FREMONT GENERAL CORP
Form 10-Q
November 09, 2007

Table of Contents

United States Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended September 30, 2007

OR

o **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 001-08007

Fremont General Corporation
(Exact Name of Registrant as Specified in its Charter)

Nevada (State or other jurisdiction of incorporation or organization)	**95-2815260** (I.R.S. Employer Identification No.)
2425 Olympic Boulevard **Santa Monica, California 90404** (Address of principal executive offices) (Zip Code)	**(310) 315-5500** (Registrant s Telephone Number, Including Area Code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required 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. þ Yes o No

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

þ Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock:

Class	Shares Outstanding October 31, 2007
Common Stock, $1.00 par value	79,630,085

Fremont General Corporation and Subsidiaries

INDEX

Table of Contents

Item 1. *Financial Statements*

Fremont General Corporation and Subsidiaries
Consolidated Balance Sheets

(Thousands of dollars, except share data)	September 30, 2007	December 31, 2006
	(Unaudited)	
ASSETS		
Cash and cash equivalents	**$ 2,658,068**	$ 761,642
Investment securities classified as available-for-sale at fair value	**1,175,858**	633
Federal Home Loan Bank stock at cost	**25,925**	111,860
Loans held for investment net	**2,116**	6,257,306
Commercial real estate participation	**3,624,260**	
Accrued interest receivable	**32,231**	53,497
Real estate owned net		299
Premises and equipment net	**24,647**	67,859
Deferred income taxes net		52,576
Other assets	**341,137**	268,932
Assets of discontinued operations held for sale	**906,825**	5,315,920
TOTAL ASSETS	**$ 8,791,067**	$ 12,890,524
LIABILITIES		
Deposits:		
Savings accounts	**$ 954,686**	$ 1,101,137
Money market deposit accounts	**419,815**	586,158
Certificates of deposit	**6,586,025**	8,302,493
	7,960,526	9,989,788
Senior Notes due 2009	**166,111**	165,895
Junior Subordinated Debentures	**103,093**	103,093
Other liabilities	**141,929**	210,586
Liabilities of discontinued operations held for sale	**114,450**	1,307,205
TOTAL LIABILITIES	**8,486,109**	11,776,567
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Preferred stock, par value $.01 per share Authorized: 2,000,000 shares; none issued		
	78,117	75,983

Common stock, par value $1 per share Authorized: 150,000,000 shares; issued and outstanding: (2007 79,630,000 and 2006 79,074,000)		
Additional paid-in capital	**344,535**	324,064
Retained earnings	**(112,023)**	728,766
Deferred compensation	**(8,005)**	(20,694)
Accumulated other comprehensive income	**2,334**	5,838
TOTAL STOCKHOLDERS EQUITY	**304,958**	1,113,957
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 8,791,067**	$ 12,890,524

The accompanying notes are an integral part of these statements.

Table of Contents

Fremont General Corporation and Subsidiaries
Consolidated Statements of Operations (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars, except per share data)	2007	2006	2007	2006
INTEREST INCOME:				
Interest and fee income on loans:				
Commercial	**$ 1,444**	$ 144,305	**$ 292,688**	$ 380,365
Other	**129**		**321**	1
	1,573	144,305	**293,009**	380,366
Interest income other	**128,601**	8,883	**169,133**	22,837
	130,174	153,188	**462,142**	403,203
INTEREST EXPENSE:				
Deposits	**99,442**	56,747	**277,448**	140,401
Senior Notes	**3,351**	3,388	**10,051**	10,398
Junior Subordinated Debentures	**2,319**	2,320	**6,958**	6,959
	105,112	62,455	**294,457**	157,758
Net interest income	**25,062**	90,733	**167,685**	245,445
Provision for loan losses	**151**	12,687	**333**	28,288
Net interest income after provision for loan losses	**24,911**	78,046	**167,352**	217,157
NON-INTEREST INCOME:				
Gain on sale of commercial real estate loans	**16,289**		**16,289**	
Other non-interest income	**49,600**	4,825	**51,056**	11,129
	65,889	4,825	**67,345**	11,129
NON-INTEREST EXPENSE:				
Compensation and related	**14,356**	25,134	**88,813**	77,535
Occupancy	**3,060**	3,279	**12,945**	10,128
Other	**19,450**	19,591	**76,141**	49,116
	36,866	48,004	**177,899**	136,779
INCOME BEFORE INCOME TAXES	**53,934**	34,867	**56,798**	91,507
Income tax expense	**21,738**	12,190	**24,518**	34,797

Income from continuing operations		**32,196**		22,677		**32,280**		56,710
Income (loss) from discontinued operations, net of income taxes of $(9,480) and $4,986, and $(92,356) and $38,101 for the three and nine months ended September 30, 2007 and 2006, respectively		**(13,895)**		6,848		**(869,773)**		56,426
Net income (loss)	**$**	**18,301**	$	29,525	**$**	**(837,493)**	$	113,136
EARNINGS PER SHARE:								
Basic:								
Income from continuing operations	**$**	**0.42**	$	0.31	**$**	**0.42**	$	0.77
Income (loss) from discontinued operations, net of income taxes		**(0.18)**		0.09		**(11.39)**		0.76
Net income (loss)	**$**	**0.24**	$	0.40	**$**	**(10.97)**	$	1.53
Diluted:								
Income from continuing operations	**$**	**0.41**	$	0.30	**$**	**0.42**	$	0.75
Income (loss) from discontinued operations, net of income taxes		**(0.18)**		0.09		**(11.25)**		0.74
Net income (loss)	**$**	**0.23**	$	0.39	**$**	**(10.83)**	$	1.49
CASH DIVIDENDS DECLARED PER COMMON SHARE	**$**		$	0.11	**$**		$	0.33

The accompanying notes are an integral part of these statements.

Table of Contents

Fremont General Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders Equity (Unaudited)

housands, except per share amounts)	Common Stock Number of Outstanding Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income	To
nce at December 31, 2005	77,497	$ 77,497	$ 341,800	$ 966,112	$ (43,357)	$ 14,754	$ 1,356,8
income				113,136			113,1
dividends declared $0.33 per share				(25,621)			(25,6
assification of deferred compensation estricted stock		(1,485)	(19,417)		20,902		
rement of common stock	(41)						
es issued, acquired or allocated for loyee benefit plans	406		(1,673)		(23,036)		(24,7
ortization of restricted stock			11,074				11,0
es allocated to ESOP			(1,370)		24,315		22,9
nge in cost of common stock held in					(1,718)		(1,7
change in unrealized gain on stments and residual interests, net of rred taxes						2,405	2,4
ess tax benefits relating to share-based ments			2,050				2,0
OP fair value adjustment			(755)		755		
nce at September 30, 2006	77,862	$ 76,012	$ 331,709	$ 1,053,627	$ (22,139)	$ 17,159	$ 1,456,3
nce at December 31, 2006	79,074	$ 75,983	$ 324,064	$ 728,766	$ (20,694)	$ 5,838	$ 1,113,9
loss				(837,493)			(837,4
dividends adjustment				93			
ption of FIN No. 48				(3,389)			(3,3
rement of common stock	(1,088)						
ricted stock vested		849	13,937				14,7
es issued, acquired or allocated for loyee benefit plans	359		(2,920)		(5,187)		(8,1
ortization of restricted stock			4,361				4,3
es allocated to ESOP	1,285	1,285	8,249		3,334		12,8
nge in cost of common stock held in					11,386		11,3
change in unrealized gain on stments and residual interests, net of rred taxes						(3,504)	(3,5
OP fair value adjustment			(3,156)		3,156		

nce at September 30, 2007	**79,630**	$	**78,117**	$	**344,535**	$	**(112,023)**	$	**(8,005)**	$	**2,334**	$	**304,9**

The accompanying notes are an integral part of these statements.

Table of Contents

Fremont General Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

(Thousands of dollars)	Nine Months Ended September 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	**$ (837,493)**	$ 113,136
Less: income (loss) from discontinued operations	**(869,773)**	56,426
Income from continuing operations	**32,280**	56,710
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Provision for loan losses	**333**	28,288
Provision for deferred income taxes	**14,267**	6,669
Depreciation and amortization	**16,227**	11,898
Compensation expense related to deferred compensation plans	**273**	4,872
Change in accrued interest	**34,720**	(28,711)
Change in other assets	**(226,924)**	(34,043)
Change in accounts payable and other liabilities	**(110,375)**	(31,392)
Originations and advances funded for commercial real estate loans held for sale	**(1,664,535)**	
Payments received from and sales of commercial real estate loans held for sale	**3,731,306**	
NET CASH PROVIDED BY OPERATING ACTIVITIES CONTINUING OPERATIONS	**1,827,572**	14,291
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES DISCONTINUED OPERATIONS	**3,626,653**	(114,595)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**5,454,225**	(100,304)
CASH FLOWS FROM INVESTING ACTIVITIES		
Originations of loans held for investment		(3,068,122)
Payments received from and sales of loans held for investment		1,711,609
Investment securities available for sale:		
Purchases	**(1,307,516)**	(4,352)
Maturities or repayments	**132,187**	210
Net purchases of FHLB stock	**85,935**	(12,972)
Payments received from commercial real estate participation	**576,948**	
Purchases of premises and equipment	**(5,126)**	(16,064)
NET CASH USED IN INVESTING ACTIVITIES CONTINUING OPERATIONS	**(517,572)**	(1,389,691)
	72,634	75,987

NET CASH PROVIDED BY INVESTING ACTIVITIES DISCONTINUED OPERATIONS		
NET CASH USED IN INVESTING ACTIVITIES	**(444,938)**	(1,313,704)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits accepted, net of repayments	**(2,029,262)**	957,499
Extinguishment of Senior Notes		(9,636)
Dividends paid	**(9,489)**	(24,806)
Excess tax benefits related to share-based payments		2,050
Purchase of Company common stock for deferred compensation plans	**(14,110)**	(40,601)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES CONTINUING OPERATIONS	**(2,052,861)**	884,506
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES DISCONTINUED OPERATIONS	**(1,060,000)**	281,000
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(3,112,861)**	1,165,506
Increase (decrease) in cash and cash equivalents	**1,896,426**	(248,502)
Cash and cash equivalents at beginning of period	**761,642**	768,643
Cash and cash equivalents at end of period	**$ 2,658,068**	$ 520,141

The accompanying notes are an integral part of these statements.

Table of Contents

Fremont General Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(Thousands of dollars)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Net income (loss)	**$ 18,301**	$ 29,525	**$ (837,493)**	$ 113,136
Other comprehensive income (loss):				
Net change in unrealized gains (losses) during the period:				
Residual interests in securitized loans	**(1,999)**	(4,023)	**(8,408)**	2,010
Investment securities	**2,608**	(149)	**2,607**	1,909
	609	(4,172)	**(5,801)**	3,919
Less income tax expense (benefit)	**246**	(1,656)	**(2,297)**	1,514
Other comprehensive income (loss)	**363**	(2,516)	**(3,504)**	2,405
Total comprehensive income (loss)	**$ 18,664**	$ 27,009	**$ (840,997)**	$ 115,541

Table of Contents

Fremont General Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 BASIS OF PRESENTATION

Overview

Fremont General Corporation (Fremont General or when combined with its subsidiaries, the Company) is a financial services holding company. Fremont General s financial services operations are consolidated within Fremont General Credit Corporation (FGCC), through its California industrial bank subsidiary, Fremont Investment & Loan (FIL). FIL offers certificates of deposit and savings and money market deposit accounts through its 22 retail banking branches in California. FIL s deposit accounts are insured up to the maximum legal limit by the Federal Deposit Insurance Corporation (FDIC). For portions of the nine month period ended September 30, 2007, the Company was engaged in commercial and residential (consumer) real estate lending businesses on a nationwide basis.

Exit from Sub-prime Mortgage Business; Cease and Desist Order. During 2007, the sub-prime residential real estate market experienced a significant deterioration that included increases in borrower delinquencies and a deterioration of credit that resulted in a substantial increase in the amount of loan repurchases and repricings on the Company s residential real estate whole loan sales. These repurchases and repricings were due primarily to early payment defaults and breaches of representations and warranties. As a result of the increase in repurchases and repricings, during the third quarter of 2007, the Company recorded provisions of $5.3 million and $9.0 million to its residential real estate loan valuation and repurchase reserves, respectively, and $523.0 million and $265.6 million, respectively, during the nine months ended September 30, 2007. For further information concerning activity in these reserves during 2007 and the comparable period in 2006 see Note 6.

On March 2, 2007, the Company announced that it intended to exit its sub-prime residential real estate lending operations. This move was consistent with regulatory guidelines issued that day, and was prompted by the Company s receipt on February 27, 2007 of a proposed Cease and Desist Order (the Order) from the FDIC calling for the Company to make a variety of changes designed to restrict the level of lending in its sub-prime residential mortgage business as well as the Company s analysis of the deterioration of the sub-prime residential real estate market. On March 7, 2007, the Company announced that it had ceased entering into new funding commitments with respect to sub-prime mortgage loans, although it would honor remaining outstanding commitments.

On March 7, 2007, Fremont General, FGCC and FIL consented to the Order without admitting to the allegations contained in the Order.

The Order requires, among other things, that FIL make a variety of changes in its sub-prime residential loan origination business and also calls for certain changes in its commercial real estate lending business. As more fully described elsewhere in this report, the Company has exited its sub-prime residential real estate operations and has sold its commercial real estate lending business and related loan portfolio. In addition, the Order requires that FIL adopt a Capital Adequacy Plan to maintain adequate Tier-1 Leverage capital in relation to its risk profile. Further, the Order mandates various specific management requirements, including having and retaining qualified management acceptable to the FDIC and the Department of Financial Institutions of the State of California (DFI), and provides for enhanced regulatory oversight over FIL s operations. The Order is more fully described in a Current Report on Form 8-K filed by the Company on March 7, 2007.

Residential Real Estate Transactions. On March 21, 2007, the Company announced that FIL had entered into whole loan sale agreements to sell approximately $4 billion of its sub-prime residential real estate loans. On April 16, 2007, the Company announced that FIL had entered into an agreement to sell another $2.9 billion of sub-prime residential real estate loans, which represented the majority of the Company s sub-prime residential loans held for sale that had not yet been sold. The Company is in discussions with various parties with respect to the sale of the Company s sub-prime residential loan servicing platform and other assets. There can be no assurances that the Company will be able to enter into any transaction with respect to such business. In addition, given the significant market challenges that currently exist in the residential real estate sector, even if such transactions are completed, there can be no assurances that the consideration received in such sales will provide substantial benefit to the Company s operating results or financial position.

For further information concerning the remaining assets and liabilities of the Company s discontinued residential real estate operations see Note 6.

Commercial Real Estate Transaction. On July 2, 2007, FIL completed the disposition of its commercial real estate lending business and related loan portfolio to *i*Star Financial Inc. (*i*Star) pursuant to an Asset Purchase Agreement entered into on May 21, 2007. FIL sold its entire $6.27 billion commercial real estate loan portfolio and majority of the non-loan assets used in the business to *i*Star and received $1.89 billion in cash plus a $4.2 billion participation interest in the sold portfolio. The $1.89 billion in cash represented 30% of the unpaid principal balance of the loan portfolio as of the closing, net of a purchase discount. The $4.2 billion participation interest in the total loan portfolio represented 70% of the unpaid principal balance of the loan portfolio as of the closing, net of a purchase discount. The participation interest bears interest at LIBOR + 150 basis points. FIL s participation interest in the loan portfolio is governed by a participation agreement pursuant to which FIL is entitled to receive 70% of all principal payments on the loans sold to *i*Star, including with respect to any portion of the unfunded commitments with respect to such loans that are subsequently funded by *i*Star. In connection with the transaction, *i*Star assumed all obligations with respect to the loan portfolio after the closing date (including the obligation to fund approximately $3.72 billion of existing unfunded commitments) and the obligations under certain assumed leases and intellectual property contracts. As of the closing date, *i*Star employed substantially all of the employees previously engaged in the Company s commercial real estate lending business. For further information concerning the results of the sale of the commercial real estate loan portfolio and related assets to *i*Star see Notes 5 and 8.

Third Quarter Operations. As described above, by the beginning of the third quarter of 2007, the Company had disposed of its residential real estate loan origination operations, a significant portion of its remaining residential real estate assets and had completed the sale of its commercial real estate lending business and related loan portfolio. The continuing operations that remained during the third quarter of 2007 consisted primarily of the Company s retail banking operations, which continued to accept and maintain retail deposit accounts. In addition, during the third quarter of 2007, the Company began recognizing interest income on the participation interest in the commercial real estate loan portfolio sold to *i*Star. With respect to its discontinued operations, during the third quarter of 2007 the Company continued to service residential real estate loans and recognize interest income on its remaining residential real estate assets classified as held for sale.

Subsequent Events

Transaction with Gerald J. Ford. On May 21, 2007, Fremont General and FIL entered into an Investment Agreement with an entity controlled by Gerald J. Ford providing for the acquisition by an investor group led by Mr. Ford of a combination of approximately $80 million in exchangeable non-cumulative preferred stock of FIL and warrants to acquire additional common stock of Fremont General. On September 26, 2007, the Company announced that it had been advised by Mr. Ford that, in light of certain developments pertaining to Fremont General and FIL, Mr. Ford was not prepared to consummate such transactions on the terms set forth in the Investment Agreement. The Company said that, while it did not necessarily agree with the factual positions taken by Mr. Ford, it was in discussions with Mr. Ford concerning revised terms under which an entity controlled by Mr. Ford would proceed with an $80 million investment in exchangeable preferred stock of FIL and receive warrants to acquire additional common stock of Fremont General. On October 29, 2007, the Investment Agreement was terminated. On October 30, 2007, the Company announced that it had ceased discussions with Mr. Ford. The Company is continuing to explore strategic alternatives with the assistance of Credit Suisse Securities LLC. There can be no assurances as to whether or when it will be able to enter into an agreement with respect to or complete any such alternative.

Stockholder Rights Plan. On October 23, 2007, Fremont General entered into a Stockholder Rights Plan (the Rights Plan) under which one right was distributed as a dividend for each share of common stock held by stockholders of record as of the close of business on November 2, 2007. The Rights Plan has been adopted as

Table of Contents

a means to assist in the preservation of the use of previously accumulated net operating losses, as described below.

The Company has net operating losses (NOLs) that may in the future offset the Company s taxable income, if any. U.S. federal income tax law imposes significant limitations on the ability of a corporation to use its NOLs to offset income in circumstances where such corporation has experienced a change in ownership. Generally, there is a change in ownership if, at any time, one or more 5% stockholders have aggregate increases in their ownership in the corporation of more than 50 percentage points looking back over the prior three-year period. One of the principal reasons for adopting the Rights Plan is to dissuade investors from aggregating ownership in the Company and triggering such a change in ownership. The Rights Plan is designed to reduce the likelihood of a change in ownership by, among other things, discouraging any person or group from acquiring additional shares of the Company s common stock. The Rights Plan was not adopted in response to any effort to acquire control of the Company.

To help preserve the benefit of the NOLs, the Company intends to submit for stockholder approval at its 2008 Annual Meeting an amendment to its articles of incorporation to restrict certain acquisitions of the Company s common stock so as to reduce the likelihood of triggering a change in ownership as defined for purposes of preserving the NOL. The Board of Directors intends to terminate the Rights Plan if such amendment is approved.

Under the Rights Plan, each right initially will entitle stockholders to purchase a fraction of a share of preferred stock at a purchase price of $12.00, subject to adjustment as provided in the Rights Plan. Subject to the exceptions and limitations contained in the Rights Plan, the rights generally will be exercisable only if a person or group acquires beneficial ownership of 5% or more of the Company s common stock or commences a tender or exchange offer upon consummation of which such person or group would beneficially own 5% or more of the Company s common stock. Unless earlier terminated, the rights will expire on November 2, 2017.

Discontinued Operations

As more fully described above, in March 2007, the Company decided to exit the residential real estate business and to sell substantially all of the assets related to such business. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), the Company has classified the residential real estate operations as discontinued operations as the cash flow of the business has been eliminated from its ongoing operations and the Company will no longer have any significant continuing involvement in the business. Therefore, the results of operations, financial position and cash flows of the Company s residential real estate operations are presented separately in the consolidated financial statements and notes as discontinued operations for all periods presented.

When an operation meets the criteria for held for sale accounting as defined in SFAS No. 144, the operation is evaluated to determine whether the carrying value exceeds its fair value less costs to sell. Any loss resulting from the carrying value exceeding the fair value less costs to sell is recorded in the statement of operations in the period the operation meets the criteria for held for sale accounting. Management judgment is required to both assess the criteria required for held for sale accounting as well as to estimate fair value. Changes in the operation could cause it to no longer qualify for held for sale accounting and changes in fair value could result in an increase or decrease to previously recognized losses. For additional information concerning the Company s discontinued operations see Note 6.

General

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts and operations of Fremont General and its subsidiaries including those variable interest entities where the Company is the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that materially affect the reported amounts of assets and liabilities and the

Table of Contents

disclosure of contingent liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments considered necessary for the fair presentation of the interim financial statements have been included. See Note 6 for additional information concerning the results of the Company s discontinued operations and Note 8 for information concerning the gain on sale and exit costs related to the disposal of the Company s commercial real estate lending business and related loan portfolio.

The operating results for the nine month period ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

NOTE 2 RECENT ACCOUNTING STANDARDS

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 (SFAS No. 155). SFAS No. 155 requires companies to evaluate their interests in securitized financial assets and determine whether the interests are freestanding derivatives or hybrid financial instruments that may be subject to bifurcation. SFAS No. 155 provides companies with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 155 also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The Company adopted SFAS No. 155 as of January 1, 2007 without any significant impact on the Company s financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 (SFAS No. 156). SFAS No. 156 requires entities to separately recognize a servicing asset or liability when undertaking an obligation to service a financial asset under a servicing contract in certain situations, including a transfer of the servicer s financial assets that meets the requirements for sale accounting. SFAS No. 156 requires that any such servicing asset or liability be initially measured at fair value, if practicable, and then provides the option to either: (1) carry the mortgage servicing rights (MSRs) at fair value with changes in fair value recognized in current period earnings; or (2) continue recognizing periodic amortization expense and assess the MSRs for impairment as originally required by SFAS No. 140. The Company adopted SFAS No. 156 effective January 1, 2007 without any impact; electing to continue to record periodic amortization expense as originally required under SFAS No. 140.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN No. 48). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a two-step approach for the recognition and measurement of a tax position taken or expected to be taken in an entity s tax return. The first step in the evaluation of a tax position is recognition: The Company must determine whether it is more likely than not that a given tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In this evaluation the Company must presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. The second step is measurement: A tax position meeting the more-likely-than-not recognition threshold is recorded at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company adopted FIN No. 48 effective January 1, 2007 resulting in a charge to beginning retained earnings of approximately $3.4 million. See Note 9 for further information on the impact of adopting FIN No. 48 and other tax related information.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and provides for

Table of Contents

expanded disclosures concerning fair value measurements. SFAS No. 157 retains the exchange price notion in earlier definitions of fair value; however, focuses on the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). SFAS No. 157 also establishes a fair value hierarchy used to classify the source of information used by the entity in fair value measurements. That is, assumptions developed based on market data obtained from independent sources (observable inputs) versus the entity s own assumptions about market assumptions developed based on the best information available in the circumstances (unobservable inputs). The Company is currently evaluating the impact of adopting SFAS No. 157; however, the Company does not believe the adoption will have a significant impact on its financial position or results of operations. SFAS No. 157 is effective for the Company s fiscal year beginning January 1, 2008.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 allows entities the option to measure many financial instruments and certain other items at fair value at specified election dates with changes in fair value reported in earnings. The fair value option may be applied on an instrument by instrument basis (with some exceptions), is irrevocable (unless a new election date occurs) and is applied only to entire instruments and not to portions of instruments. The FASB indicated that the objective of this statement is to improve financial reporting by providing entities the opportunity to mitigate volatility in reported earnings that are caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. The Company is currently evaluating the impact of adopting SFAS No. 159. SFAS No. 159 is effective for the Company s fiscal year beginning January 1, 2008.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are summarized in the following table as of the dates indicated:

(Thousands of dollars)	September 30, 2007	December 31, 2006
Cash on hand	**$ 584**	$ 248
Deposits in other financial institutions	**2,520**	118,228
FHLB shareholder transaction account	**10,000**	397,548
Federal Reserve account	**370,699**	2,078
U.S. Government, Agency and money market funds	**2,227,103**	169,545
Short-term money market funds	**47,162**	46,971
Short-term commercial paper		27,024
Total cash and cash equivalents	**$ 2,658,068**	$ 761,642

The FHLB shareholder transaction account represents a short-term interest-bearing account with the Federal Home Loan Bank of San Francisco. The Company s commercial paper holdings have ratings of A1 / P1 / F1 or better. The short-term money market funds have AAA / Aaa money market fund ratings. As of September 30, 2007, $1.3 million in deposits in other financial institutions were restricted. No other cash and cash equivalents were restricted as of September 30, 2007 and December 31, 2006.

NOTE 4 INVESTMENT SECURITIES CLASSIFIED AS AVAILABLE-FOR-SALE

The amortized cost, unrealized gains, unrealized losses and fair value of the Company s investment securities classified as available-for-sale as of September 30, 2007 were as follows:

(Thousands of dollars)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Agency mortgage-backed securities classified as available-for-sale	**$ 1,174,751**	**$ 1,123**	**$ (16)**	**$ 1,175,858**

Table of Contents

There were no realized gains or losses on the available-for-sale securities during the nine months ended September 30, 2007. Unrealized gains or losses are included in other comprehensive income.

NOTE 5 PARTICIPATION INTEREST

As more fully described in Note 1, on July 2, 2007, FIL completed the sale of its commercial real estate lending business and related loan portfolio to *i*Star. FIL sold its entire $6.27 billion commercial real estate loan portfolio and majority of the non-loan assets used in the business to *i*Star and received $1.89 billion in cash plus a $4.2 billion participation interest in the sold portfolio. The terms of the agreement call for *i*Star to provide the Company with principal paydowns on a monthly basis plus interest payments on the unpaid principal balance at LIBOR + 150 basis points. The following table summarizes the activity in the Company s participation interest for the period indicated.

(Thousands of dollars)		Three Months Ended September 30, 2007
Beginning balance	$	
Participation interest received		**4,201,208**
Principal payments		**(576,948)**
Ending balance	$	**3,624,260**

During the three months ended September 30, 2007, the Company recognized $70.7 million in interest income on the participation interest.

NOTE 6 DISCONTINUED OPERATIONS

As more fully described in Note 1, in March 2007, the Company decided to exit the residential real estate business and sell substantially all of the assets related to such business. The Company has determined there are no migration of revenues or costs as defined in EITF 03-13, Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations (EITF 03-13), since the Company is disposing of substantially all of its residential real estate operations and assets. In addition, although continuing cash flows may occur related to loan repurchases and repricings the Company is obligated to make in subsequent periods under standard industry representations and warranties for its residential real estate whole loan sales, the resolution of these contingencies do not constitute continuing cash flows or continuing involvement as defined in EITF 03-13. Therefore, in accordance with SFAS No. 144, the results of operations, financial position and cash flows of the Company s residential real estate operations are presented separately in the consolidated financial statements and notes as discontinued operations for all periods presented.

Table of Contents

Assets and Liabilities of Discontinued Operations

The major classifications of assets and liabilities of the Company s discontinued operations are summarized as follows as of the dates indicated:

(Thousands of dollars)		September 30, 2007		December 31, 2006
Residential real estate loans held for sale net	**$**	**511,738**	$	4,949,747
Servicing advances		**264,242**		92,175
Mortgage servicing rights net		**47,974**		101,172
Real Estate Owned		**26,532**		12,790
Residual interests in securitized loans at fair value		**16,728**		85,468
Loans receivable		**10,917**		8,568
Accrued interest receivable		**5,118**		18,572
Investment securities classified as available-for-sale		**16,295**		21,282
Other assets		**7,281**		26,146
Total assets to be sold	**$**	**906,825**	$	5,315,920
Loan repurchase reserve	**$**	**100,104**	$	140,923
Premium repurchase and recapture reserves		**61**		8,442
Federal Home Loan Bank advances				1,060,000
Other liabilities		**14,285**		97,840
Total liabilities	**$**	**114,450**	$	1,307,205

Residential Real Estate Loans Held for Sale and Valuation Reserve: Residential real estate loans held for sale are aggregated prior to their sale and are carried at the lower of aggregate cost or estimated fair value less costs to sell. Estimated fair values are based upon current secondary market prices for loans with similar coupons, maturities and credit quality. The following tables detail the residential real estate loans held for sale included in discontinued operations and the valuation reserve to adjust the loans to estimated fair value less costs to sell as of the dates indicated:

Residential Real Estate Loans Held For Sale (Thousands of dollars)		September 30, 2007		December 31, 2006
Loan principal balance:				
First trust deeds	**$**	**836,977**	$	4,843,547
Second trust deeds		**155,335**		345,845

		992,312		5,189,392
Net deferred direct origination costs		**3,682**		38,940
		995,994		5,228,332
Valuation reserve		**(484,256)**		(278,585)
Loans held for sale net	**$**	**511,738**	$	4,949,747
Loans held for sale on non-accrual status	**$**	**221,500**	$	64,652

Valuation Reserve	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	2007	2006	2007	2006
Beginning balance	**$ 481,838**	$ 74,433	**$ 278,585**	$ 32,753
Provision	**5,321**	39,820	**522,984**	87,100
Discounted sales	**(103,004)**	(61,928)	**(574,031)**	(111,416)
Charge-offs	**(18,405)**	(4,419)	**(31,356)**	(9,289)
Transfer from repurchase reserve	**118,506**	48,379	**288,074**	97,137
Ending balance	**$ 484,256**	$ 96,285	**$ 484,256**	$ 96,285

In cases where the borrower experiences difficulties and the Company makes certain concessionary modifications to contractual terms (typically a reduction of the interest rate charges), the loan is classified as modified (i.e. restructured) accruing loan if the loan is performing in accordance with the agreed upon modified loan terms and projected cash proceeds are deemed sufficient to repay both principal and interest.

During the third quarters of 2007 and 2006, the Company modified residential real estate loans with a total unpaid principal balance of approximately $22.2 million and $0.0 million, respectively. During the first nine months of 2007 and 2006, the Company modified residential real estate loans with a total unpaid principal balance of approximately $28.9 million and $0.0 million, respectively. Modified residential real estate loans on accrual status as of September 30, 2007 and 2006 was $10.0 million and $0.0 million, respectively.

Servicing Advances: As a loan servicer, the Company is required to make certain advances on specific loans it is servicing to the securitization trusts that hold the loans, and loans owned by the Company, to the extent such advances are deemed collectible by the Company, from collections related to the individual loans. The total amount of servicing advances outstanding was $264.2 million and $92.2 million as of September 30, 2007 and December 31, 2006, respectively.

Mortgage Servicing Rights: The following table summarizes the activity in the Company s mortgage servicing rights asset within discontinued operations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	2007	2006	2007	2006
Beginning balance	**$ 75,505**	$ 62,739	**$ 101,677**	$ 46,022
Additions (sales)		35,119	**5,495**	68,739
Amortization	**(7,302)**	(12,975)	**(38,969)**	(29,878)
Ending balance before valuation allowance	**68,203**	84,883	**68,203**	84,883
Valuation allowance:				
Beginning balance	**(12,735)**		**(505)**	
Provision for temporary impairment	**(7,494)**		**(19,724)**	
Ending balance	**(20,229)**		**(20,229)**	
Mortgage servicing rights net	**$ 47,974**	$ 84,883	**$ 47,974**	$ 84,883
Estimated fair value	**$ 53,279**	$ 90,967	**$ 53,279**	$ 90,967

The key economic assumptions used in subsequently measuring the fair value of the Company s MSRs as of the dates indicated are as follows:

	September 30, 2007	December 31, 2006

Weighted-average life (years)	**1.8**	1.4
Weighted-average annual prepayment speed	**25.4%**	38.8%
Weighted-average annual discount rate	**19.8%**	19.6%

Residual Interests in Securitized Loans: The following table summarizes the activity of the Company s retained residual interests within discontinued operations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	2007	2006	2007	2006
Beginning balance at fair value	**$ 34,932**	$ 107,535	**$ 85,468**	$ 170,723
Additions (sales)		22,642		(41,994)
Interest accretion	**7,184**	8,946	**21,409**	41,705
Cash received	**(19,240)**	(2,401)	**(72,634)**	(33,993)
Change in unrealized losses	**(1,999)**	(4,023)	**(8,408)**	2,010
Other-than-temporary impairment	**(4,149)**		**(9,107)**	(5,752)
Ending balance at fair value	**$ 16,728**	$ 132,699	**$ 16,728**	$ 132,699

Table of Contents

The following table summarizes delinquencies and credit losses for the loans underlying the Company s outstanding securitization transactions as of the dates indicated:

(Thousands of dollars)	September 30, 2007	December 31, 2006
Original principal amount of loans securitized	**$ 17,536,329**	$ 17,536,329
Current principal amount of loans securitized	**$ 8,809,326**	$ 10,938,440
Current delinquent principal amount (over 60 days)	**$ 1,891,265**	$ 1,142,794
Inception to date credit losses (net of recoveries)	**$ 188,577**	$ 53,241

Key economic assumptions used in subsequently measuring the fair value of the Company s residual interests as of the dates indicated are as follows:

	September 30, 2007	December 31, 2006
Weighted-average life (years)	**2.6**	2.5
Weighted-average annual prepayment speed	**28.2%**	25.0%
Weighted-average lifetime credit losses	**5.7%**	5.5%
Weighted-average annual discount rate	**35.0%**	24.0%

Loan Repurchase Reserve: As the residential real estate loans held for sale are sold, the Company makes standard industry representations and warranties about the loans. The Company may have to subsequently repurchase certain loans due to defects that occurred in the origination of the loans. During the third quarters of 2007 and 2006, the Company repurchased a total of $279.1 million and $294.2 million in loans, respectively. During the first nine months of 2007 and 2006, the Company repurchased a total of $931.8 million and $532.8 million in loans, respectively. The following table summarizes the activity in the repurchase reserve related to residential loans which is included in discontinued operations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	2007	2006	2007	2006
Beginning balance	**$ 214,638**	$ 57,586	**$ 140,923**	$ 14,556
Provision	**9,047**	31,184	**265,636**	141,479
Charge-offs for loan repricing	**(5,075)**	(6,199)	**(18,381)**	(24,706)
Transfer to valuation reserve	**(118,506)**	(48,379)	**(288,074)**	(97,137)

Ending balance	**$ 100,104**	$ 34,192	**$ 100,104**	$ 34,192

Premium Repurchase and Recapture Reserve: The Company also maintains a reserve for premium recapture that represents the estimate of probable refunds of premiums received on previously completed loan sales (either due to early loan prepayments or for certain loans repurchased from prior sales) that are expected to occur under the provisions of the various agreements entered into for the sale of its residential real estate loans held for sale. The following table summarizes the activity in the premium recapture reserve within discontinued operations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	2007	2006	2007	2006
Beginning balance	**$ 436**	$ 10,661	**$ 8,442**	$ 4,259
Provision for premium recapture on repurchased loans	**(11,523)**	2,858	**(20,065)**	12,629
Provision for standard premium recapture		2,855	**(568)**	10,484
Refunds	**11,148**	(10,041)	**12,252**	(21,039)
Ending balance	**$ 61**	$ 6,333	**$ 61**	$ 6,333

Table of Contents

Operating Results of Discontinued Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	2007	2006	2007	2006
Interest income	**$ 16,954**	$ 144,379	**$ 217,656**	$ 484,841
Non-interest income	**3,142**	4,918	**(865,124)**	22,538
Revenues from discontinued operations	**$ 20,096**	$ 149,297	**$ (647,468)**	$ 507,379
Loss on sale of discontinued operations	**$ (4,141)**	$ (9,623)	**$ (881,116)**	$ (16,425)
Interest income	**16,954**	144,379	**217,656**	484,841
Interest expense	**(15,357)**	(86,270)	**(146,361)**	(262,090)
Provision for loan loss	**15**	(5)		8
Loan servicing income	**26,647**	26,427	**90,314**	71,258
Mortgage servicing rights amortization and impairment provision	**(14,796)**	(12,975)	**(61,893)**	(29,878)
Impairment on residual interests	**(5,148)**		**(15,479)**	(5,752)
Other non-interest income	**580**	1,089	**3,050**	3,335
Compensation and related	**(13,959)**	(29,868)	**(83,362)**	(94,125)
Occupancy	**(4,879)**	(4,929)	**(19,725)**	(13,885)
Other non-interest expense	**(9,291)**	(16,391)	**(65,213)**	(42,760)
Income (loss) from discontinued operations	**(23,375)**	11,834	**(962,129)**	94,527
Income tax (expense) benefit	**9,480**	(4,986)	**92,356**	(38,101)
Income (loss) from discontinued operations, net of income taxes	**$ (13,895)**	$ 6,848	**$ (869,773)**	$ 56,426

The loss from discontinued operations, net of income taxes, was $13.9 million for the third quarter of 2007, representing a $0.18 diluted loss per share, compared to income from discontinued operations, net of income taxes, of $6.8 million, or $0.09 diluted income per share for the third quarter of 2006. During the first nine months of 2007, the loss from discontinued operations, net of income taxes, was $869.8 million, representing a $11.25 diluted loss per share, compared to income from discontinued operations, net of income taxes, of $56.4 million, or $0.74 diluted income per share for the comparable period in 2006.

In accordance with SFAS No. 128, Earnings per Share, for the three and nine months ended September 30, 2007, the Company calculated the diluted loss per share from discontinued operations, net of income taxes, using the same number of potential common shares used in computing the diluted income per share from continuing operations even though the results were antidilutive with respect to the discontinued operations basic per share amounts.

During the third quarter of 2007, the Company recorded a realized loss of $4.1 million, net of valuation reserves, related to the sale of $234.9 million of residential real estate loans held for sale. During the nine months ended September 30, 2007, the Company recognized a loss of $881.1 million, net of valuation reserves related to the sale of

$8.75 billion of residential real estate loans held for sale. Expense provisions related to the residential real estate loan valuation, repurchase and premium recapture reserves are included in these losses. In addition, during third quarter and the first nine months of 2007, the Company recognized $664,000 and $39.4 million, respectively, in adjustments to write down the carrying value of the residential real estate held for sale assets to their estimated fair value less costs to sell.

During the third quarters of 2007 and 2006, the Company recognized $8.9 million and $123.0 million, respectively, in interest income on the residential real estate loan portfolio. During the nine months ended September 30, 2007 and 2006, the Company recognized $195.4 million and $396.5 million, respectively, in interest income on the residential real estate loan portfolio.

During the third quarter of 2007, the Company continued to service residential real estate loans, recognizing loan servicing income of $26.6 million as compared to $26.4 million during the third quarter of 2006. During the nine months ended September 30, 2007 and 2006, the Company recognized $90.3 million and $71.3 million, respectively, in loan servicing income. The Company was servicing to maturity $15.38 billion and $18.12 billion in principal balance of loans as of September 30, 2007 and December 31, 2006, respectively.

The loss from discontinued operations for the three and nine months ended September 30, 2007 includes $4.8 million and $10.1 million, respectively, in charges for one time severance payments paid to employees of the residential real estate loan origination operations and related support staff. In addition, during the same

Table of Contents

periods, the Company recorded $4.0 million and $14.7 million, respectively, of charges for lease termination costs related to the Company s residential real estate loan origination offices.

During the nine months ended September 30, 2007, cash flows related to residential real estate loan originations and proceeds realized on the sale of such loans were $3.89 billion and $7.81 billion, respectively, and during the nine months ended September 30, 2006, such cash flows were $25.84 billion and $25.31 billion, respectively. These amounts are included in cash flows from operating activities in the Company s consolidated statements of cash flows.

NOTE 7 REAL ESTATE OWNED

The Company s real estate owned (REO) consists of property acquired through or in lieu of foreclosure on loans secured by real estate. REO is reported in the financial statements at the lower of cost or estimated realizable value (net of estimated costs to sell). REO consisted of the following as of the dates indicated:

(Thousands of dollars)	September 30, 2007	December 31, 2006
Commercial real estate	**$**	$ 299
Valuation reserve		
Real estate owned net	**$**	$ 299

During the third quarter of 2007, the Company disposed of its remaining commercial REO property.

NOTE 8 SALE OF COMMERCIAL REAL ESTATE LOANS AND EXIT AND DISPOSAL COSTS

As more fully described in Note 1, the Company completed the sale of its entire $6.27 billion commercial real estate loan portfolio and majority of the non-loan assets used in the business to *i*Star in July 2007, and received cash of $1.89 billion and a 70% participation interest of $4.2 billion in the loans sold. Due to the participation, cash flows from the component will not be eliminated from the Company s ongoing operations. Because the Company expects significant cash inflows will be received as a result of the continuation of activities between itself and the commercial real estate component, the sale does not result in the classification of the commercial real estate operation as discontinued, as defined by EITF No. 03-13. Based on management s decision to sell the commercial loan portfolio in the first quarter of 2007, the Company reclassified the commercial real estate loans from held for investment to held for sale. The Company recorded a $65.6 million gain during the third quarter of 2007 related to the sale of the commercial real estate loan portfolio and related assets to *i*Star as detailed in the tables below:

(Thousands of dollars)	
SALE OF COMMERCIAL REAL ESTATE LOANS	
Loans outstanding (gross)	**$ 6,270,667**
Accrued interest	**43,219**
Discount	**(268,942)**

Net price		**6,044,944**
Loans outstanding		**6,263,168**
Unamortized deferred origination fees and costs		**(45,470)**
Carrying value adjustment		**(232,465)**
Accrued interest and other		**41,568**
Commercial real estate loans carrying value and accrued interest		**6,026,801**
Gain on sale of commercial real estate loans	**$**	**18,143**

(Thousands of dollars)

SALE OF COMMERCIAL REAL ESTATE ASSETS		
Cash received	**$**	**50,000**
Carrying value of assets sold		**2,486**
Gain on sale of other assets	**$**	**47,514**

Table of Contents

In connection with the *i*Star sale, approximately 131 employees in the commercial real estate loan origination operation transferred to *i*Star. In accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, the Company recorded employee severance charges for terminated employees that did not transfer to *i*Star in the amounts of $129,000 and $6.3 million, respectively, as part of compensation and related costs during the third quarter and first nine months of 2007. In addition, during the third quarter and first nine months of 2007, the Company incurred $1.3 million and $2.6 million, respectively, in other charges related to the sale of the commercial real estate loan origination operation and related loan portfolio. These charges are included in other non-interest expense in the consolidated statements of operations.

During the first nine months of 2007, the Company recognized losses of $1.8 million related to the sale of commercial real estate loans unrelated to the *i*Star transaction.

NOTE 9 INCOME TAXES

The major components of income tax expense from continuing operations are summarized in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	2007	2006	2007	2006
Federal:				
Current	**$ (2,606)**	$ 15,495	**$ 8,484**	$ 26,732
Deferred	**20,572**	(2,715)	**13,035**	6,196
	17,966	12,780	**21,519**	32,928
State:				
Current	**(538)**	(588)	**1,767**	1,396
Deferred	**4,310**	(2)	**1,232**	473
	3,772	(590)	**2,999**	1,869
Total income tax expense (benefit)	**$ 21,738**	$ 12,190	**$ 24,518**	$ 34,797

For the nine month period ended September 30, 2007, the Company recorded an income tax benefit relating to its discontinued operations of $(92.4) million for 2007 of which $(133.0) million was current and $40.6 million was deferred. Included in the deferred tax expense was an addition to the deferred tax asset valuation allowance of $277.1 million. During the first nine months of 2006, the Company recorded an income tax expense relating to its discontinued operations of $38.1 million of which $66.0 million was current and $(27.9) million was deferred.

The deferred income tax balance includes the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for income tax purposes. The components of the Company s deferred tax assets are summarized in the following table:

(Thousands of dollars)	September 30, 2007	December 31, 2006
Deferred tax assets:		
Mark-to-market on loans held for sale	**$**	$ 7,398
Premium recapture and repurchase reserves	**42,249**	62,136
Allowance for loan losses	**2,053**	40,262
Compensation related items	**53,453**	29,150
Net operating loss carryforward	**262,556**	21,005
Other net	**9,144**	164
Total deferred tax assets	**369,455**	160,115
Deferred tax liabilities:		
Loan origination costs and fees		(16,902)
Mortgage servicing	**(19,716)**	(37,718)
State income and franchise taxes	**(37,653)**	(17,924)
Total deferred tax liabilities	**(57,369)**	(72,544)
Net deferred tax asset before valuation allowance	**312,086**	87,571
Valuation allowance	**(312,086)**	(34,995)
Net deferred tax asset after valuation allowance	**$**	$ 52,576

Table of Contents

The Company has accrued the expected tax and interest exposure for tax matters that are either in the process of resolution or have been identified as having the potential for adjustment. These matters primarily consist of issues relating to the discontinued insurance operations, the apportionment of income to various states and the deduction of certain expenses.

In assessing the realization of deferred income tax assets, the Company considers whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets depends on the ability to recover previously paid taxes through loss carrybacks and the generation of future taxable income during the periods in which temporary differences become deductible. At September 30, 2007, it was the Company s opinion that it was not likely that the deferred tax asset would be realized and a full valuation reserve was recorded for the deferred tax asset.

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized an approximate $3.4 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. The total amount of unrecognized tax benefits as of the date of adoption on January 1, 2007 was $22.1 million, all of which would favorably affect the effective tax rate if recognized.

The Company records interest expense and penalties related to unrecognized tax benefits as a component of income tax expense. At January 1, 2007, the Company had accrued $1.8 million and $100,000 for the potential payments of interest and penalties.

The Internal Revenue Service is currently examining the Company s 2004, 2005 and 2006 income tax returns. The California Franchise Tax Board has examined the Company s franchise tax returns through the 2004 tax year.

NOTE 10 OTHER NON-INTEREST EXPENSE

Other non-interest expense categories for the third quarter and nine months ended September 30, 2007 and 2006 are summarized in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	2007	2006	2007	2006
Legal, professional and other outside services	**$ 11,551**	$ 7,445	**$ 33,061**	$ 18,561
Information technology	**2,142**	4,520	**8,714**	11,944
Printing, supplies and postage	**722**	1,235	**2,048**	3,867
Advertising and promotion	**651**	1,811	**3,764**	5,398
Auto and travel	**536**	1,285	**2,479**	3,589
Leasing and loan	**28**	252	**1,368**	700
Net real estate owned	**(4,574)**	176	**(4,325)**	(6,791)
Telephone	**428**	617	**2,028**	2,019
FDIC and DFI	**6,702**	383	**25,438**	2,370
Other	**1,264**	1,867	**1,566**	7,459

Total other non-interest expense	**$ 19,450**	$ 19,591	**$ 76,141**	$ 49,116

NOTE 11 DEBT FREMONT GENERAL CORPORATION

The debt of Fremont General is detailed in the following table; none of the Fremont General debt is guaranteed by FIL.

(Thousands of dollars)	September 30, 2007	December 31, 2006
Senior Notes due 2009, less discount (2007 $419; 2006 $635)	**$ 166,111**	$ 165,895
Junior Subordinated Debentures	**103,093**	103,093
Total	**$ 269,204**	$ 268,988

During the nine months ended September 30, 2007, there were no repurchases of either Senior Notes or Junior Subordinated Debentures.

Table of Contents

NOTE 12 DEPOSITS, FHLB ADVANCES, FEDERAL RESERVE AND WAREHOUSE LINES OF CREDIT FIL

During the first nine months of 2007, FIL utilized the issuance of deposits, which are insured up to the maximum legal limit by the FDIC, Federal Home Loan Bank (FHLB) advances, Federal Reserve and warehouse lines of credit in funding its operations.

As of September 30, 2007, the weighted-average interest rate for savings and money market deposit accounts was 4.13% and for certificates of deposit it was 5.18%. The weighted-average interest rate for all deposits at September 30, 2007 was 5.00%.

Certificates of deposit as of September 30, 2007 are detailed by maturity and rates as follows:

(Thousands of dollars, except percents)

Maturing by September 30,	Amount	Weighted Average Rate
2008	$ 6,479,981	5.18%
2009	76,444	5.63%
2010	10,476	4.88%
2011	10,167	5.26%
2012	8,957	4.99%
	$ 6,586,025	**5.18%**

Of the $6.59 billion in total certificates of deposit outstanding at September 30, 2007, $659.9 million were obtained through brokers.

Interest expense on deposits is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	2007	2006	2007	2006
Savings and money market deposit accounts	**$ 15,949**	$ 15,917	**$ 53,908**	$ 44,215
Certificates of deposit	**99,175**	97,973	**322,675**	267,102
Penalties for early withdrawal	**(392)**	(186)	**(1,590)**	(543)
Total interest expense	**$ 114,732**	$ 113,704	**$ 374,993**	$ 310,774

Interest expense in the table above reflects the net interest expense the Company incurred on its deposit accounts during the respective periods indicated. Interest expense is charged back to both the commercial real estate operations as well as the residential real estate (discontinued) operations for the use of funds generated by the Company s corporate and retail banking operations.

Total interest payments on deposits were $121.9 million and $114.8 million, during the third quarters of 2007 and 2006, respectively, and $374.0 million and $305.1 million for the nine months ended September 30, 2007 and 2006, respectively.

During the first six months of 2007, FIL utilized additional financing through advances from the FHLB. FIL s credit line with the FHLB had a maximum financing availability that was based on a percentage of FIL s regulatory assets, to which the actual borrowing capacity was subject to collateralization and certain collateral sublimits and eligibility limitations. In March 2007, following the issuance of the Order and the Company s exit from the residential real estate lending business, the FHLB limited FIL s borrowing capacity to existing outstanding debt of $3.67 billion. By March 31, 2007, FIL had utilized $2.30 billion in proceeds from loan sales and $618.1 million in debt from a warehouse lending facility to reduce the outstanding FHLB debt to $800.0 million. As of June 30, 2007, outstanding FHLB debt was zero and all pledged collateral was released by the FHLB to FIL. As of September 30, 2007 FIL did not maintain any pledged collateral with the FHLB.

In the first quarter of 2007, FIL pledged eligible commercial real estate loans to the Federal Reserve Bank of San Francisco under the Primary Credit program (the Program). There was no outstanding debt at any time during 2007 under the Program. In June 2007, in anticipation of the *i*Star Transaction, FIL removed all commercial real estate loans pledged as collateral under the Program. As of September 30, 2007, FIL did not maintain any pledged collateral with the Federal Reserve Bank.

Table of Contents

In the first quarter of 2007, in connection with the Company s exit from the residential real estate lending business, FIL mutually terminated two of four existing warehouse financing lines and elected to allow one financing facility to expire. As of March 31, 2007, outstanding debt on the remaining warehouse facility was $618.0 million. On April 30, 2007 all outstanding debt on this facility was repaid. In June 2007, the remaining warehouse financing facility expired. As of September 30, 2007, FIL did not have any warehouse financing lines.

NOTE 13 OTHER ASSETS AND LIABILITIES

The following tables detail the composition of the Company s other assets and other liabilities as of the dates indicated:

(Thousands of dollars)	September 30, 2007	December 31, 2006
OTHER ASSETS		
Federal and state(s) income taxes receivable	**$ 287,180**	$ 220,936
Assets held in SERP mutual funds	**26,377**	33,536
Other	**27,580**	14,460
Total other assets	**$ 341,137**	$ 268,932

(Thousands of dollars)	September 30, 2007	December 31, 2006
OTHER LIABILITIES		
Accounts payable	**$ 51,542**	$ 30,256
Deferred compensation obligation	**28,650**	52,926
Accrued interest payable	**27,060**	29,884
Accrued incentive compensation	**9,724**	32,368
Restricted stock accrual	**2,351**	14,786
Accrued ESOP expense		15,664
Other	**22,602**	34,702
Total other liabilities	**$ 141,929**	$ 210,586

NOTE 14 SHARE-BASED PAYMENTS

Company stock award plans provide a long term compensation opportunity for officers and certain key employees of the Company. Stock options and awards of rights to purchase shares of the Company s common stock, generally in the form of restricted stock awards, may be granted under the 2006 Performance Incentive Plan (the 2006 Plan) that was approved by the Company s stockholders on May 18, 2006.

Stock Options

During the years 1989 to 1997, non-qualified stock options were granted at exercise prices equal to the fair value of the stock on the date of grant. Grantees vested at the rate of 25% per year beginning on the first anniversary of the grants that expire after ten years. The remaining 468,000 non-qualified option shares outstanding and exercisable as of December 31, 2006 expired in February 2007. There are no outstanding option shares as of September 30, 2007.

Restricted Stock Awards

Under SFAS No. 123(R), Share-Based Payment, the Company recognizes compensation expense related to its restricted stock awards based on the greater of the fair value of the shares awarded as of the grant date or the current fair value as of the reporting date. Compensation expense for the restricted stock awards is recognized on a straight-line basis over the requisite service period (generally two to ten years). The compensation expense (benefit) that has been charged against (credited to) income for share-based compensation was $(1.1) million and $3.3 million for the three months ended September 30, 2007 and 2006, respectively, and $5.9 million and $9.8 million for the nine months ended September 30, 2007 and 2006, respectively.

Table of Contents

A summary of the status of the Company s nonvested restricted stock awards as of September 30, 2007 and changes during the nine month period then ended is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2006	3,091,640	$ 16.50
Granted	359,000	5.47
Vested	(849,010)	18.23
Forfeited	(1,088,370)	15.38
Nonvested at September 30, 2007	**1,513,260**	**$ 13.69**

The fair value of nonvested restricted stock awards is determined based on the closing trade price of the Company s shares on the grant date. As of September 30, 2007, there was $12.1 million of total unrecognized compensation cost related to nonvested restricted stock awards.

NOTE 15 DEFERRED COMPENSATION

The Company periodically contributes cash to an employee benefits trust (GSOP) in order to pre-fund contributions to various employee benefit plans (e.g., 401(K) match, Employee Stock Ownership Plan contribution, etc.).

The Company also maintains a Supplemental Executive Retirement Plan (SERP) and Excess Benefit Plan (EBP), both of which are deferred compensation plans designed to provide certain employees the ability to receive benefits that would be otherwise lost under the Company s qualified retirement plans due to statutory or other limits on salary deferral and matching contributions.

The following table details the composition of the Company s deferred compensation balance as of the dates indicated:

(Thousands of dollars)	September 30, 2007	December 31, 2006
SERP and EBP	**$ 6,823**	$ 18,209
GSOP	**1,182**	2,485
Total deferred compensation	**$ 8,005**	$ 20,694

NOTE 16 INDUSTRIAL BANK REGULATORY CAPITAL

FIL is subject to various regulatory capital requirements under California and Federal regulations. Failure to meet minimum capital requirements can result in regulatory agencies initiating certain mandatory and possibly additional discretionary actions that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, FIL must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. FIL s capital amounts, its ability to pay dividends and other requirements and classifications are also subject to qualitative judgments by its regulators about components, risk weightings and other factors.

The terms of the Order require FIL to submit to the FDIC a capital plan that includes a Tier-1 Leverage capital ratio of not less than 14%. FIL s actual regulatory amounts and ratios and the related standard regulatory

Table of Contents

minimum amounts and ratios required to qualify as well-capitalized are detailed in the following tables as of the dates indicated:

	September 30, 2007			
	Actual		Minimum Required	
(Thousands of dollars, except percents)	Amount	Ratio	Amount	Ratio
Tier-1 Leverage Capital	$ 548,331	5.70%	$ 1,345,617	14.00%
Risk-Based Capital:				
Tier-1	548,331	10.45%	314,837	6.00%
Total	548,640	10.46%	524,728	10.00%

	December 31, 2006			
	Actual		Minimum Required	
(Thousands of dollars, except percents)	Amount	Ratio	Amount	Ratio
Tier-1 Leverage Capital	$ 1,326,563	10.09%	$ 657,061*	5.00%*
Risk-Based Capital:				
Tier-1	1,326,563	8.77%	907,639	6.00%
Total	1,392,814	9.21%	1,512,732	10.00%

* Based on the terms of the Order consented to on March 7, 2007, the minimum required amount and ratio would have been $1,839,772 and 14%, respectively.

The following table details the calculation of the respective capital amounts at FIL as of the dates indicated:

(Thousands of dollars)	September 30, 2007	December 31, 2006
Common stockholder s equity at FIL	**$ 549,917**	$ 1,326,557
Less: Disallowed portion of deferred tax assets and mortgage servicing rights	**(23)**	
Net unrealized losses on available-for-sale securities	**(1,563)**	6
Total Tier-1 Capital	**548,331**	1,326,563
Add: Allowable portion of the allowance for loan losses	**309**	66,251

Total Risk-Based Capital (Tier-1 and Tier-2)	**$ 548,640**	$ 1,392,814

NOTE 17 COMMITMENTS AND CONTINGENCIES

Cleanup Call:
The Company retains the right in its securitization transactions to call the securities when the outstanding balance of loans in the securitization trust declines to a specific level, typically 10% of the original balance.

Termination Benefits:
As more fully described in Item 11. Executive Compensation, in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 (2006 Annual Report), certain of the Company s executive officers are entitled to receive certain payments and benefits upon a Change-in Status, Company Event, and or Involuntary Termination, as such terms are defined in the 2006 Annual Report. Although the Company does not believe these payments are probable as such term is defined in SFAS No. 5, Accounting for Contingencies , the likelihood that such payments may be made in the foreseeable future is reasonably possible. The Company estimates that these payments and benefits, if they were to occur, could result in the Company recognizing as much as $19 million in compensation expense in the period in which some or all of these events occurred.

Cease and Desist Order:
On March 7, 2007, the Company consented to an Order to Cease and Desist from the FDIC without admitting to the allegations contained in the Order. Should the FDIC or DFI deem the Company and/or its directors to have violated or otherwise failed to comply with the Order, civil money penalties could be imposed. The Company has and continues to expend considerable resources complying with the letter and spirit of the Order. FIL has filed its required quarterly progress reports with the FDIC and the DFI and it has not received any communications indicating non-compliance with the Order.

Table of Contents

Legal Actions:
The Company is a defendant in a number of legal actions or regulatory proceedings arising in the ordinary course of business, from the discontinuance of the insurance operations and from regulatory examinations conducted by the FDIC and the DFI.

The following is a material legal proceeding filed during the third quarter of 2007 not previously reported. For further information concerning material pending and threatened litigation action and proceedings against the Company, see Note 23 Commitments and Contingencies, in Notes to Consolidated Financial Statements in the 2006 Annual Report.

Morgan Stanley v. Fremont Investment & Loan
On October 23, 2007, Morgan Stanley Mortgage Capital Holdings LLC filed a lawsuit in the United States District Court for the Southern District of New York against FIL alleging breaches with respect to residential mortgage loans it sold to Morgan Stanley between May 1, 2005 and December 28, 2006. The complaint alleges damages of at least $10 million. The case is in its very early stages and the Company cannot predict the outcome or effect it will have on its financial condition. However, the Company believes the lawsuit is without merit and will vigorously defend against it.

NOTE 18 OPERATIONS BY REPORTABLE SEGMENT

As more fully described in Note 1, in the first quarter of 2007, the Company decided to exit the residential real estate business. Therefore, the results of operations of that business are now reported as discontinued operations and the Company only has a single reportable segment as defined by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS No. 131).

Although the Company sold its commercial real estate lending business and entire $6.27 billion loan portfolio and majority of the non-loan assets used in the business to *i*Star in July 2007 and received cash of $1.89 billion and a 70% participation interest of $4.2 billion in the loans sold, as more fully described in Note 8, this continuing interest in the commercial real estate operations results in significant continuing cash flows between the Company and the commercial component. Therefore, the commercial real estate business does not meet the criteria of a discontinued operation and continues to be a reportable segment as defined by SFAS No. 131.

Through the first six months of 2007, the commercial real estate segment originated commercial real estate loans, which were primarily bridge and construction facilities, on a nationwide basis. Beginning in the first quarter of 2007, the Company reclassified these loans from held for investment to loans held for sale. The loans generated net interest income on the difference between the rates charged on the loans and the cost of borrowed funds. Beginning in the third quarter of 2007, the commercial real estate segment generated interest income on the participation interest in the commercial loan portfolio sold to *i*Star as described above.

Management measures and evaluates the commercial real estate segment based on net interest income and pre-tax operating results. The results of operations include certain allocated corporate expenses charged back to the commercial segment. In addition, interest expense is charged back to both the commercial segment as well as the (residential real estate) discontinued operations for the use of funds generated by the Company s corporate and retail banking operations. Interest expense is allocated to the commercial segment and discontinued operations using treasury rates matched to the terms of the respective loans.

Certain expenses that are centrally managed at the corporate level such as provision for income taxes and other general corporate expenses are excluded from the measure of segment profitability reviewed by management. The Company has included these general corporate expenses along with the results of the Company s retail banking operation, which does not meet the definition of a reportable segment, in the Corporate and Retail Banking category.

Intersegment eliminations shown in the following tables relate to the credit allocated to the retail banking operations for operating funds provided to the commercial segment.

Historical periods have been restated to conform to this presentation.

(Thousands of dollars)	Commercial Real Estate	Corporate and Retail Banking	Intersegment Eliminations	Total Consolidated
Three months ended September 30, 2007				
Total revenues	$ 90,274	$ 155,285	$ (49,496)	$ 196,063
Net interest income	$ 22,636	$ 2,426	$	$ 25,062
Provision for loan losses	(151)			(151)
Other non-interest income	18,142	47,747		65,889
Compensation	1,100	(15,456)		(14,356)
Occupancy	637	(3,697)		(3,060)
Other non-interest expense	4,290	(23,740)		(19,450)
Allocations				
Income before income taxes	46,654	7,280		53,934
Income tax expense				(21,738)
Income from continuing operations	46,654	7,280		32,196
Loss from discontinued operations, net of income taxes				(13,895)
Net income (loss)	$ 46,654	$ 7,280	$	$ 18,301
Assets continuing operations	$ 33,401	$ 7,852,573	$ (1,732)	$ 7,884,242
Assets discontinued operations				906,825
Total consolidated assets	$ 33,401	$ 7,852,573	$ (1,732)	$ 8,791,067

(Thousands of dollars)	Commercial Real Estate	Corporate and Retail Banking	Intersegment Eliminations	Total Consolidated
Three months ended September 30, 2006				
Total revenues	$ 148,861	$ 82,664	$ (73,512)	$ 158,013
Net interest income	$ 70,794	$ 19,939	$	$ 90,733
Provision for loan losses	(12,687)			(12,687)
Other non-interest income	4,556	269		4,825
Compensation	(8,216)	(16,918)		(25,134)
Occupancy	(791)	(2,488)		(3,279)
Other non-interest expense	(2,302)	(17,289)		(19,591)
Allocations	(1,269)	1,269		

Income (loss) before income taxes	50,085	(15,218)		34,867
Income tax expense				(12,190)
Income (loss) from continuing operations	50,085	(15,218)		22,677
Income from discontinued operations, net of income taxes				6,848
Net income (loss)	$ 50,085	$ (15,218)	$	$ 29,525
Assets continuing operations	$ 6,009,650	$ 885,150		$ 6,894,800
Assets discontinued operations				5,907,936
Total consolidated assets	$ 6,009,650	$ 885,150		$ 12,802,736

Table of Contents

(Thousands of dollars)	Commercial Real Estate	Corporate and Retail Banking	Intersegment Eliminations	Total Consolidated
Nine months ended September 30, 2007				
Total revenues	$ 381,492	$ 356,323	$ (208,328)	$ 529,487
Net interest income	$ 155,048	$ 12,637		$ 167,685
Provision for loan losses	(333)			(333)
Other non-interest income	18,116	49,229		67,345
Compensation	(18,353)	(70,460)		(88,813)
Occupancy	(1,200)	(11,745)		(12,945)
Other non-interest expense	4,546	(80,687)		(76,141)
Allocations	(3,411)	3,411		
Income (loss) before income taxes	154,413	(97,615)		56,798
Income tax expense				(24,518)
Income (loss) from continuing operations	154,413	(97,615)		32,280
Loss from discontinued operations, net of income taxes				(869,773)
Net income (loss)	$ 154,413	$ (97,615)		$ (837,493)
Assets continuing operations	$ 33,401	$ 7,852,573	$ (1,732)	7,884,242
Assets discontinued operations				906,825
Total consolidated assets	$ 33,401	$ 7,852,573	$ (1,732)	$ 8,791,067

(Thousands of dollars)	Commercial Real Estate	Corporate and Retail Banking	Intersegment Eliminations	Total Consolidated
Nine months ended September 30, 2006				
Total revenues	$ 390,661	$ 209,186	$ (185,515)	$ 414,332
Net interest income	$ 194,858	$ 50,587		$ 245,445
Provision for loan losses	(28,284)	(4)		(28,288)
Other non-interest income	10,296	833		11,129
Compensation	(21,710)	(55,825)		(77,535)
Occupancy	(2,248)	(7,880)		(10,128)
Other non-interest expense	(1,758)	(47,358)		(49,116)
Allocations	(3,763)	3,763		

Income (loss) before income taxes	147,391	(55,884)	91,507
Income tax expense			(34,797)
Income (loss) from continuing operations	147,391	(55,884)	56,710
Income from discontinued operations, net of income taxes			56,426
Net income (loss)	$ 147,391	$ (55,884)	$ 113,136
Assets continuing operations	$ 6,009,650	$ 885,150	$ 6,894,800
Assets discontinued operations			5,907,936
Total consolidated assets	$ 6,009,650	$ 885,150	$ 12,802,736

Table of Contents

NOTE 19 EARNINGS PER SHARE

Earnings per share have been computed based on the weighted-average number of shares. The following tables set forth the computation of basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands, except per share amounts)	2007	2006	2007	2006
Income from continuing operations (numerator for basic and diluted earnings per share)	**$ 32,196**	$ 22,677	**$ 32,280**	$ 56,710
Weighted-average shares (denominator for basic earnings per share)	**77,113**	74,498	**76,371**	74,187
Effect of dilutive securities using the treasury stock method for restricted stock and stock options:				
Employee benefit plans	**704**	1,221	**974**	1,201
Restricted stock		366		406
Stock options		16		64
Dilutive potential common shares	**704**	1,603	**974**	1,671
Adjusted weighted-average shares (denominator for diluted earnings per share)	**77,817**	76,101	**77,345**	75,858
Potentially dilutive shares related to restricted stock not included above since they are antidilutive	**915**		**766**	
Basic earnings per share from continuing operations	**$ 0.42**	$ 0.31	**$ 0.42**	$ 0.77
Diluted earnings per share from continuing operations	**$ 0.41**	$ 0.30&nb		