	Yield	Cost	Yield
CMBS financed by CDOs	388,146	20.0%	$ 788,047	8.6%
CMBS not financed by CDOs	109,041	20.3%	209,840	9.0%
Real estate loans, held for investment	274,777	5.7%	274,777	7.9%
Real estate loans, held for sale	231,443	6.9%	235,465	7.1%
Investments in unconsolidated joint ventures	40,853	13.7%	40,764	13.8%
Total	$ 1,044,260	13.1%	$ 1,548,893	8.4%

(1) After effect of recording unrealized losses and other than temporary impairment on CMBS as further discussed below.

During the three months ended March 31, 2008, we made no investments in CMBS investments.

At March 31, 2008, we held investments in CMBS issued by 25 separate CMBS trusts and one Re-Remic issuance with an aggregate estimated fair value of $497.2 million. The amortized cost basis of our investments in CMBS was $497.2 million with a weighted average yield of 20.0%. At March 31, 2008, the weighted average expected life of our CMBS investments was 9.5 years. The weighted average yield on our CMBS assets increased significantly as of March 31, 2008 compared to December 31, 2007 as a result of recording an other than temporary impairment charge in the first quarter and reducing the cost basis to estimated fair value on all of our CMBS assets. While the cost basis was reduced to estimated fair value, we do not expect significant changes in estimated cash flows generated from these assets, therefore resulting in significantly higher yields as calculated based on revised cost basis. Our decision to record other than temporary impairment was driven primarily by the duration and extent of unrealized losses on the CMBS assets due to the significant increases in spreads in the last year, and primarily in the last 3 quarters.

During the three months ended March 31, 2008, we made no investments in real estate loans. During this period we also received repayments of $4.1 million related to outstanding principal balances on certain real estate loan investments.

At March 31, 2008, we had seven loans classified as held for sale for purposes of providing potential additional liquidity with an amortized cost basis of $231.4 million, a carrying value based on the estimated fair value of $189.2 million and a weighted average interest rate of 6.9%. Three of the loans with an amortized cost basis of $168.0 million and a carrying value of $128.9 million bear interest at fixed rates with a weighted average interest rate of 5.8% while four of the loans have an amortized cost of $71.6 million and a carrying value of $51.5 million bear interest at floating rates with a weighted average interest rate of LIBOR plus 340 basis points. At March 31, 2008, we had nine loans financed by our CDOs classified as held for investment with an amortized cost basis of $274.8 million, a carrying value of $260.6 million and all of which bear interest at floating rates with a weighted average interest rate of 5.7%. Our yields on these loans have not changed as significantly as the yields on CMBS assets because these loans are not considered impaired and therefore, the cost basis is not reduced to fair value. While we record these loans on our balance sheet at lower of cost or market, we follow the impairment model under SFAS 114 "*Accounting by Creditors for Impairment of a Loan an amendment of FASB Statements No. 5 and 15*" and therefore only record impairment charges on these loans if it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We currently expected to collect all amounts contractually due from these loans.

At March 31, 2008, we had $40.9 million of investments in unconsolidated joint ventures consisting of $39.4 million in a joint venture that owns net leased assets and $1.5 million in the US Debt Fund. In April 2008, we sold the remaining 50% interest in our investments in the joint venture at cost.

At March 31, 2008, total liabilities were $760.4 million, a decrease of $605.0 million, or 44.3%, from December 31, 2007. The decrease in total liabilities was driven by the adoption of SFAS No. 159 where we elected the FVO for our CDO notes payable, which reduced the carrying amount by $535.1 million from December 31, 2007, reduced borrowings on repurchase agreements and reduced dividends payable compared to December 31, 2007. At March 31, 2008, the Company had interest-bearing liabilities with a fair value of $697.4 million, a cost basis of $1.2 billion with a weighted average borrowing cost of 4.1% based on cost basis.

At March 31, 2008, we were party to three repurchase agreements with three counterparties that provide for total borrowing capacity of $425 million although borrowing capacity is limited to assets available to be pledged based on the underlying characteristics of such assets. Based on pledged assets, we had no additional borrowing capacity at March 31, 2008. At March 31, 2008, we had $196.1 million outstanding under these agreements. The weighted average borrowing cost for repurchase agreement debt outstanding at March 31, 2008 was 4.4%.

At March 31, 2008, we had CDO notes payable outstanding from two separate issuances. Our CDOs are financing vehicles for our assets and, as such, are consolidated on our balance sheet with CDO notes payable a fair value of $439.5 million and a cost basis of $974.6 million, representing the amortized sales price of the securities sold to third parties. However, we expect that these liabilities will be settled at cost when they mature. The weighted average interest rate of the bonds, including the amortization of debt issuance costs was 3.8% at March 31, 2008. Of the $974.6 million of face amount of bonds outstanding, $780.6 million were floating rate with a weighted average interest rate of LIBOR plus 59 basis points while $194.0 million were fixed rate with a weighted average interest rate of 6.0%.

On April 9, 2007, we issued $61.9 million of junior subordinated debentures to a subsidiary to fund existing and future investment activities and other working capital needs. We also invested $1.9 million in the common equity of such subsidiary. On April 9, 2007, we issued $60.0 million of trust preferred securities through a subsidiary, JERIT TS Statutory Trust I. The trust preferred securities and the junior subordinated debentures have a 30-year term ending April 2037, are redeemable at par on or after April 2012 and pay distributions at a fixed rate of 7.2%, excluding amortization of fees and expenses, for the first five years through April 2012, and, thereafter, at a floating rate of three month LIBOR plus 225 basis points, excluding amortization of fees and expenses. Net cash proceeds from this financing transaction were $59.1 million. We incurred $1.0 million of debt issuance costs, which were deferred and are amortized on an effective yield basis over the life of the junior subordinated debentures. Unamortized debt issuance costs of $1.0 million are included as a component of deferred financing fees on the consolidated balance sheet at March 31, 2008.

At March 31, 2008, we were party to eight interest rate swaps with a total current notional amount of $707.3 million at March 31, 2008. These interest rate swaps effectively convert floating rate debt to fixed rate debt. Under these swaps, we receive a rate equal to LIBOR and pay a weighted average rate of 5.1%. The net fair value of the interest rate swaps at March 31, 2008 was a liability of $57.4 million and is included as a component of interest rate swap agreements, fair value on the consolidated balance sheets.

At March 31, 2008, total stockholders' equity was $256.0 million, an increase of $245.2 million from December 31, 2007. The increase in stockholders' equity was primarily due to the adoption of SFAS No. 159 which increased stockholders' equity by $246.1 million as of January 1, 2008.

At March 31, 2008, 25,901,035 shares of common stock were issued and outstanding, including 172,750 shares of unvested restricted stock.

Results of Operations

Comparison of the three months ended March 31, 2008 and 2007 (in millions)

Net loss was $66.8 million, or $(2.60) per diluted share, during the three months ended March 31, 2008 compared to net income of and $9.8 million, or $0.38 per diluted share, for the three months ended March 31, 2007, respectively.

Revenues

The following table sets forth information regarding the total amount and composition of our revenues, which are primarily interest income earned from our investments and cash positions and lease income on our net leased real estate assets (in thousands):

	For the three months ended March 31, 2008	For the three months ended March 31, 2007	Increase (decrease)
REVENUES			
Interest income from CMBS	$ 21,452	$ 17,823	$ 3,629
Interest income from real estate loans	8,886	8,749	137
Interest income from cash and cash equivalents	422	1,987	(1,565)
Lease income from real estate assets	—	1,372	(1,372)
Equity in earnings of unconsolidated joint ventures	933	—	933
Fee income	97	—	97
Total Revenues	$ 31,790	$ 29,931	$ 1,859

The increase in revenues during the three months ended March 31, 2008 compared to the three months ended March 31, 2007 is primarily due to increased balances of interest-bearing assets due to acquisitions of CMBS and real estate loans offset, in part, by lower interest income on cash due to reduced cash balances, on average, and lower levels of income and equity in earnings from unconsolidated joint ventures, net. For the three months ended March 31, 2008, $25.3 million was earned on fixed rate investments, while the remaining $6.5 million was earned on floating rate investments, compared to $20.7 million and $9.2 million for the same period in 2007, respectively. We classify income from floating rate investments as that which is tied to a published index, e.g. LIBOR. At March 31, 2008, our floating rate investments included a cost basis of $338.2 million in real estate loans, $12.7 million in cash and cash equivalents and $1.1 million in restricted cash primarily related to the remaining CDO II loan replenishment pool. For the three months ended March 31, 2008, interest income earned during the three months ended March 31, 2008 on CMBS and real estate loan investments acquired during the three months ended March 31, 2007 increased $2.6 million and $2.1 million, respectively, due to the timing of acquisitions and repayments on our mezzanine loans. In addition, interest income earned during the three months ended March 31, 2008 on CMBS and real estate loan investments purchased in 2007 subsequent to March 31, 2007 was $1.0 million and $1.5 million, respectively. Interest income for the three months ended March 31, 2008 on real estate loan investments purchased in prior periods decreased $2.3 million due to mezzanine loan repayments as well as a $1.0 million aggregate reduction in interest income from real estate loans related to lower average LIBOR rates and amortization of premiums and discounts. During the three months ended March 31, 2008, investments in unconsolidated joint ventures provided $1.1 million in income from our investments in the Charter Schools joint ventures and $(0.2) million in income from our investment in the US Debt Fund, which is included in the $25.3 million earned on fixed rate investments during the period. Also, for the three months ended March 31, 2008, fee income from our investments in unconsolidated joint ventures of $0.1 million is included in the $25.3 million earned on fixed rate investments during the period. Equity in earnings from consolidated joint ventures income also includes $0.4 million in non-cash straight-line rental income for the three months ended March 31, 2008 while $0.4 million of non-cash straight-line rental income is included in lease income for the three months ended March 31, 2007 pursuant to SFAS No. 13.

Expenses

The following table sets forth information regarding the amount and composition of our expenses (in thousands):

	For the Three Months Ended March 31, 2008	For the Three Months Ended March 31, 2007	Increase (decrease)
Interest expense	$ 15,415	$ 15,631	$ (216)
Management fees, affiliate	1,827	1,855	(28)
Incentive fees, affiliate	—	152	(152)
Depreciation on real estate assets	—	206	(206)
General and administrative	1,980	2,280	(300)
Total Expenses	$ 19,222	$ 20,124	$ (902)

Interest Expense. Interest expense was $15.4 million and $15.6 million for the three months ended March 31, 2008 and 2007, respectively. Interest expense for the three months ended March 31, 2008 consisted primarily of $4.0 million on CDO I, which closed in November 2005, $7.2 million on CDO II, which closed in October 2006, $2.9 million on repurchase agreements, $1.1 million on our junior subordinated debentures, which were issued in April 2007, $0.2 million of amortization of deferred financing fees related to repurchase agreements. The $15.6 million of interest expense for the three months ended March 31, 2007 was comprised primarily of $4.4 million related to CDO I which closed in November 2005, $10.0 million related to CDO II which closed in October 2006, $1.0 million on repurchase agreements, $0.4 million of amortization of deferred financing fees related to our repurchase agreements and deferred debt issue costs related to our CDOs and $0.1 million related to the amortization of swap termination costs. Due to the adoption of SFAS No. 159, effective January 1, 2008, interest expense related to our CDO I and II interest rate swaps is recorded in other gains (losses) for the three months March 31, 2008. During the three months ended March 31, 2007, interest expense includes $(0.3) million of interest expense related to our CDO I and CDO II interest rate swaps. After adjusting for this, the decrease in interest expense is primarily related to lower LIBOR rates in 2008 compared to 2007, offset, in part by increased average balances outstanding on repurchase agreements in the three months ended March 31, 2008 and our April 2007 issuance of trust preferred securities.

As a result of no longer applying hedge accounting for our interest rate swaps pursuant to SFAS No. 133, interest expense may fluctuate in the future. However, this fluctuation will be offset in other gains (losses) as these interest rate swaps still act as economic hedges of variable interest rate debt.

The following table sets forth information regarding the total composition amount of interest expense, which is primarily interest expense related to our CDOs and repurchase agreements (in thousands):

	For the Three Months Ended March 31, 2008	For the Three Months Ended March 31, 2007	Increase (decrease)
CDO II	$ 7,249	$ 9,985	$ (2,736)
CDO I	3,983	4,418	(435)
Repurchase agreements	2,878	1,023	1,855
Junior subordinated debentures	1,086	—	1,086
Amortization of deferred financing fees	218	442	(224)
Amortization of swap termination loss (gain)	—	95	(95)
Total interest expense	$ 15,415	$ 15,631	$ (216)
Interest rate swap expense of CDO I and CDO II	$ —	$ (332)	$ 332

Management and Incentive Fees. Base management fees are calculated as a percentage of stockholders' equity adjusted to exclude the effect of any unrealized gains and losses or other items that do not affect realized net income. Our manager is also entitled to receive quarterly incentive fees equal to 25% of our Funds From Operations (as defined in the management agreement), or FFO, in excess of minimum FFO targets (as defined in the management agreement). The following table summarizes our management fees for the three months ended March 31, 2008 and 2007 (in thousands):

	For the Year Ended March 31, 2008	For the Year Ended March 31, 2007	Increase (decrease)
Base management fees	$ 1,827	$ 1,855	$ (28)
Incentive fees	—	152	(152)
Total management fees	$ 1,827	$ 2,007	$ (180)

The decrease in management fees is primarily due to decreases in incentive fees for the three months ended March 31, 2008 compared to 2007 due to FFO exceeding the minimum thresholds defined in the management agreement during the same period in 2007 whereas the minimum thresholds were not achieved in 2008.

Depreciation on Real Estate Assets. For the three months ending March 31, 2008, we did not record any depreciation expense as we accounted for our investment in the joint venture that owns the real estate assets under the equity method of accounting. During the three months ended March 31, 2007, prior to entering into the joint venture and when we owned 100% of the real estate assets, depreciation expense was approximately $0.2 million and included in the consolidated statements of operations

General and Administrative Expense. The decrease in general and administrative expenses of $0.3 million for the three months ended March 31, 2008 versus the same period in 2007 was due primarily to lower due diligence costs offset, in part, by higher legal and professional services expenses. Specifically, due diligence fees decreased $0.6 million primarily due to lower CMBS and real estate loan acquisition volume as we did not acquire any new investments in the three months ended March 31, 2008 while legal and professional services expenses increased $0.3 million primarily due to legal fees, external audit, Sarbanes-Oxley compliance, valuation services and general consulting services. Included in general and administrative expenses are additional affiliate expenses related to overhead and out-of-pocket expense reimbursements to our manager aggregating $0.1 million in each of the three months ended March 31, 2008 and 2007.

Our management agreement also provides that we are required to reimburse our manager for certain general and administrative expenses incurred by our manager on our behalf, including our pro rata share of overhead expenses of the manager required for our operations. In November 2006, effective retroactively to January 1, 2006, the independent members of the board of directors approved an amendment to the management agreement to provide that in 2007, and in each calendar year thereafter, subject to approval by the independent members of the board of directors, the allocable overhead reimbursement will be $0.5 million multiplied by the sum of (a) one plus (b) the percentage increase in the Consumer Price Index (the "CPI") for the applicable year over the CPI for the calendar year 2006. For each of the three months March 31, 2008 and 2007, overhead reimbursements were approximately $0.1 million, respectively. Our manager may also be paid or reimbursed for the costs of providing other services that outside professionals or consultants otherwise would provide on our behalf. If such services are provided by the manager, the reimbursement for such services will be no greater than what management believes would be paid to outside professionals, consultants, or other third parties on an arm's length basis. In accordance with the provisions of our management agreement, we incurred reimbursements for overhead and other services provided by our manager of $0.2 million and $0.1 million for the three months ended March 31, 2008 and 2007, respectively.

Other Gains (Losses). The following table sets forth information regarding the amount and composition of our other gains (losses) during the three months ended March 31, 2008 (in thousands):

		Composition of Other Gains (Losses)			
	Amount	Changes in Fair Value for Three Months ended March 31, 2008	Recognition of Amounts in Accumulated Other Comprehensive Income (Loss) as of December 31, 2007	Cash Payments on Interest Rate Swaps	Other
Other Gains and Losses for the Three Months Ended March 31, 2008					
Unrealized loss on financial assets financed with CDOs					
CMBS	$ (174,761)	$ (174,761)	$ —	$ —	$ —
Real estate loans held for investment	(4,908)	(4,908)	—	—	—
Unrealized gain, net, on CDO related financial liabilities					
Notes payable	266,652	266,652	—	—	—
Interest rate swaps	(20,078)	(20,078)	—	—	—
Loss on interest rate swaps	(2,775)	—	(696)	(2,079)	—
Loss on impairment of CMBS	(99,579)	(45,123)	(54,456)	—	—
Unrealized loss on real estate loans held for sale	(28,368)	(28,368)	—	—	—
Unrealized loss on non-CDO interest rate swaps	(15,600)	(4,225)	(10,796)	—	(579)
Total other gain (loss) for three months ended March 31, 2008	$ (79,417)	$ (10,811)	$ (65,948)	$ (2,079)	$ (579)

Unrealized Gain on CDO Financial Assets and Liabilities: For the three months ended March 31, 2008, we recorded a $66.9 million unrealized gain, net, related to the fair value election of CDO related financial assets and liabilities pursuant to SFAS No. 159.

Loss on Impairment of CMBS. Our valuation and income recognition processes involves estimating loss adjusted cash flows over the expected term of the securities and determining an effective yield to maturity based on those cash flow estimates. For CMBS, if there is an adverse change in the net present value of projected cash flows from those estimated in the previous period, and the fair value of the security is below its amortized cost basis, we will reduce the amortized cost basis to fair value, pursuant to EITF 99-20. For assets in which we did not elect the FVO, this would result in an other than temporary impairment charge on the consolidated statement of operations. During the three months ended March 31, 2008 and March 31, 2007, we recorded other than temporary non-cash impairment charges related to its CMBS investments of $99.6 million and $0, respectively. The 2008 other than temporary impairment charges include a $2.1 million charge related to declines in the projected net present value of future cash flows pursuant to EITF 99-20. Additionally, we reforecasted the timing of collection of interest shortfalls of approximately $1.8 million that we projected to receive during the first quarter of 2008. These interest shortfalls are associated with individual loans within the CMBS pools and in some cases the shortfalls are expected to be fully recovered at the time of the resolution of the loan. For loans that are expected to incur losses upon resolution, the shortfall amounts have been incorporated into the forecasted loss amounts which are included in our cash flow projections for each respective bond. The bonds associated with these shortfalls were in an unrealized loss position of $6.4 million as of the end of the first quarter before recognizing the $99.6 million other than temporary impairment charge reflected in the consolidated statement of operations. The remaining non-cash CMBS impairment charge of $97.5 million relates to other than temporary declines in fair value which is due to widening of credit spreads for CMBS investments which began in the first half of 2007 and accelerated throughout the first quarter of 2008, resulting in both increased severity of the level of unrealized losses as well as increased duration of such losses.

As a result of the write-down in value of our CMBS assets financed by CDOs due to adoption of FVO and the write-down in value of our CMBS assets not financed by CDOs due to other than temporary impairment, the overall costs basis has been reduced to reflect the current estimated fair value with a corresponding increase in the yield on such CMBS investments. Accordingly, the weighted average yields on CMBS assets have increased from 8,7% at December 31, 2007 to 20.0% at March 31, 2008, due to a reduction in cost basis, without a corresponding reduction in projected future cash flows which are generally consistent with original underwriting. For example, according to information received from the master servicer, delinquency rates on collateral for our CMBS portfolio in which we own the first-loss position remain at low levels with a 60 day delinquency rate of approximately 32 basis points. As a result, we have no securities in an unrealized loss position at March 31, 2008.

Unrealized Loss on Loans Held for Sale. As of March 31, 2008, seven of our real estate loans with a cost basis of $231.4 million are classified as available for sale in order to provide additional potential sources of liquidity to us. Pursuant to SFAS No. 65, we carry such real estate loans on our consolidated balance sheet at the lower of cost or fair value, and as a result, during the three months ended March 31, 2008, we recorded charges related to increases in unrealized losses on such loans since December 31, 2008 aggregating $28.4 million.

Unrealized Loss on Non-CDO Interest Rate Swaps. During the first quarter of 2008, we determined that four interest rate swaps, aggregating $211.0 million in notional balance, intended to hedge anticipated future and current floating rate financings were no longer effective as such future long-term financings not considered probable at this time due to continued market disruptions. As a result, we recorded a charge of $15.6 million and reflected the change in market value during the three months ending March 31, 2008 of these interest rate swaps in unrealized loss on non-CDO interest rate swap agreements in the consolidated statement of operations. We recorded this charge as a result of uncertainty related to the Company's ability to obtain future long-term match funded financing due to continued market disruptions as well as the potential for sales of certain real estate loans held for sale which would ideally be financed by such borrowings. As of March 31, 2008 the combined fair value of the four interest rate swaps was $(15.5) million.

Liquidity and Capital Resources

At March 31, 2008, our liquidity position consisted of unrestricted cash balances of $12.7 million and restricted cash of $1.2 million. During the three months ended March 31, 2008, we funded margin calls aggregating $65.8 million. Such margin calls consisted of $44.9 million related to declines in estimated fair values of collateral and $20.9 million related to lower advance rates on collateral. Subsequent to March 31, 2008 through May 9, 2008, we funded additional margin calls of $17.4 million consisting of $5.5 million related to changes in the estimated market value of collateral and $11.9 million related to lower advance rates on repurchase agreements. As of May 9, 2008, our unrestricted cash balance increased by $20.1 million to $32.8 primarily due to proceeds from the sale or our remaining 50% interest is the Charter Schools joint venture, repayments of real estate loans and operating cash flow totaling $5.8 million, offset, in part, by margin calls and payment of our Q1 2008 dividend of $7.7 million.

As reflected in our consolidated statements of cash flows for the three months ended March 31, 2008, net cash provided by operating activities was $11.5 million.

The Company continues to seek means to create additional liquidity in this turbulent market environment including classifying seven of its real estate loan investments as held for sale in order to provide additional potential sources of liquidity for general corporate purposes including debt repayment and acquisitions, among other uses, as well as extending and/or replacing certain of its repurchase agreement facilities and evaluating other potential financing and capital raise options. We cannot provide any assurances that these plans individually or collectively will be accomplished.

Liquidity is a measurement of the ability to meet cash requirements, including ongoing commitments to repay borrowings, fund and maintain loans and investments, pay dividends and other general business needs. Our principal sources of working capital and funds for additional investments primarily include: 1) cash flow from operations; 2) borrowings under our repurchase and credit facilities; 3) our CDO offerings; 4) other forms of financing or additional securitizations including CMBS or subsequent CDO offerings; 5) proceeds from common or preferred equity offerings and, 6) the proceeds from principal payments on or sales of our investments. We believe these sources of financing will be sufficient to meet our short-term liquidity needs. However, the general market availability of short-term repurchase agreement financing for CMBS and real estate loan positions has declined during the second half of 2007 and continued into 2008. This combined with the decline in estimated fair value of such CMBS and real estate loan investments due to spread widening has resulted in significant margin calls on our repurchase agreements during the second half of 2007 and the first quarter of 2008. Historically, our initial borrowings have been short-term, variable rate debt; however, we have financed and over time expect to continue to finance the majority of our assets on a long-term basis through match-funded CDO strategies. Our CDO strategy is dependent upon our ability to place the match-funded debt we intend to create in the market at attractive borrowing spreads. If spreads for CDO liabilities widen or if demand for such liabilities ceases to exist, then our ability to execute the CDO strategy will be severely restricted. At this time, the CDO market is essentially closed and as a result, extending the term of our short term financing facilities is very important to financing certain of our investments. We expect that our cash flow provided by operations, proceeds from select asset sales, loan repayments and our current and anticipated financings will satisfy our liquidity needs over the next twelve months.

Currently, the market for short-term credit facilities is very challenging and many lenders are actively seeking to reduce their balances outstanding by lowering advance rates on financed assets and increased borrowing costs, to the extent such facilities continue to be available. In the event we are unable to maintain existing and/or secure new lines of credit or collateralized financing on favorable terms, our ability to successfully implement our investment strategy may be significantly impacted and returns to investors may be reduced. Although we anticipate extending and/or replacing our short-term financing facilities, in the event our current short-term credit facilities are not extended or extended with lower advance rates on collateral, we may be required to sell assets to payoff such facilities which would likely reduce our earnings and operating cash flow.

We expect to meet our long-term liquidity requirements, specifically the repayment of debt and our investment funding needs, through additional borrowings, the issuance of debt and equity securities and the sales or refinancing of our assets at maturity. We believe the value of these assets is, and will continue to be, sufficient to repay our debt at maturity under either scenario. Our ability to meet our long-term liquidity requirements may be subject to obtaining additional equity and debt financing. Decisions by investors and lenders to enter into transactions with us will depend upon a number of factors, such as our historical and projected financial performance, compliance with the terms of our current credit arrangements, industry and market trends, the availability of capital and our investors' and lenders' policies and rates applicable thereto, and the relative attractiveness of alternative investment or lending opportunities.

Equity Issuances. The initial public offering completed in July 2005 generated proceeds to us of $226.4 million after deducting the underwriting discount and offering expenses. The net proceeds of the IPO were primarily used to pay down indebtedness under our repurchase agreements described below.

Borrowings. As of May 7, 2008, March 31, 2008 and December 31, 2007, repurchase agreement borrowings consisted of the following:

	Amount		
	May 7, 2008	March 31, 2008	December 31, 2007
Secured by CMBS			
Bear Stearns	$ 15,918	$ 18,002	$ 77,350
JP Morgan	35,288	35,288	18,759
Secured by real estate loans			
Goldman Sachs	127,404	142,768	165,755
	$ 178,610	$ 196,058	$ 261,864

Each of the repurchase agreement facilities is subject to margin calls based on fair market value determinations of the underlying collateral.

In August 2007 and as subsequently amended in September 2007 and March 2008, we and one of our wholly owned subsidiaries, respectively, entered into a repurchase agreement with JPMorgan Chase Bank, N.A. (the "JPMorgan Facility"). This repurchase agreement provides financing up to $250.0 million to be secured by rated and unrated CMBS and various types of real estate loans and is scheduled to terminate on August 22, 2008. This repurchase agreement provides for a series of extension options subject to approval by both parties that could extend its term through August 24, 2010. This repurchase agreement is limited recourse (25% of the outstanding balance) to us. As of March 31, 2008, $35.3 million was outstanding under the repurchase agreement at a weighted average borrowing rate of 4.0%, and CMBS investments with an estimated fair value of $63.3 million were pledged as collateral under this repurchase agreement.

In March 2007, we and one of our wholly-owned subsidiaries, respectively, entered into a repurchase agreement with Liquid Funding, an affiliate of Bear Stearns & Co. Inc. which was subsequently amended in June 2007, with an available borrowing capacity of $150.0 million (the "Liquid Funding Facility"). In connection with the June 2007 amendments, we entered into a guaranty agreement with Liquid Funding. In March 2008, the Liquid Funding Facility was replaced by a new repurchase agreement with Bear Stearns (the "Bear Stearns Facility") that provides available borrowing capacity of $25.0 million and matures in September 2008. At March 31, 2008, $18.0 million was outstanding under the Bear Stearns Facility at a weighted average borrowing rate of 4.2% and CMBS investments with an estimated fair value of $35.3 million were pledged as collateral under this repurchase agreement.

In September 2006, one of our wholly owned subsidiaries entered into a repurchase agreement with Goldman Sachs Mortgage Company ("Goldman Sachs Facility"), which was subsequently amended in September 2007 and March 2008. The repurchase agreement provides financing of up to $150.0 million secured by various types of real estate loans is scheduled to terminate at July 1, 2008. The facility has five remaining three-month extension options which can extend the facility to October 1, 2009. If we decide to exercise an extension option, we will be required to pay a fee on each extension. As part of the March 2008 amendment, we exercised the first extension option, paid an extension fee and paid down the facility by $11.9 million in April 2008. The facility allowed us to borrow against eligible loan collateral and is fully recourse to us. At March 31, 2008, there was $142.8 million outstanding under the repurchase agreement at a weighted average borrowing rate of 4.5% and real estate loans with a cost basis of $228.2 million and a carrying value of $186.0 million were pledged as collateral under this repurchase agreement.

If we are unable to extend these repurchase agreements, we may be required to liquidate assets to pay down the outstanding borrowings.

Collateralized Debt Obligations. On October 17, 2006, we issued our second CDO, or CDO II, through two of our wholly-owned subsidiaries, JER CRE CDO 2006-2, Limited and JER CRE CDO 2006-2, LLC, collectively known as CDO II. CDO II is secured by $1.2 billion par value of collateral interests consisting of CMBS, mezzanine loan interests, first mortgage loan interests, Re-REMIC securities, and real estate CDO securities. CDO II issued privately placed notes totaling $768.4 million rated AAA through BBB- ("CDO II Investment Grade Notes"). The Company purchased a portion of the CDO II Investment Grade Notes and retained all of the non-investment grade notes and preferred shares. $708.3 million of CDO II Investment Grade Notes were issued to third parties consisting of $47.0 million of fixed rate notes with a weighted average interest rate of 5.8% and $661.3 million of floating rate notes with a weighted average interest rate of LIBOR plus 62 basis points, excluding amortization of fees and expenses. The CDO II Investment Grade Notes have a remaining expected average maturity of 7.7 years at March 31, 2008. CDO II included a ramp facility of approximately $230.9 million dedicated to finance additional collateral interests, as well as a replenishment collateral pool of up to $275.0 million that will allow replenishment of proceeds of real estate loans that are paid off within five years from the closing of the transaction, subject to the replenishment collateral meeting certain criteria outlined in the CDO II indenture. We incurred $10.5 million of debt issuance costs, which were deferred and amortized on an effective yield basis over the life of CDO II through December 31, 2007. Pursuant to the adoption of SFAS No. 159, such deferred debt issuance costs were written off and are part of the cumulative transition adjustment related to adopting SFAS No. 159. Unamortized debt issuance costs of $0 million and $9.5 million are included as a component of deferred financing fees on the consolidated balance sheet at March 31, 2008 and December 31, 2007, respectively. During the three months ended March 31, 2008, we contributed no CMBS or real estate loan interests as collateral to CDO II and received no mezzanine loan repayments on CDO II collateral. At March 31, 2008, the available replenishment pool balance was $1.1 million, which is reflected as restricted cash on our consolidated balance sheets.

On January 16, 2008, Fitch Ratings announced that it had revised its surveillance review methodology for U.S. CMBS B-piece resecuritizations and placed 188 tranches from 18 transactions on Rating Watch Negative, including 14 tranches within CDO II that were previously rated by Fitch Ratings. In April 2008, Fitch Ratings announced a downgrade to the rating of these bonds. However, at this time, our investments that serve as collateral for CDO II generally continue to perform consistently with original underwriting.

In November 2005, we issued our first CDO, or CDO I, through two of our wholly-owned subsidiaries, JER CRE CDO 2005-1, Limited and JER CRE CDO 2005-1, LLC. CDO I is secured by a static pool of $418.7 million par value of fixed rate subordinate CMBS. CDO I issued privately placed notes totaling $275.6 million rated AAA through BBB- ("CDO I Investment Grade Notes"). We retained a portion of the BBB- rated notes, all of the non-investment grade notes and all of the preferred shares. Two of the CDO I Investment Grade Notes, totaling $119.2 million, were issued with floating rate coupons with a weighted average interest rate of LIBOR plus 39 basis points, excluding amortization of fees and expenses. The remaining CDO I Investment Grade Notes totaling $147.0 million, net of the portion retained by the Company, were issued with fixed rate coupons with a weighted average interest rate of 6.0%, excluding amortization of fees and expenses. The Investment Grade Notes have a remaining expected average maturity of 7.4 years at March 31, 2008. The Company incurred $4.3 million of debt issuance costs, which were deferred and are amortized on an effective yield basis over the life of CDO I through December 31, 2007. Pursuant to the adoption of SFAS No. 159, such deferred debt issuance costs were written off and are part of the cumulative transition adjustment related to adopting SFAS No. 159. Unamortized debt issuance costs of $0 and $3.5 million were included in deferred financing fees on our consolidated balance sheets at March 31, 2008 and December 31, 2007, respectively.

The terms of both of our CDOs include coverage tests, including over-collateralization and interest coverage tests, used primarily to determine whether and to what extent principal and interest proceeds on the underlying collateral debt securities and other assets may be used to pay principal of and interest on the subordinate classes of bonds in the applicable CDO. In the event the coverage tests are not satisfied, interest and principal that would otherwise be payable on the subordinate classes may be re-directed to pay principal on the senior bond classes. Therefore, failure to satisfy the coverage tests could adversely affect cash flows received by us from the CDOs and thereby our liquidity and operating results. As of March 31, 2008, none of the collateral debt securities or other assets in the applicable CDOs is in a condition that would cause expedited amortization.

Junior Subordinated Debentures. On April 9, 2007, we issued $60.0 million of trust preferred securities through our unconsolidated subsidiary, JERIT TS Statutory Trust I (the "Trust"), in a private transaction exempt from registration under the Securities Act of 1933, as amended. Concurrently, we issued $61.9 million in junior subordinated debentures to the Trust and made a $1.9 million common equity investment in the Trust. The trust preferred securities have a 30-year term ending April 2037, are redeemable at par on or after April 30, 2012 and pay distributions at a fixed rate of 7.2%, excluding amortization of fees and expenses, for the first five years ending April 2012, and, thereafter, at a floating rate of three month LIBOR plus 225 basis points, excluding amortization of fees and expenses. The assets of the Trust consist solely of the $61.9 million of junior subordinated notes concurrently issued by us, with terms that mirror the trust preferred securities. We incurred $1.0 million of debt issuance costs, which were deferred and are amortized on an effective yield basis over the life of the junior subordinated debentures. Unamortized debt issuance costs of $1.0 million are included as a component of deferred financing fees on the consolidated balance sheet at March 31, 2008 and December 31, 2007, respectively.

Our interest in the Trust is accounted for using the equity method and the assets and liabilities are not consolidated into our financial statements due to our determination that the Trust is a variable interest entity under FIN46(R) and that we are not the primary beneficiary of the entity. Interest on the junior subordinated debentures, net of interest income on our common equity interest in the Trust, is included in interest expense on our consolidated income statements while the junior subordinated debentures are presented as a liability on our consolidated balance sheet

If we default in the payment of interest or principal on any debt, breach any representation or warranty in connection with any borrowing or violate any covenant in any loan document, our lender may accelerate the maturity of such debt, requiring us to immediately repay all outstanding principal. If we are unable to make such payments, our lender could force us to sell our securities or foreclose on our assets pledged as collateral to such lender. The lender could also force us into bankruptcy or bring other legal action against us. Any of these events would likely have a material adverse effect on the value of an investment in our common stock. At March 31, 2008, we were in compliance with all covenants and requirements under our repurchase agreements, collateralized debt obligations, and junior subordinated debentures.

Dividends. In order to qualify as a REIT and to avoid corporate level tax on the income we distribute to our stockholders, we are required to distribute at least 90% of our ordinary taxable income and net capital gains on an annual basis. Certain of our investments, such as the subordinate CMBS investments, may generate substantial mismatches between taxable income and GAAP net income and cash flow. In order to meet the requirement to distribute a substantial portion of our net taxable income, we may need to borrow, sell assets or raise additional equity capital. Additionally, we will need to raise additional capital that may be dilutive or sell existing assets in order to acquire additional investments. We anticipate borrowing funds and/or raising additional equity capital to finance future investment activities, but there can be no assurance that we will be able to do so on terms acceptable or available to us, if at all.

We intend to make regular quarterly distributions to the holders of our common stock however historical dividends may not be representative of future dividends. Such regular quarterly dividends generally approximate the operating cash flow results from our activities. Special dividends generally approximate our taxable income in excess of our operating cash flow results. The following table summarizes our quarterly distributions in 2008 and 2007:

Quarter	Dividend Type	Record Date	Declaration Date	Payment Date	Amount
First Quarter 2008	Regular	5/1/2008	4/18/2008	5/6/2008	$ 0.30
					$ 0.30
First Quarter 2007	Regular	3/30/2007	3/14/2007	4/30/2007	$ 0.44
Second Quarter 2007	Regular	6/29/2007	6/13/2007	7/31/2007	0.45
Third Quarter 2007	Regular	9/28/2007	9/13/2007	10/31/2007	0.45
Fourth Quarter 2007	Regular	12/28/2007	12/12/2007	1/30/2008	0.45
Fourth Quarter 2007	Special	12/28/2007	12/12/2007	1/30/2008	0.65
					$ 2.44

Total dividends declared in 2007 exceeded GAAP net income by $39.9 million and operating cash flow by $18.2 million. For tax purposes, all dividends declared in 2007 were considered ordinary income.

Inflation. We believe that the risk of increases in the market interest rates as a result of inflation on any floating rate debt that we may invest in will be largely offset by our use of match funded financing which may include interest rate derivatives.

Contractual Obligations. Purchase commitments and aggregate principal maturities of our repurchase agreements and notes payable at March 31, 2008 was as follows:

	Principal Balance at March 31, 2008	Weighted Avg. Interest Rate at December 31, 2007	Maturity Dates of Obligations
Purchase commitments	$ 8,409	—	1
Repurchase agreements	$ 196,059	4.4%	2
Notes payable	$ 974,578	3.8%	3
Junior subordinated debentures	$ 61,860	7.2%	4

1 Maturity date represents the end of the Investment Period for the U.S. Debt Fund. The timing and amount of capital calls are determined as necessary by the General Partner.

2 All repurchase agreements as of December 31, 2007 are scheduled to terminate at the earlier of (a) the closing by the Company of its third collateralized debt obligation transaction or (b) July 1, 2009, (Goldman Sachs) although five 3-month extension options exist which cound extend the maturity to October 1, 2009, August 22, 2008 (JP Morgan) or September 12, 2008 (Bear Stearns).

3 The maturity dates of the notes payable are contingent upon maturity of assets pledged as collateral and have a remaining expected average maturity of 7.4 years and 7.7 years for CDO I and CDO II, respectively, as of March 31, 2008

4 The junior subordinated debentures have a 30-year term ending April 2037, are redeemable at par on or after April 30, 2012 and pay distributions at a fixed rate of 7.2%, excluding amortization of fees and expenses for the first five years ending April 2012, and, thereafter, at a floating rate of three month LIBOR plus 2.25%, excluding amortization of fees and expenses.

Related Party Transactions

Under the management agreement, our manager may engage J.E. Robert Company or its affiliates to perform certain legal, accounting, due diligence, asset management, securitization, property management, brokerage, loan servicing, leasing and other services that outside professionals or outside consultants otherwise would perform on our behalf. J.E. Robert Company and its affiliates may be reimbursed or paid for the cost of performing such tasks, provided that such costs and reimbursements are no greater than those that would be paid to outside professionals or consultants on an arm's-length basis. Our manager is reimbursed for any expenses incurred in contracting with third parties. In addition, our manager is responsible for all employment compensation of J.E. Robert Company personnel who perform services for us pursuant to the management agreement.

Under the management agreement and subject to the supervision and direction of the our board of directors, the manager performs services for us including the purchase, sale and management of real estate and other real estate-related assets, our day-to-day management and the performance of certain administrative duties. For performing these services, we pay the manager a monthly base management fee in arrears equal to 1/12 of the sum of (i) 2.0% of the first $400 million of our equity, (ii) 1.5% of equity in excess of $400 million and up to $800 million and (iii) 1.25% of equity in excess of $800 million. For purposes of calculating the base management fee, our equity equals the month-end value, computed in accordance with generally accepted accounting principles, of our stockholders' equity, adjusted to exclude the effect of any unrealized gains, losses or other items that do not affect realized net income. The J.E. Robert Company uses such proceeds, in part, to compensate officers and employees provided to us by J.E. Robert Company through our manager who, notwithstanding that certain of them also are our officers, receive no cash compensation directly from us. We have in the past and may continue in the future, however, to award grants pursuant to the Incentive Plan to such officers and employees as well as officers and employees of J.E. Robert Company subject to the discretion of our compensation committee and approval by our board of directors.

In addition, the manager is entitled to receive a quarterly incentive fee in an amount, not less than zero, equal to the product of (i) 25% of the dollar amount by which (a) our funds from operations (as defined in the management agreement) for such quarter per share of Common Stock (based on the weighted average number of shares outstanding for such quarter) exceeds (b) an amount equal to (A) the weighted average of the price per share of Common Stock in the 144A Offering, and the prices per share of Common Stock in any subsequent offerings by the Company multiplied by (B) the greater of (1) 2.25% and (2) 0.875% plus one fourth of the ten-year U.S. treasury rate for such quarter, multiplied by (ii) the weighted average number of shares of Common Stock outstanding during such quarter. Funds From Operations, as defined in the management agreement, is net income (computed in accordance with generally accepted accounting principles) before incentive compensation and including base management fees, excluding gains or losses from debt restructuring and sales of property, plus depreciation and amortization on real estate assets, and after adjustments for unconsolidated partnerships and joint ventures.

The following table summarizes our management and incentive fees for the three months ended March 31, 2008 and 2007, respectively.

	For the Year Ended March 31, 2008	For the Year Ended March 31, 2007	Increase (decrease)
Base management fees	$ 1,827	$ 1,855	$ (28)
Incentive fees	—	152	(152)
Total management fees	$ 1,827	$ 2,007	$ (180)

At March 31, 2008 and December 31, 2007, $0.6 million and $1.2 million, respectively, related to unpaid base management fees are included in due to affiliate in the accompanying consolidated balance sheets. There was no unpaid incentive fee at March 31, 2008 and December 31, 2007, respectively.

Our management agreement provides that we are required to reimburse our manager for certain general and administrative expenses incurred by our manager on our behalf, including our pro rata share of overhead expenses of the manager required for our operations. In November 2006, retroactive to January 1, 2006, the independent members of the board of directors approved an amendment to the management agreement to provide that the allocable overhead reimbursement will be fixed at an amount equal to $0.5 million per annum for 2006, and in each calendar year thereafter, subject to approval by the independent members of the board of directors, $0.5 million multiplied by the sum of (a) one plus (b) the percentage increase in the Consumer Price Index ("CPI") for the applicable year over the CPI for the calendar year 2006. For the three months ended March 31, 2008 and 2007, overhead reimbursements were approximately $0.1 million, respectively. Our manager may also be paid or reimbursed for the costs of providing other services that outside professionals or consultants otherwise would provide on our behalf. If such services are provided by the manager, the reimbursement for such services will be no greater than what management believes would be paid to outside professionals, consultants, or other third parties on an arm's length basis. In accordance with the provisions of the management agreement, we recorded reimbursements for other services provided by the manager of $21 and $17 during the three months ended March 31, 2008 and 2007, respectively, which are included in general and administrative expenses in the accompanying consolidated statements of operations.

Each CMBS securitization requires a special servicer be appointed by the purchaser controlling the most subordinated non-investment grade class of securities. As our manager is not a rated special servicer, it appoints J.E. Robert Company or another entity that is a rated special servicer as the special servicer whenever we acquire a controlling interest in the most subordinated non-investment grade class of a CMBS securitization. J.E. Robert Company earned $1.3 million and $1.1 million in fees as special servicer during the three months ended March 31, 2008 and 2007, respectively. All fees due to J.E. Robert Company as special servicer are paid either by the securitization vehicles or the borrowers, not directly by us and such fees are consistent with traditional, well established market standards and are set as part of the arm's-length negotiations to acquire such CMBS bonds from the issuer. However, because we generally own the first loss position in these same CMBS issuances, payment of special servicing fees to J.E. Robert Company may reduce the amounts available to pay us pursuant to the terms of the applicable CMBS trusts.

In connection with CDO II, one of our wholly owned subsidiaries entered into a Collateral Administration Agreement with J.E. Robert Company, the Collateral Administrator, an affiliate of our manager, pursuant to which the Collateral Administrator has agreed to advise our wholly owned subsidiary on certain matters regarding the collateral interests and other eligible investments securing the notes. The Collateral Administrator will receive two fees payable on a monthly basis, with the first fee equal to 1/12 of 0.075% of the Monthly Asset Amount, as defined in the CDO II indenture, and the second fee equal to 1/12 of 0.05% of the Monthly Asset Amount, as defined in the CDO II indenture agreement, each fee payable with different priorities as set forth in the applicable indenture. The Collateral Administration Agreement was approved by the independent members of our board of directors. For the three months ended March 31, 2008 and 2007, we incurred $0.4 million and $0.3 million, respectively, in collateral administration fees pursuant to the Collateral Administration Agreement and such fees are included in general and administrative expenses on the accompanying consolidated statement of operations.

On December 11, 2007, we and JER Fund IV, an investment fund managed by J.E. Robert Company, entered into a limited partnership agreement pursuant to which we and JER Fund IV agreed to co-manage a new private equity fund, known as JER US Debt Co-Investment Vehicle, L.P. (the "US Debt Fund"). The California Public Employees' Retirement System, CalPERs, committed $200.0 million and we and JER Fund IV each committed $10.0 million to the US Debt Fund. As of March 31, 2008 and December 31, 2007, we have invested $1.6 million and $1.2 million, respectively, into the US Debt Fund which is reflected in investments in unconsolidated joint ventures on the accompanying consolidated balance sheets.

The US Debt Fund will invest in loans secured, directly or indirectly, by real estate, including, B-Notes, mezzanine loans and whole mortgage loans, and also in preferred equity, CMBS and CMBS-related products such as CMBX and credit default swaps (the "Targeted Investments"). Excluded investment from the US Debt Fund include non-performing loans, fee-simple ownership interests, single family residential mortgages and related securities (sub-prime, conforming, jumbo or Alt-A), whole loans originated directly by us or JER Fund IV, and net leased real estate assets.

Targeted Investments that meet the investment guidelines of the US Debt Fund are allocated directly and exclusively by J.E. Robert Company to the US Debt Fund until the earlier of April 11, 2008 or the date on which 90% of the US Debt Fund's committed capital has been invested or otherwise committed. Thereafter, if the US Debt Fund is not fully invested or committed and through the earlier of December 11, 2008 or until 90% of the US Debt Fund's committed capital has been invested or otherwise committed, we and/or JER Fund IV will be permitted to share targeted investments with the US Debt Fund.

During the three months ended March 31, 2008, we did not invest in any CMBS or real estate loan investments where an affiliate of the manager held a controlling equity interest in the borrower. During the year ended December, 2007, we invested in a first mortgage loan participation with a cost basis of $30.0 million and two mezzanine loan participations with an aggregate cost basis of $49.4 million where an affiliate of the manager held a controlling equity interest in the borrower. During the year ended December 31, 2006, we invested in mezzanine loans totaling $65.0 million where an affiliate of the manager held a controlling equity interest in the borrower. The acquisition of these loans to affiliated borrowers was approved by the independent members of our Board of Directors as required by our investment guidelines. During the three months ended March 31, 2008, we received repayments on loans to affiliated borrowers aggregating $0.2 million. At March 31, 2008, loans to affiliated entities had an unamortized cost basis of $122.6 million, an unpaid principal balance of $123.2 million and a carrying value of $114.7 million.

During the year ended December 31, 2005, we originated mezzanine loans with an affiliate of our manager totaling $63.4 million. The ownership was allocated equally between us and the affiliated entity, with our share of the initial loans equal to $31.7 million. At March 31, 2008, there was $3.2 million outstanding related to these loans. The loans were repaid in full in April 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Amounts are presented in thousands except for share and per share data and as otherwise noted)

Market Risk. Market risk is 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 we are 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 our control. Credit curve risk is highly sensitive to dynamics of the markets for commercial mortgage-backed securities and other loans and securities we plan to invest in. 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 market value of our investment portfolio.

Our operating results depend substantially on the difference between the interest and related income earned on our interest-bearing assets and the interest expense incurred in connection with our interest-bearing liabilities. Competition from other providers of real estate financing may lead to a decrease in the interest rate earned on our interest-earning assets, which we may not be able to offset by obtaining lower interest costs on our borrowings. Changes in the general level of interest rates prevailing in the financial markets may affect the spread between our interest-earning assets and interest-bearing liabilities. Any significant compression of the spreads between interest-earning assets and interest-bearing liabilities could have a material adverse effect on us. In addition, an increase in interest rates and/or credits spreads in the financial markets could, among other things, reduce the value of our interest-earning assets and our ability to realize gains from the sale of such assets and result in increased margin calls on our short-term credit facilities, potentially requiring us to sell assets at a loss, while a decrease in interest rates could reduce the average life of our interest-earning assets.

We may utilize a variety of financial instruments, including interest rate swaps, caps, options, floors and other interest rate derivative contracts, in order to limit the effects of fluctuations in interest rates on our operations. We do not intend to utilize derivatives for speculative or other purposes other than interest rate risk management. 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. Moreover, with respect to certain of the instruments used as hedges, we are exposed to the risk that the counterparties with which we trade may cease making markets and quoting prices in such instruments, which may render us unable to enter into an offsetting transaction with respect to an open position. If we anticipate the income from any such hedging transaction will not be qualifying income for REIT income test purposes, we may conduct part or all of our hedging activities through a corporate subsidiary that will be fully subject to federal corporate income taxation (a taxable REIT subsidiary). Our profitability may be adversely affected during any period as a result of changing interest rates.

Interest Rate Risk. Interest rate sensitivity refers to the change in earnings and cash flows that may result from changes in the level of interest rates. Our net interest income is affected by changes in various interest rates, primarily LIBOR and treasury rates. At March 31, 2008, our primary sensitivity to interest rates related to the income we earned on a portion of our $347 million of floating rate real estate loans and the interest expense incurred on $977 million of floating rate indebtedness, all tied to LIBOR, resulting in net floating rate liabilities of $630 million. We have further mitigated our exposure to changes in interest rates by entering into $707 million of pay-fixed interest rate swaps based on notional amounts in effect at March 31, 2008 thereby reducing exposure to interest rate fluctuations to approximately $77 million of net floating rate assets. The following table presents our pay-fixed interest rate swaps as of March 31, 2008 and December 31, 2007:

Trade Date	Effective Date	Initial Notional Balance	Notional Balance at March 31, 2008	Ending Notional Balance	Fair Value at March 31, 2008 [4]	Fair Value at December 31, 2007	Termination Date	Pay-Fixed Interest Rate
October 2005	November 2005 [1]	$ 109,977	$ 109,977	$ 5,697	$ (9,251)	$ (4,106)	June 2015	4.9%
September 2006	October 2006 [2]	386,324	340,047	219,929	(27,076)	(12,860)	August 2016	5.1%
September 2006	October 2009 [2]	—	—	80,071	(667)	(1,056)	August 2016	5.2%
February 2007	October 2007 [2]	—	46,277	86,324	(4,829)	(3,719)	October 2014	5.1%
January 2007	November 2007[3]	100,000	100,000	100,000	(7,214)	(6,185)	December 2016	5.3%
February 2007	November 2007[3]	45,000	45,000	45,000	(3,861)	(2,079)	September 2016	5.0%
February 2007	November 2007[3]	26,000	26,000	26,000	(2,287)	(1,244)	February 2017	5.1%
March 2007	November 2007[3]	40,000	40,000	40,000	(2,182)	(1,631)	January 2017	5.0%
		$ 707,301	$ 707,301	$ 603,021	$ (57,367)	$ (32,881)		

(1) Swap related to our CDO I financing and is reflected at fair value with the change in value subsequent to December 31, 2007 recorded in other gains (losses) on the consolidated statement of operations due to our election to account for this swap using the FVO effective January 1,2008.

(2) Swaps related to our CDO II financing and is reflected at fair value with the change in value subsequent to December 31, 2007 recorded in other gains (losses) on the consolidated statement of operations due to our election to account for these swaps using the FVO effective January 1, 2008.

(3) Swaps related to our current and future anticipated financings were intended to hedge future long-term floating rate debt and is not considered probable as of March 31, 2008 and as a result, the fair value at March 31, 2008 of $(15.5) million has been recorded in other gains (losses) in the consolidated statement of operations during the three months ended March 31, 2008.

(4) The settlement amount of our interest rate swap liabilities was $(67.2) million as of March 31, 2008. This liability is partially offset by a $9.8 million credit valuation adjustment driven by the SFAS No. 157 requirement to incorporate a valuation adjustment for our and our counter party's credit rating to arrive at fair value.

At March 31, 2008, the existence of our interest rate swaps substantially mitigate the impact of an interest rate increase on our net earnings and cash flow. As a result of and due to floating rates on our real estate loans certain CDO notes payable and repurchase agreement borrowings, changes in interest rates will generally impact our net income. All of our floating rate assets and liabilities are tied to LIBOR or the applicable base rate subject to certain caps or limitations. The following table shows the estimated change in net income for a 12-month period based on changes in the applicable LIBOR rates applied to floating rate assets, liabilities and interest rate swaps outstanding as of March 31, 2008;

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LIBOR Rate Change (Basis Points)	Estimated Increase (Decrease) in Net Income Over 12 Months at March 31, 2008 (1) (in thousands)
-200	$ (816)
-100	(408)
100	695
200	1,390

(1) Estimated increased (decrease) in net income over next twelve months does not consider the impact of SFAS No. 159 adoption, effective January 1, 2008.

Interest rate changes may also affect the fair value of our CMBS investments, real estate loans and derivatives. We have not entered into derivative transactions designed to hedge changes in fair value.

Credit Risk. Our portfolio of commercial real estate loans and securities is subject to a high degree of credit risk. Credit risk is the exposure to loss from debtor defaults. Default rates are subject to a wide variety of factors, including, but not limited to, property performance, property management, supply and demand factors, construction trends, consumer behavior, regional economics, interest rates, the strength of the Unites States economy and other factors beyond our control.

All loans are subject to some probability of default. We underwrite our CMBS investments assuming the underlying loans will suffer some dollar amount of defaults and the 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 are generally more sensitive to changes in timing of actual losses. The higher rated securities are more sensitive to the severity of losses.

We generally assume that substantially all of the principal of a non-rated security will not be recoverable over time. The timing and the amount of the loss of principal are the key assumptions to determine the economic yield of these securities. Timing is of paramount importance because we will assume substantial losses of principal on the non-rated securities, therefore the longer the principal balance remains outstanding the more interest the holder receives to support a greater economic return. Alternatively, if principal is lost faster than originally assumed, there is less opportunity to receive interest and a lower return or loss may result.

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. We expect that most if not all principal will be recovered with respect to classes rated B or higher.

We manage credit risk through the underwriting process, establishing loss assumptions and monitoring of loan performance. Before acquiring a controlling class security (represented by a majority ownership interest in the most subordinate tranche) in a proposed pool of loans, we perform a rigorous analysis of all of the proposed underlying loans. Information from this review is then used to establish loss assumptions. We assume that some portion of the loans will default and calculate an expected or loss adjusted yield based on that assumption. After the securities have been acquired, we monitor 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 our earnings. Furthermore, we may be required to write down a portion of the accreted cost basis of the affected assets through a charge to income in the event that the investment is considered impaired.

We will also invest in commercial real estate loans, primarily mezzanine loans, bridge loans, B-notes, loans to real estate companies, whole mortgage loans, first mortgage participations and net leased real estate. Although we have not to date, we may also invest in residential mortgages and related securities. These investments will be subject to credit risk. The extent of our credit risk exposure will be dependent on risks associated with commercial and residential real estate. Property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs). In the event a borrower's net operating income decreases, the borrower may have difficulty repaying our loans, which could result in losses to us. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses.

Recent Events

Real Estate Loan Repayments

Subsequent to March 31, 2008 and through May 9, 2008, we received $3.3 million of aggregate repayments on real estate loans.

Financing

On April 2, 2008, we sold our remaining 50% interest in the joint venture which owns twelve net leased real estate assets for $39.4 million, which approximates, cost and post sale no longer has any investment in net leased real estate assets.

Other

On May 6, 2008, we paid dividends of $7.7 million, or $0.30 per share of common stock, to shareholders of record on May 1, 2008.

In April 2008, Fitch Ratings announced a downgrade to the ratings of various bond classes within CDO II. However, at May 9, 2008, our investments that serve as collateral for CDO II generally continue to perform consistently with original underwriting.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Control and Procedures.* An evaluation of the effectiveness of the design and operation of our "disclosure controls and procedures" (as defined in Rule 13a-15(e)) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this annual report on Form 10-K was made under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (a) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act is timely recorded, processed, summarized and reported and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed under or submitted under the Securities Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Internal Control Over Financial Reporting.* There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act), during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The Company is not a party to any legal proceedings

ITEM 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

None

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ITEM 4. Submission of Matters to Vote of Security Holders

None

ITEM 5. Other Information

None

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
32.1	Section 302 Certification of Chief Executive Officer.
32.2	Section 302 Certification of Chief Financial Officer.

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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:

JER INVESTORS TRUST INC
(Registrant)

By:	/s/ Joseph E. Robert, Jr.
Name:	Joseph E. Robert, Jr.
Title:	Chief Executive Officer and Chairman of the Board
Date:	May 12, 2008
By:	/s/ J. Michael McGillis
Name:	J. Michael McGillis
Title:	Chief Financial Officer
Date:	May 12, 2008

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Joseph E. Robert, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of JER Investors Trust Inc., for the quarter ended March 31, 2008;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15 d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

	/s/ Joseph E. Robert, Jr.	
Date: May 12, 2008	Name:	Joseph E. Robert, Jr.
	Title:	Chief Executive Officer and Chairman of the Board

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, J. Michael McGillis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of JER Investors Trust Inc., for the quarter ended March 31, 2008;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15 d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2008

/s/ J. Michael McGillis

Name:	J. Michael McGillis
Title:	Chief Financial Officer

Exhibit 32.1

Certification of CEO Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of JER Investors Trust Inc. (the "Company") for the quarterly period ended March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Joseph E. Robert, Jr., as Chief Executive Officer of the Company hereby certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Dated: May 12, 2008

/s/ Joseph E. Robert, Jr.

Name:	Joseph E. Robert, Jr.
Title:	Chief Executive Officer and Chairman of the Board

Exhibit 32.2

Certification of CFO Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of JER Investors Trust Inc. (the "Company") for the quarterly period ended March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), J. Michael McGillis, as Chief Financial Officer of the Company hereby certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Date: May 12, 2008

/s/ J. Michael McGillis

Name:	J. Michael McGillis
Title:	Chief Financial Officer