NewStar Financial, Inc.
Form 10-Q
November 13, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2007

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 001-33211

NewStar Financial, Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**54-2157878** **(I.R.S. Employer Identification No.)**
500 Boylston Street, Suite 1600, Boston, MA **(Address of principal executive offices)**	**02116** **(Zip Code)**

(617) 848-2500

(Registrant s telephone number, including area code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer x

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

As of November 9, 2007, 36,258,531 shares of common stock, par value of $0.01 per share, were outstanding.

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Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q of NewStar Financial, Inc., contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These are statements that relate to future periods and include statements about our:

- anticipated financial condition;
- expected results of operation;
- growth and market opportunities;
- future development of our products and markets;
- ability to compete; and
- stock price.

Generally, the words anticipates, believes, expects, intends, estimates, projects, plans and similar expressions identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements or industry results to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other important factors include, among others:

- risks and uncertainties relating to our limited operating history;
- our ability to minimize losses and achieve profitability;
- our ability to effectively manage our growth;
- the competitive nature of the commercial lending industry and our ability to effectively compete;
- the regulation of the commercial lending industry by federal, state and local governments;
- the existence of delinquencies or non-accruals in our loans that would force us to take charge-offs exceeding our allowance for credit losses;
- impairments to our debt products that could adversely impact our net income and assets and harm our results of operations;

- volatility due to the relatively small number of loans and other debt products in our loan portfolio; and

- our ability to obtain external financing.

For a further description of these and other risks and uncertainties, we encourage you to carefully read section Item 1A. Risk Factors to our Annual Report on Form 10-K for the year ended December 31, 2006 as supplemented by the Risk Factors in section Item 1A to our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2007 and September 30, 2007.

The forward-looking statements contained in this Quarterly Report on Form 10-Q speak only as of the date of this report. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained in this Quarterly Report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based, except as may be required by law.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

NEWSTAR FINANCIAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

	September 30, 2007	December 31, 2006
	($ in thousands, except share and par value amounts)	
Assets:		
Cash and cash equivalents	$ 73,420	$ 103,269
Restricted cash	119,572	40,174
Residual interest in securitization	3,051	
Investments in debt securities, available-for-sale	37,636	203,121
Loans held-for-sale	117,528	62,620
Loans, net	1,933,469	1,437,832
Deferred financing costs, net	15,868	11,614
Interest receivable	14,501	19,849
Property and equipment, net	1,668	961
Deferred income taxes, net	11,421	14,705
Income tax receivable	12,355	
Other assets	10,590	21,047
Total assets	$ 2,351,079	$ 1,915,192
Liabilities:		
Repurchase agreements	$ 545	$ 34,535
Credit facilities	705,401	625,910
Term debt	1,165,725	774,225
Accrued interest payable	26,629	23,200
Accounts payable	643	4,315
Income tax payable		4,166
Other liabilities	25,042	25,426
Total liabilities	1,923,985	1,491,777
Stockholders equity:		
Common stock, par value $0.01 per share:		
Shares authorized: 145,000,000 in 2007 and 2006;		
Shares outstanding 36,254,443 in 2007 and 36,257,847 in 2006	363	363
Additional paid-in capital	476,666	463,925
Retained deficit	(48,455)	(38,582)
Common stock held in treasury, at cost $0.01 par value; 7,584 shares in 2007	(109)	
Accumulated other comprehensive loss, net	(1,371)	(2,291)

Total stockholders equity	427,094	423,415
Total liabilities and stockholders equity	$ 2,351,079	$ 1,915,192

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

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NEWSTAR FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
	($ in thousands, except per share amounts)			
Net interest income:				
Interest income	$ 52,626	$ 32,980	$ 148,689	$ 77,060
Interest expense	28,071	19,122	78,877	44,962
Net interest income	24,555	13,858	69,812	32,098
Provision for credit losses	6,553	2,350	11,355	6,594
Net interest income after provision for credit losses	18,002	11,508	58,457	25,504
Non-interest income:				
Fee income	3,334	1,100	10,177	2,843
Asset management income	1,471	478	3,686	751
Gain on derivatives	134	114	488	836
Gain (loss) on sale of loans and debt securities	11		(4,256)	24
Loss on investments in debt securities	(1,979)		(18,327)	
Loss on residual interest in securitization	(28,136)		(28,136)	
Other income	3,317	333	4,235	1,127
Total non-interest income	(21,848)	2,025	(32,133)	5,581
Operating expenses:				
Compensation and benefits	11,169	6,891	34,195	17,341
Occupancy and equipment	781	476	1,883	1,272
General and administrative expenses	2,309	1,201	6,745	4,065
Total operating expenses	14,259	8,568	42,823	22,678
Income (loss) before income taxes	(18,105)	4,965	(16,499)	8,407
Income tax expense (benefit)	(7,260)	2,072	(6,626)	3,534
Net income (loss)	$ (10,845)	$ 2,893	$ (9,873)	$ 4,873
Basic income (loss) per share	$ (0.30)	$ 0.18	$ (0.27)	$ 0.34
Diluted income (loss) per share	(0.30)	0.18	(0.27)	0.33

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

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NEWSTAR FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Unaudited

						Accumulated Other Comprehensive Loss, net		
	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Deficit	Treasury Stock	Net Unrealized Loss on Investments	Net Unrealized Loss Derivatives	Total Stockholders Equity
					($ in thousands)			
Balance at January 1, 2007	$	$ 363	$ 463,925	$ (38,582)	$	$ (1,977)	$ (314)	$ 423,415
Net loss				(9,873)				(9,873)
Other comprehensive income (loss):								
Net unrealized securities losses, net of tax benefit of $5,706						(8,540)		(8,540)
Recognition of net unrealized losses for securities sold net of tax benefit of $6,391						9,600		9,600
Net unrealized derivatives losses, net of tax expense of $97							(140)	(140)
Total comprehensive loss								(8,953)
Shares reacquired from employee transactions					(109)			(109)
Amortization of restricted common stock awards			9,982					9,982
Amortization of stock option awards			2,759					2,759
Balance at September 30, 2007	$	$ 363	$ 476,666	$ (48,455)	$ (109)	$ (917)	$ (454)	$ 427,094

						Accumulated Other Comprehensive Loss, net		
	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Deficit	Treasury Stock	Net Unrealized Loss on Investments	Net Unrealized Loss on Derivatives	Total Stockholders Equity
Balance at January 1, 2006	$ 109	$	$ 108,891	$ (11,401)	$	$ (641)	$	$ 96,958
Net income				4,873				4,873
Other comprehensive loss:								
Net unrealized securities gains, net of tax expense of $270						375		375
Net unrealized derivatives losses, net of tax benefit of $235							(361)	(361)
Total comprehensive income								4,887
	68		67,432					67,500

Net proceeds from issuance of preferred stock														
Balance at September 30, 2006	$	177	$		$	176,323	$	(6,528)	$		$	(266)	$	(361)	$	169,345

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

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NEWSTAR FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

	Nine Months Ended September 30, 2007	2006
	($ in thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (9,873)	$ 4,873
Adjustments to reconcile net income to net cash used for operations:		
Provision for credit losses	11,355	6,594
Depreciation and amortization and accretion	(8,735)	(4,141)
Amortization of debt issuance costs	2,277	2,572
Equity compensation expense	12,741	
Net loss on investments in debt securities	18,327	
Net loss on residual interest in securitization	28,136	
Net realized loss on loans and debt securities	4,256	
Deposit to securitization trust	(37,031)	
Net change in deferred income taxes	2,696	1,689
Net change in loans held-for-sale	(54,908)	(5,037)
Net change in interest receivable	5,348	(6,642)
Net change in other assets	(1,806)	(7,164)
Net change in accrued interest payable	3,323	15,349
Net change in accounts payable and other liabilities	(6,930)	11,036
Net cash provided by (used in) operating activities	(30,824)	19,129
Cash flows from investing activities:		
Net change in restricted cash	(79,398)	(62,387)
Net change in loans	(508,436)	(436,102)
Purchase of debt securities available-for-sale	(31,685)	(151,988)
Proceeds from repayments of debt securities available-for-sale	21,368	72,549
Proceeds from sales of debt securities available-for-sale	157,007	
Proceeds from sale of loans	12,704	
Acquisition of property and equipment	(1,052)	(228)
Net cash used in investing activities	(429,492)	(578,156)
Cash flows from financing activities:		
Proceeds from issuance of preferred stock		67,500
Borrowings under repurchase agreements, net	(33,884)	(23,252)
Borrowings on credit facilities	1,077,174	788,210
Repayment of borrowings on credit facilities	(997,683)	(680,400)
Issuance of term debt	446,000	456,250
Repayment of term debt	(54,500)	(38,500)
Payment of deferred financing costs	(6,531)	(7,479)
Purchase of treasury stock	(109)	
Net cash provided by financing activities	430,467	562,329
Net increase (decrease) in cash during the period	(29,849)	3,302

Cash and cash equivalents at beginning of period	103,269	1,423
Cash and cash equivalents at end of period	$ 73,420	$ 4,725
Supplemental cash flows information:		
Interest paid	$ 75,553	$ 33,926
Taxes paid	7,200	36
Decrease in fair value of investments in debt securities	14,246	645

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

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NEWSTAR FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1. Organization

NewStar Financial, Inc. (the Company), a Delaware corporation, is a commercial finance company that provides customized debt financing solutions to middle market businesses, mid-sized specialty finance companies, issuers of asset-backed and commercial mortgage-backed securities, and commercial real estate borrowers. The Company principally focuses on the direct origination of loans and other debt products that meet its risk and return parameters. The Company s direct origination efforts target private equity sponsors, corporate executives, regional banks, real estate investors and a variety of other financial intermediaries to source transaction opportunities. Direct origination provides direct access to customers management, enhances due diligence, and allows significant input into customers capital structure and direct negotiation of transaction pricing and terms.

The Company operates as a single segment, and it derives revenues from three specialized lending groups:

Middle Market Corporate, which originates, structures and underwrites senior debt and, to a lesser extent, second lien and mezzanine debt for companies with annual EBITDA typically between $5 million and $50 million;

Structured Products, which originates, structures and underwrites senior and subordinated debt for small and mid-sized specialty finance companies with assets typically between $25 million and $250 million and invests in subordinated tranches of asset-backed securitizations; and

Commercial Real Estate, which originates, structures and underwrites first mortgage debt and, to a lesser extent, subordinated debt, primarily to finance acquisitions of real estate properties typically valued between $10 million and $50 million, and invests in subordinated tranches of commercial mortgage-backed securitizations.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

These interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries (collectively, NewStar) and have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). All significant intercompany transactions have been eliminated in consolidation. These interim condensed financial statements include adjustments of a normal and recurring nature considered necessary by management to fairly present NewStar s financial position, results of operations and cash flows. These interim condensed financial statements may not be indicative of financial results for the full year. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. The estimates most susceptible to change in the near-term are the Company s estimates of its (i) allowance for credit losses, (ii) valuation of investments, (iii) valuation of residual interest, (iv) determination of other than temporary and temporary impairments and (v) recorded amounts of deferred income taxes. The interim condensed consolidated financial statements and notes thereto should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

Recently Adopted Accounting Standards

On January 1, 2007, the Company adopted SFAS No. 155, *Accounting for Certain Hybrid Instruments, an amendment to Statement Nos. 133 and 140* (SFAS 155). SFAS 155, among other things, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain embedded derivatives requiring bifurcation. Changes in fair value are recorded as realized gains and losses. The fair value election may be applied upon adoption of the statement for hybrid instruments purchased or remeasured after the effective date and those that had been bifurcated under SFAS 133 prior to adoption. Implementation of the standard did not have a material effect on our results from operations or financial position.

On January 1, 2007, the Company adopted SFAS No. 156, *Accounting for Servicing of Financial Assets An Amendment of FASB Statement No. 140* (SFAS No. 156), which amends SFAS No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. SFAS No. 156 permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities using either an amortization- or fair value-based method. SFAS No. 156 also requires separate presentation of servicing assets and liabilities subsequently measured at fair value in the balance sheet and additional disclosures for all separately recognized servicing assets and liabilities. Implementation of the standard did not have a material effect on our results of operations or financial position.

On January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements. A company can only recognize the tax position in the financial statements if the position is more-likely-than-not to be upheld on audit, based only on the technical merits of the tax position. If the recognition threshold is met, the tax benefit is measured at the largest amount that is more than 50% likely of being realized upon ultimate settlement.

FIN 48 also addresses how interest and penalties should be accrued for uncertain tax positions, requiring that interest expense should be recognized in the first period interest would be accrued under the tax law. The Company classifies all interest and penalties on recognized tax benefits as a part of income tax expense. At January 1, 2007, the Company did not have any accrued interest or penalties.

At January 1, 2007, the Company did not have any unrecognized tax benefits and there have been no material changes since adoption. The Company does not expect any significant changes within the next 12 months.

The Company files U.S. federal and U.S. state tax returns. As of January 1, 2007, the Company s tax returns for the years ended 2006, 2005 and 2004 (year of the Company s inception) remain subject to examination by the Internal Revenue Service and state tax authorities.

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 revises the definition of fair value, provides guidance on the methods used to measure fair value and expands disclosure concerning fair value measurements. SFAS 157 establishes a fair value hierarchy that distinguishes between observable inputs, which are assumptions based on market data obtained from independent sources and unobservable inputs, which are a reporting entity s internally developed assumptions based on the best information available when there is little or no market activity for the asset or liability at the measurement date. The fair value hierarchy in SFAS 157 assigns highest priority to quoted prices in active markets (Level 1) followed by observable inputs other than quoted prices (Level 2) and unobservable inputs have the lowest priority (Level 3). SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with early application permitted for entities that have not issued financial statements in the fiscal year of adoption. The Company does not expect implementation of the standard to have a material effect on its results from operations or financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of SFAS No. 115* (SFAS 159). SFAS 159 permits entities to measure many financial instruments and certain other items at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument (with a few exceptions), is irrevocable and is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided that the entity also elects to apply the provisions of SFAS 157. The Company is currently considering the impact SFAS 159 will have on its results from operations or financial position.

Note 3. Loans Held-for-Sale, Loans and Allowance for Credit Losses

Loans classified as held-for-sale consist of loans originated by the Company, intended to be sold or syndicated to third parties. These loans are carried at the lower of aggregate cost, net of any deferred origination costs or fees, or market value.

At September 30, 2007 and December 31, 2006, outstanding balances of loans held-for-sale were as follows:

	September 30, 2007	December 31, 2006
	($ in thousands)	
Middle Market Corporate	$ 112,755	$ 45,793
Commercial Real Estate		12,581

Structured Products	5,000	4,903
Gross loans held-for-sale	117,755	63,277
Deferred loan fees, net	(227)	(657)
Total loans held-for-sale	$ 117,528	$ 62,620

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As of September 30, 2007 and December 31, 2006, loans consisted of the following:

	September 30, 2007	December 31, 2006
	($ in thousands)	
Middle Market Corporate	$ 1,550,492	$ 1,137,315
Commercial Real Estate	314,827	218,153
Structured Products	108,474	111,570
Gross loans	1,973,793	1,467,038
Deferred loan fees, net	(9,952)	(9,811)
Allowance for loan losses	(30,372)	(19,395)
Total loans, net	$ 1,933,469	$ 1,437,832

The Company grants commercial loans and real estate loans to customers throughout the United States. Although the Company has a diversified loan portfolio, should certain events occur, including, but not limited to, adverse economic conditions or adverse events affecting specific clients, industries or markets, the ability of borrowers to make timely scheduled principal and interest payments on their loans may be adversely affected.

During the nine months ended September 30, 2007, we sold four loans for an aggregate gain of $0.1 million.

In accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan*, any required impairment allowances are included in the allowance for loan losses. A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company measures impairment of a loan based upon either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or fair value of the collateral if the loan is collateral dependent, depending on the circumstances and the Company s collection strategy. As of December 31, 2006, the Company had no impaired loans.

During the three and nine months ended September 30, 2007 the Company classified one loan with a carrying value of $7.5 million as a troubled debt restructuring as defined by SFAS No. 15, *Accounting for Debtors and Creditors for Troubled Debt Restructurings*, and it classified one $7.3 million loan as impaired and on non-accrual status. The Company has recorded a $4.4 million specific reserve for the $7.3 million loan it classified as impaired and on non-accrual status. On October 18, 2007, the Company received a $2.2 million partial payoff from the borrower. This payment resulted in a loss of $4.3 million which was applied to the specific reserve as a charge off. The loan has a carrying value of $0.9 million.

The aggregate average balance of these loans during the three and nine months ended September 30, 2007 was $16.5 million and $20.2 million, respectively. The total amount of interest income that was recognized during the three and nine months ended September 30, 2007 was $0.2 million and $1.3 million, respectively. The amount of cash basis interest income that was recognized for the three and nine months ended September 30, 2007 was $0.1 million and $1.2 million, respectively.

For impaired loans or troubled debt restructurings on non-accrual status, the Company reverses the accrued interest previously recognized as interest income subsequent to the last cash receipt. The recognition of interest income on the loan will resume when factors indicating doubtful collection no longer exist, and the non-accrual loan has been brought current. The Company ceased accruing interest on the $7.3 million non-accrual loan during the three months ended September 30, 2007. The Company continues to accrue interest on the $7.5 million troubled debt restructuring.

At September 30, 2007, the $7.3 million loan on non-accrual status was the only delinquent loan.

A summary of the activity in the allowance for credit losses is as follows:

	Nine Months Ended September 30, 2007	Year Ended December 31, 2006
	($ in thousands)	
Balance, beginning of year	$ 20,570	$ 8,035
Provision for credit losses	6,955	12,535
Specific reserve	4,400	
Loans charged off, net of recoveries		
Balance, end of period	$ 31,925	$ 20,570

As the Company s loan portfolio continues to season, it expects to experience additional credit issues, delinquencies, losses, specific reserves and charge offs as part of its normal course of business.

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Included in the allowance for credit losses at September 30, 2007 and December 31, 2006 is an allowance for unfunded commitments of $1.6 million and $1.2 million, respectively, which is recorded as a component of other liabilities on the Company s consolidated balance sheet with changes recorded in the provision for credit losses on the Company s consolidated statement of operations. The methodology for determining the allowance for unfunded commitments is consistent with the methodology for determining the allowance for loan losses and incorporates a uniform probability of drawdown.

Loans that are deemed to be uncollectible are charged off and deducted from the allowance. The provision for credit losses and recoveries on loans previously charged off are added to the allowance.

Based on the Company s evaluation process to determine the level of the allowance for loan losses, management believes the allowance to be adequate as of September 30, 2007 and December 31, 2006 in light of the estimated known and inherent risks identified through its analysis.

Note 4. Restricted Cash

Restricted cash as of September 30, 2007 and December 31, 2006 was as follows:

	September 30, 2007	December 31, 2006
	($ in thousands)	
Interest collection on loans pledged to credit facilities	$ 80,422	$ 7,137
Principal and interest collections on loans held in trust and prefunding amounts	35,586	26,382
Customer escrow accounts	3,564	6,655
Total	$ 119,572	$ 40,174

Note 5. Investments in Debt Securities, Available-for-Sale

On June 29, 2007, the Company completed the sale of 50 investments in debt securities with an amortized cost of approximately $175.2 million and recognized a $4.4 million loss on the sale. The Company retained a residual interest in the investments in the debt securities sold (see Note 6).

Amortized cost of investments in debt securities as of September 30, 2007 and December 31, 2006 was as follows:

	September 30, 2007	December 31, 2006
	($ in thousands)	
Investments in debt securities gross	$ 41,608	$ 217,314
Unamortized discount	(2,444)	(10,918)
Investments in debt securities amortized cost	$ 39,164	$ 206,396

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of available-for-sale securities at September 30, 2007 and December 31, 2006 were as follows:

	Amortized cost	Gross unrealized	Gross unrealized	Fair value

		holding gains	holding losses	
		($ in thousands)		
September 30, 2007:				
Debt securities	$ 39,164	$ 74	$ (1,602)	$ 37,636
	$ 39,164	$ 74	$ (1,602)	$ 37,636

&nbs