MID AMERICA APARTMENT COMMUNITIES INC
Form 10-Q
July 31, 2008

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 June 30, 2008

or

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

For the transition period from ______ to ______

Commission File Number: 1-12762

MID-AMERICA APARTMENT COMMUNITIES, INC.
(Exact name of registrant as specified in its charter)

TENNESSEE (State or other jurisdiction of incorporation or organization)	62-1543819 (I.R.S. Employer Identification No.)
6584 POPLAR AVENUE, SUITE 300 MEMPHIS, TENNESSEE (Address of principal executive offices)	38138 (Zip Code)

(901) 682-6600
(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.
þ Yes ¨ No

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

Large accelerated filer þ Accelerated filer ¨

Non-accelerated filer ¨ Smaller Reporting Company ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Number of Shares Outstanding at July 15, 2008
Common Stock, $0.01 par value	27,498,199

MID-AMERICA APARTMENT COMMUNITIES, INC.

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Mid-America Apartment Communities, Inc.
Condensed Consolidated Balance Sheets
June 30, 2008 (Unaudited) and December 31, 2007
(Dollars in thousands, except per share data)

	June 30, 2008		December 31, 2007	
Assets:				
Real estate assets:				
Land	$	222,669	$	214,743
Buildings and improvements		2,113,992		2,044,380
Furniture, fixtures and equipment		60,694		55,602
Capital improvements in progress		32,938		12,886
		2,430,293		2,327,611
Less accumulated depreciation		(660,053)		(616,364)
		1,770,240		1,711,247
Land held for future development		2,300		2,360
Commercial properties, net		7,910		6,778
Investments in and advances to real estate joint ventures		6,745		168
Real estate assets, net		1,787,195		1,720,553
Cash and cash equivalents		9,977		17,192
Restricted cash		3,833		3,724
Deferred financing costs, net		15,698		15,219
Other assets		20,554		23,028
Goodwill		4,106		4,106
Total assets	$	1,841,363	$	1,783,822
Liabilities and Shareholders' Equity:				
Liabilities:				
Notes payable	$	1,243,827	$	1,264,620
Accounts payable		1,552		1,099
Accrued expenses and other liabilities		85,499		77,252
Security deposits		8,851		8,453
Total liabilities		1,339,729		1,351,424
Minority interest		31,481		28,868
Redeemable stock		2,238		2,574
Shareholders' equity:				
Preferred stock, $0.01 par value per share, 20,000,000 shares authorized, $166,863 or $25 per share liquidation preference;				
8.30% Series H Cumulative Redeemable Preferred Stock, 6,200,000 shares authorized, 6,200,000 shares issued and outstanding		62		62
Common stock, $0.01 par value per share, 50,000,000 shares authorized;				

27,482,974 and 25,718,880 shares issued and outstanding at June 30, 2008, and December 31, 2007, respectively (1)		274		257
Additional paid-in capital		920,762		832,511
Accumulated distributions in excess of net income		(438,251)		(414,966)
Accumulated other comprehensive income		(14,932)		(16,908)
Total shareholders' equity		467,915		400,956
Total liabilities and shareholders' equity	$	1,841,363	$	1,783,822

(1) Number of shares issued and outstanding represent total shares of common stock regardless of classification on the consolidated balance sheet. The number of shares classified as redeemable stock on the consolidated balance sheet for June 30, 2008 and December 31, 2007, are 43,847 and 60,212, respectively.

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartment Communities, Inc.
Condensed Consolidated Statements of Operations
Three and six months ended June 30, 2008, and 2007
(Dollars in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Operating revenues:				
Rental revenues	$ 88,608	$ 82,875	$ 176,537	$ 164,087
Other property revenues	4,165	3,904	8,352	7,649
Total property revenues	92,773	86,779	184,889	171,736
Management fee income	61	-	89	34
Total operating revenues	92,834	86,779	184,978	171,770
Property operating expenses:				
Personnel	11,578	10,472	22,826	20,486
Building repairs and maintenance	3,548	3,188	6,661	6,244
Real estate taxes and insurance	11,726	11,624	23,167	22,722
Utilities	5,050	4,761	10,214	9,548
Landscaping	2,420	2,296	4,863	4,568
Other operating	4,358	4,128	8,565	7,847
Depreciation	22,420	21,108	44,688	42,396
Total property operating expenses	61,100	57,577	120,984	113,811
Property management expenses	4,387	4,380	8,645	8,793
General and administrative expenses	2,831	2,556	5,751	5,228
Income from continuing operations before non-operating items	24,516	22,266	49,598	43,938
Interest and other non-property income	116	51	224	145
Interest expense	(15,145)	(16,034)	(31,479)	(32,048)
Loss on debt extinguishment	-	(52)	-	(52)
Amortization of deferred financing costs	(486)	(574)	(1,114)	(1,135)
Incentive fees from real estate joint ventures	-	-	-	1,019
Net gains on insurance and other settlement proceeds	416	332	544	842
Gain (loss) on sale of non-depreciable assets	-	226	(3)	226
Income from continuing operations before minority interest and investments in real estate joint ventures	9,417	6,215	17,770	12,935
Minority interest in operating partnership income	(513)	(763)	(1,045)	(1,801)
(Loss) gains from real estate joint ventures	(199)	(51)	(282)	5,329
Income from continuing operations	8,705	5,401	16,443	16,463
Discontinued operations:				
Income from discontinued operations before gain on sale	-	274	-	536
	(61)	3,443	(120)	3,443

(Loss) gains on sale of discontinued operations				
Net income	8,644	9,118	16,323	20,442
Preferred dividend distributions	3,217	3,490	6,433	6,981
Net income available for common shareholders	$ 5,427	$ 5,628	$ 9,890	$ 13,461
Weighted average shares outstanding (in thousands):				
Basic	26,599	25,288	26,113	25,188
Effect of dilutive stock options	128	176	129	189
Diluted	26,727	25,464	26,242	25,377
Net income available for common shareholders	$ 5,427	$ 5,628	$ 9,890	$ 13,461
Discontinued property operations	61	(3,717)	120	(3,979)
Income from continuing operations available for common shareholders	$ 5,488	$ 1,911	$ 10,010	$ 9,482
Earnings per share - basic:				
Income from continuing operations available for common shareholders	$ 0.20	$ 0.07	$ 0.38	$ 0.37
Discontinued property operations	-	0.15	-	0.16
Net income available for common shareholders	$ 0.20	$ 0.22	$ 0.38	$ 0.53
Earnings per share - diluted:				
Income from continuing operations available for common shareholders	$ 0.20	$ 0.07	$ 0.38	$ 0.37
Discontinued property operations	-	0.15	-	0.16
Net income available for common shareholders	$ 0.20	$ 0.22	$ 0.38	$ 0.53
Dividends declared per common share	$ 0.615	$ 0.605	$ 1.230	$ 1.210

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartment Communities, Inc.
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2008 and 2007
(Dollars in thousands)

	2008	2007
Cash flows from operating activities:		
Net income	$ 16,323	$ 20,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations before asset impairment, settlement proceeds and gain on sale	-	(536)
Depreciation and amortization of deferred financing costs	45,802	43,531
Stock compensation expense	380	490
Stock issued to employee stock ownership plan	495	440
Redeemable stock issued	221	184
Amortization of debt premium	(887)	(1,018)
Loss from investments in real estate joint ventures	320	58
Minority interest in operating partnership income	1,045	1,801
Loss on debt extinguishment	-	52
Derivative interest expense	167	98
Loss (gain) on sale of non-depreciable assets	3	(226)
Loss (gain) on sale of discontinued operations	120	(3,443)
Gains on disposition within real estate joint ventures	(38)	(5,387)
Incentive fees from real estate joint ventures	-	(1,019)
Net gains on insurance and other settlement proceeds	(544)	(842)
Changes in assets and liabilities:		
Restricted cash	(109)	(4)
Other assets	7,143	5,479
Accounts payable	453	(2,124)
Accrued expenses and other	3	226
Security deposits	398	652
Net cash provided by operating activities	71,295	58,854
Cash flows from investing activities:		
Purchases of real estate and other assets	(58,293)	(35,225)
Improvements to existing real estate assets	(18,182)	(13,923)
Renovations to existing real estate assets	(8,873)	(4,709)
Development	(13,492)	(9,950)
Distributions from real estate joint ventures	1	9,855
Contributions to real estate joint ventures	(6,913)	(98)
Proceeds from disposition of real estate assets	857	13,778
Net cash used in investing activities	(104,895)	(40,272)
Cash flows from financing activities:		
Net change in credit lines	3,887	11,572
Principal payments on notes payable	(23,793)	(11,333)
Payment of deferred financing costs	(1,593)	(1,298)
Repurchase of common stock	(474)	(123)
	89,715	21,906

Proceeds from issuances of common shares and units				
Distributions to unitholders		(3,166)		(3,012)
Dividends paid on common shares		(31,758)		(30,566)
Dividends paid on preferred shares		(6,433)		(6,981)
Net cash provided by (used in) financing activities		26,385		(19,835)
Net decrease in cash and cash equivalents		(7,215)		(1,253)
Cash and cash equivalents, beginning of period		17,192		5,545
Cash and cash equivalents, end of period	$	9,977	$	4,292
Supplemental disclosure of cash flow information:				
Interest paid	$	31,334	$	33,809
Supplemental disclosure of noncash investing and financing activities:				
Interest capitalized	$	328	$	520
Marked-to-market adjustment on derivative instruments	$	1,976	$	6,945
Reclass of preferred stock from equity to liabilities	$	-	$	442
Reclass of redeemable stock from equity to liabilities	$	475	$	-

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartment Communities, Inc.
Notes to Condensed Consolidated Financial Statements
June 30, 2008, and 2007 (Unaudited)

1. Consolidation and Basis of Presentation

Mid-America Apartment Communities, Inc. is a self-administered real estate investment trust, or REIT, that owns, acquires, renovates, develops and manages apartment communities in the Sunbelt region of the United States. As of June 30, 2008, we owned or owned interests in 142 multifamily apartment communities comprising 41,633 apartments located in 13 states, including 2 communities comprising 626 apartments owned through our joint venture, Mid-America Multifamily Fund I, LLC, and 2 development communities in varying stages of lease-up. None of these communities were classified as held for sale as of June 30, 2008. In addition, we had 124 apartments under development and not yet in lease-up adjacent to one of our existing communities.

The accompanying unaudited condensed consolidated financial statements have been prepared by the management of Mid-America Apartment Communities, Inc. in accordance with U.S. generally accepted accounting principles for interim financial information and applicable rules and regulations of the Securities and Exchange Commission and our accounting policies in effect as of December 31, 2007 as set forth in our annual consolidated financial statements, as of such date. The accompanying unaudited condensed consolidated financial statements include the accounts of Mid-America Apartment Communities, Inc. and its subsidiaries, including Mid-America Apartments, L.P. (the "Operating Partnership") (collectively, "Mid-America"). In the opinion of management, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included and all such adjustments were of a normal recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and six month periods ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with our audited financial statements and notes thereto included in Mid-America's Annual Report on Form 10-K for the year ended December 31, 2007.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates.

2. Segment Information

As of June 30, 2008, Mid-America owned or had an ownership interest in 142 multifamily apartment communities in 13 different states from which it derives all significant sources of earnings and operating cash flows. Our operational structure is organized on a decentralized basis, with individual property managers having overall responsibility and authority regarding the operations of their respective properties. Each property manager individually monitors local, market and submarket trends in rental rates, occupancy percentages, and operating costs. Property managers are given the on-site responsibility and discretion to react to such trends in the best interest of Mid-America. Our chief operating decision maker evaluates the performance of each individual property based on its contribution to net operating income in order to ensure that the individual property continues to meet our return criteria and long-term investment goals. We define each of our multifamily communities as an individual operating segment. We have also determined that all of our communities have similar economic characteristics and also meet the other criteria which permit the communities to be aggregated into one reportable segment, which is the acquisition and operation of the multifamily communities owned.

3. Comprehensive Income

Total comprehensive income and its components for the three and six month periods ended June 30, 2008, and 2007 were as follows (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net income	$ 8,644	$ 9,118	$ 16,323	$ 20,442
Marked-to-market adjustment on derivative instruments	27,556	9,871	1,976	6,945
Total comprehensive income	$ 36,200	$ 18,989	$ 18,299	$ 27,387

The marked-to-market adjustment on derivative instruments is based upon the change of interest rates available for derivative instruments with similar terms and remaining maturities existing at each balance sheet date.

4. Real Estate Acquisitions

On September 14, 2007, Mid-America entered into an option contract to purchase the Cascade at Fall Creek apartments, a 246-unit community being built next to our Chalet at Fall Creek apartments in Humble, Texas, a suburb of Houston. Among other provisions, the contract required certain construction completion levels for purchase. On January 10, 2008, the provisions of the contract were met and Mid-America acquired the Cascade at Fall Creek apartment community.

On January 17, 2008, Mid-America Multifamily Fund I, LLC, or Fund I, our joint venture with institutional capital, acquired the Milstead Village apartments, a 310-unit community located in Kennesaw, Georgia, a suburb of Atlanta. This was the first acquisition made by Fund I.

On March 27, 2008, Fund I acquired a second property, the Greenwood Forest apartments, a 316-unit community located in Greenwood Forest, Texas, a suburb of Houston.

On May 21, 2008, Mid-America purchased the Providence at Brier Creek apartments, a 313-unit community located in Raleigh, NC.

5. Discontinued Operations

As part of Mid-America's disposition strategy to selectively dispose of mature assets that no longer meet our investment criteria and long-term strategic objectives, in April 2006, we entered into an agreement to list the 184-unit Gleneagles apartments and the 200-unit Hickory Farm apartments both located in Memphis, Tennessee, for sale. Both of these communities were subsequently sold on May 3, 2007. Also in line with this strategy, in March 2007, we entered into an agreement to list the 144-unit Somerset apartments and the 192-unit Woodridge apartments both located in Jackson, Mississippi, for sale. Both of these communities were subsequently sold on July 16, 2007. In accordance with Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, or Statement No. 144, these communities are considered discontinued operations in the accompanying condensed consolidated financial statements.

The following is a summary of discontinued operations for the three and six month periods ended June 30, 2008, and 2007, (dollars in thousands):

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenues				
Rental revenues	$ -	$ 786	$ -	$ 1,962
Other revenues	-	46	-	113
Total revenues	-	832	-	2,075
Expenses				
Property operating expenses	-	436	-	1,103
Depreciation	-	(1)	-	132
Interest expense	-	123	-	304
Total expense	-	558	-	1,539
Income from discontinued operations before gain on sale and settlement proceeds	-	274	-	536
(Loss) gain on sale of discontinued operations	(61) (1)	3,443	(120) (1)	3,443
Income from discontinued operations	$ (61)	$ 3,717	$ (120)	$ 3,979

(1) Amount represents adjustment related to final expenses from a disposition of real estate assets in a prior period.

Subsequent to June 30, 2008, Mid-America entered into contracts to market the following communities for sale: River Trace in Memphis, TN, Riverhills in Grenada, MS, Woodstream in Greensboro, NC and Westbury Springs in Lilburn, GA. As a result, these communities will be classified as held for sale beginning in July 2008, in accordance with Statement No. 144.

6. Share and Unit Information

On June 30, 2008, 27,482,974 common shares and 2,406,411 operating partnership units were outstanding, representing a total of 29,889,385 shares and units. Additionally, Mid-America had outstanding options for the purchase of 94,688 shares of common stock at June 30, 2008, of which 42,957 were anti-dilutive. At June 30, 2007, 25,511,314 common shares and 2,482,593 operating partnership units were outstanding, representing a total of 27,993,907 shares and units. Additionally, Mid-America had outstanding options for the purchase of 144,620 shares of common stock at June 30, 2007, of which 64,477 were anti-dilutive.

During the three-month period ended June 30, 2008, we issued 1,182,300 shares of common stock through at-the-market offerings or negotiated transactions and received net proceeds of $64.0 million under an existing controlled equity offering program. For the first six months of 2008, we issued a total of 1,482,300 shares of common stock for net proceeds of $79.5 million through this program, which exhausted the authorized shares in the sales agreement.

Subsequent to June 30, 2008, Mid-America entered into a second controlled equity offering sales agreement with similar terms authorizing the sale of up to 1,350,000 shares of common stock. As of the filing of this Form 10-Q, no shares have been sold under the new agreement.

7. Derivative Financial Instruments

In the normal course of business, Mid-America uses certain derivative financial instruments to manage, or hedge, the interest rate risk associated with our variable rate debt or to hedge anticipated future debt transactions to manage well-defined interest rate risk associated with the transaction.

We do not use derivative financial instruments for speculative or trading purposes. Further, Mid-America has a policy of entering into contracts with major financial institutions based upon their credit rating and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designated to hedge, Mid-America has not sustained any material loss from those instruments nor do we anticipate any material adverse effect on our net income or financial position in the future from the use of derivatives.

Mid-America requires that derivative financial instruments designated as cash flow hedges be effective in reducing the interest rate risk exposure that they are designated to hedge. This effectiveness is essential for qualifying for hedge accounting. Instruments that meet the hedging criteria are formally designated as hedging instruments at the inception of the derivative contract. We formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking the hedge transaction. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. We also formally assess, both at the inception of the hedging relationship and on an ongoing basis, whether the derivatives used are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative has ceased to be a highly effective hedge, Mid-America discontinues hedge accounting prospectively.

All of our derivative financial instruments are reported at fair value, are represented on the balance sheet, and are characterized as cash flow hedges. These transactions hedge the future cash flows of debt transactions through interest rate swaps that convert variable payments to fixed payments and interest rate caps that limit the exposure to rising interest rates. The unrealized gains/losses in the fair value of these hedging instruments are reported on the balance sheet with a corresponding adjustment to accumulated other comprehensive income, with any ineffective portion of the hedging transactions reclassified to earnings. As of June 30, 2008, and 2007, the ineffective portion of the hedging transactions reclassified to earnings was a $114,000 increase, and a $69,000 increase, respectively, to interest expense.

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“Statement 157”). Statement 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

Statement 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, Statement 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Currently, Mid-America uses certain derivative financial instruments to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

The fair values of interest rate options are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To comply with the provisions of Statement 157, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of June 30, 2008, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 3 of the fair value hierarchy.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2008, aggregated by the level in the fair value hierarchy within which those measurements fall.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2008
(dollars in thousands)

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2008
Assets				
Derivative financial instruments	$ -	$ -	$ 2,192	$ 2,192
Liabilities				
Derivative financial instruments	$ -	$ -	$ 16,559	$ 16,559

The table below presents a reconciliation of the beginning and ending balances of assets and liabilities having fair value measurements based on significant unobservable inputs (Level 3).

Changes in Level 3 Assets/(Liabilities) Measured at Fair Value on a Recurring Basis
for the Six Months Ended June 30, 2008
(dollars in thousands)

	Balance at 12/31/2007	Total Gains Included in Income	Total Realized and Unrealized Gains Included in Other Comprehensive Income	Purchases, Issuances and Settlements	Net Transfers In and/or Out of Level 3	Balance at 6/30/2008
Derivative financial instruments	$ (15,976)	$ 134	$ (537)	$ 2,012	$ -	$ (14,367)

Changes in Level 3 Assets/(Liabilities) Measured at Fair Value on a Recurring Basis