ANWORTH MORTGAGE ASSET CORP
Form 10-K/A
April 17, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

---

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

OR

¨ **TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 001-13709

ANWORTH MORTGAGE ASSET CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

MARYLAND	**52-2059785**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation Organization)	**Identification No.)**
1299 OCEAN AVENUE, 2ND FLOOR, SANTA MONICA,	**90401**

CALIFORNIA

(Address of Principal Executive Offices) **(Zip Code)**

Registrant s telephone number, including area code: (310) 255-4493

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

Title of Each Class	Name of Exchange on Which Registered
Series A Cumulative Preferred Stock, $0.01 Par Value	**New York Stock Exchange**
Series B Cumulative Convertible Preferred Stock, $0.01 Par Value	**New York Stock Exchange**
Common Stock, $0.01 Par Value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant is a well-known seasoned issuer as defined in Rule 405 of the Act. Yes ¨ No x

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 filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark that disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average closing bid and asked prices of such stock as of June 30, 2006 was approximately $425,933,049 (All officers and directors of the registrant are considered affiliates).

At April 13, 2007, the registrant had 1,875,500 shares of Series A Cumulative Preferred Stock issued and outstanding; 1,150,000 shares of Series B Cumulative Convertible Preferred Stock issued and outstanding; and 45,616,076 shares of Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of the Form 10-K incorporates by reference certain portions of the registrant s proxy statement for its 2007 annual meeting of stockholders to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this report.

EXPLANATORY NOTE

Anworth Mortgage Asset Corporation, or the Company, is filing this Amendment No. 1 on Form 10-K/A, or the Amendment, to its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, or the Form 10-K, to amend Item 7 of the Form 10-K. The purpose of the Amendment is to correct typographical errors in the tables under the heading Off-Balance Sheet and Contractual Arrangements . The line items for Lease commitment (Anworth) in such tables were inadvertently shown in actual dollars, whereas the remainder of the line items in such tables were shown in thousands of dollars. The resulting revisions also change the amounts listed under Total by reducing such amounts accordingly. No other amendments have been made and the Amendment does not reflect events occurring after the filing of the Form 10-K or modify or update those disclosures affected by subsequent events. Accordingly, the Amendment should be read in conjunction with the Company s other filings, if any, made with the Securities and Exchange Commission subsequent to the filing of the Form 10-K.

PART II

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial statements included elsewhere in this Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors including those set forth under Risk Factors herein.

General

We were formed in October 1997 and commenced operations on March 17, 1998. We are in the business of investing primarily in mortgage-related assets including mortgage pass-through certificates, collateralized mortgage obligations, mortgage loans and other securities representing interests in, or obligations backed by, pools of mortgage loans which can be readily financed. Our principal business objective is to generate net income for distribution to stockholders based upon the spread between the interest income on our mortgage-related assets and the costs of borrowing to finance our acquisition of these assets.

We are organized for tax purposes as a REIT. Accordingly, we generally distribute substantially all of our earnings to stockholders without paying federal or state income tax at the corporate level on the distributed earnings. At December 31, 2006, our qualified REIT assets (real estate assets, as defined in the Code, cash and cash items and government securities) were greater than 90% of our total assets, as compared to the Code requirement that at least 75% of our total assets must be qualified REIT assets. Greater than 99% of our 2005 revenue qualifies for both the 75% source of income test and the 95% source of income test under the REIT rules. We believe we met all REIT requirements regarding the ownership of our common stock and the distributions of our net income. Therefore, we believe that we continue to qualify as a REIT under the provisions of the Code.

Our investments consist of the following portfolios: Agency mortgage-backed securities, or Agency MBS; Non-Agency mortgage-backed securities, or Non-Agency MBS; Belvedere Trust s residential real estate loans, or BT Residential Loans; and Belvedere Trust s Other mortgage-backed securities, or BT Other MBS.

On November 3, 2003, we formed Belvedere Trust, our wholly-owned subsidiary. Belvedere Trust acquires high credit-quality jumbo adjustable-rate and hybrid first-lien mortgage loans and other mortgage-related assets, securitizes a substantial amount of those mortgage loans and then retains a portion of those MBS while selling the balance to third parties in the secondary market. The MBS that are retained are purchased by a qualified REIT subsidiary to maximize tax efficiency on the interest income on those securities. Belvedere Trust was formed as a qualified REIT subsidiary but it structures securitizations through taxable REIT subsidiaries (which generally are taxed as C corporations subject to full corporate taxation) which, in turn, establish SPEs that issue securities through REMIC trusts.

At December 31, 2006, we had total assets of $6.7 billion. Agency MBS portfolio, consisting of $4.7 billion, was distributed as follows: 26% agency adjustable-rate MBS, 58% agency hybrid adjustable-rate MBS, 16% agency fixed-rate MBS and less than 1% agency floating-rate CMOs. Non-Agency MBS portfolio consisted of $107 million of floating-rate CMOs. BT Other MBS held at December 31, 2006 were approximately $163 million. Belvedere Trust had no mortgage loans held for securitization at December 31, 2006. Securitized mortgage loans were $1.7 billion. At December 31, 2006, Belvedere Trust s assets comprised 28% of our overall assets, or approximately $1.9 billion in mortgage-related assets. Total equity at December 31, 2006 was $491 million. Common stockholders equity was approximately $444 million, or $9.74 per share. For the year ended December 31, 2006, we reported a net loss of $14.2 million. Net loss to common stockholders was $18.2 million, or a net loss of $(0.40) per diluted share. This includes a net loss of $7.6 million on the sale of securities during 2006 and a net loss of $2.7 million for Belvedere Trust.

Results of Operations

Years Ended December 31, 2006 and 2005

For the year ended December 31, 2006, our net loss was $14.2 million. Our net loss to common stockholders was $18.2 million, or a net loss of $(0.40) per diluted share, based on an average of 45.4 million shares outstanding. For the year ended December 31, 2005, our net income was $28.9 million and our net income available to common stockholders was $25 million, or $0.53 per diluted share, based on an average of 47.1 million shares outstanding.

Net interest income for the year ended December 31, 2006 totaled $2.3 million, or 1% of total interest income, compared to $39.2 million, or 13.9% of total interest income, for the year ended December 31, 2005. The decline in net interest income is due primarily to the increase in short-term interest rates during most of the year and the mismatch between

1

longer maturities on the mortgage-related assets and the shorter maturities on the related liabilities that finance those assets. Net interest income is comprised of the interest income earned on mortgage investments less interest expense from borrowings. Interest income net of premium amortization expense for the year ended December 31, 2006 was $309.4 million, compared to $281.8 million for the year ended December 31, 2005, an increase of 9.8%. Interest expense for the year ended December 31, 2006 was $307.1 million, compared to $242.5 million for the year ended December 31, 2005, an increase of 26.6%. The increase in both interest income and interest expense was due primarily to the increase in short-term interest rates during most of the year.

During the year ended December 31, 2006, premium amortization expense for Anworth decreased $13.2 million, or 32.4%, from $40.8 million during the year ended December 31, 2005 to $27.6 million, and for Belvedere Trust, it increased $2.4 million, or 12.8%, from $18.7 million during the year ended December 31, 2005 to $21.1 million. During the year ended December 31, 2006, the decrease in premium amortization expense for Anworth resulted from a decrease of the constant prepayment rate of its portfolio and the increase in premium amortization expense for Belvedere Trust resulted primarily from impairment charges of $3.3 million related to some of Belvedere Trust s interest-only securities.

The table below shows the approximate constant prepayment rate of our (including Belvedere Trust s) mortgage-related assets:

	Year Ended December 31, 2006				Year Ended December 31, 2005			
Portfolio	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Agency and Non-Agency MBS	25%	29%	26%	26%	27%	31%	36%	32%
BT Loans	35%	35%	29%	32%	19%	31%	37%	35%
BT Other MBS	10%	8%	13%	7%	21%	16%	17%	19%

During the year ended December 31, 2006, we sold approximately $398 million in face amount of Agency MBS, resulting in a loss of approximately $10.2 million, as part of our asset/liability management program. The proceeds from the sale were used to invest in higher-yielding Agency MBS. This loss was partially offset by a gain of approximately $2.6 million on the sale of $103 million in face amount of BT Other MBS. Belvedere Trust s sales of BT Other MBS were part of its asset/liability management program and were designed to reduce credit exposure. During the year ended December 31, 2005, we realized a gain on sale of securities of $129 thousand, or 0.05% of total interest income. During the years ended December 31, 2006 and 2005, we did not have any realized gain or loss on derivative instruments.

Total expenses were $8.9 million for the year ended December 31, 2006, compared to $10.2 million for the year ended December 31, 2005. The decrease of $1.3 million in total expenses was due primarily to a decrease in compensation and benefits of $140 thousand (due primarily to reductions in compensation at Belvedere Trust), a decrease in incentive compensation of $708 thousand, a decrease in Other expenses of $456 thousand (due primarily to reductions of $286 thousand in legal and accounting fees and reductions of $257 thousand in loan subservicing fees) and a decrease of $503 thousand related to Belvedere Trust s offering costs partially offset by an increase in the provision for loan losses of $179 thousand (relating to the residential real estate loans at Belvedere Trust) and an increase in compensation costs of $357 thousand relating to amortization of restricted stock.

Years Ended December 31, 2005 and 2004

For the year ended December 31, 2005, our net income was $28.9 million. Our net income available to common stockholders was $25 million, or $0.53 per diluted share, based on an average of 47.1 million shares outstanding. For the year ended December 31, 2004, our net income was $55.8 million and our net income available to common stockholders was $55.4 million, or $1.22 per diluted share, based on an average of 45.3 million shares outstanding.

Net interest income for the year ended December 31, 2005 totaled $39.2 million, or 13.9% of total interest income, compared to $65.1 million, or 39.8% of total interest income, for the year ended December 31, 2004. Net interest income is comprised of the interest income earned on mortgage investments less interest expense from borrowings. Interest income net of premium amortization expense for the year ended December 31, 2005 was $281.8 million, compared to $163.4 million for the year ended December 31, 2004, an increase of 72.5%. Interest expense for the year ended December 31, 2005 was $242.5 million, compared to $98.3 million for the year ended December 31, 2004, an increase of 146.7%. The larger percentage increase in interest expense was due primarily to the increase in short-term interest rates during the year.

During the year ended December 31, 2005, premium amortization expense for Anworth decreased $6.8 million, or 14.3%, from $47.6 million to $40.8 million, and for Belvedere Trust, it increased $14.9 million, or 392.1%, from $3.8 million to $18.7 million. During the year ended December 31, 2005, the decrease in premium amortization expense for Anworth resulted from a decrease of the constant prepayment rate of its portfolio and the increase in premium amortization expense for Belvedere Trust resulted from an increase in its assets and an increase in the constant prepayment rate of its portfolio of loans and other mortgage-related assets.

The table below shows the approximate constant prepayment rate of our (including Belvedere Trust s) mortgage-related assets:

	Year Ended December 31, 2005				Year Ended December 31, 2004			
Portfolio	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Agency MBS	27%	31%	36%	32%	27%	42%	36%	29%
BT Loans	19%	31%	37%	35%	3%	21%	15%	17%
BT Other MBS	21%	16%	17%	19%	30%	35%	35%	23%

During the year ended December 31, 2005, we realized a gain on sale of securities of $129 thousand, or 0.05% of total interest income, compared to $259 thousand, or 0.2% of total interest income, during the year ended December 31, 2004. During the year ended December 31, 2005, we did not have any gain or loss on derivative instruments, compared to a realized net gain on derivative instruments (Belvedere Trust s Eurodollar futures contracts) of $340 thousand, or 0.2% of total interest income, during the year ended December 31, 2004.

Total expenses were $10.2 million for the year ended December 31, 2005, compared to $9.6 million for the year ended December 31, 2004. The increase of $636 thousand in total expenses was due primarily to an increase in compensation and benefits of $1.2 million (due primarily to increased staffing and compensation at Belvedere Trust and an increase in salaries at the company), an increase in the provision for loan losses of $495 thousand (relating to the residential real estate loans at Belvedere Trust), an increase in Other expenses of $476 thousand, Belvedere Trust s offering costs of $725 thousand, partially offset by a decrease in incentive compensation of $2.2 million.

Other expenses for the year ended December 31, 2005 were $4.2 million, compared to $3.8 million for the year ended December 31, 2004. This increase was due primarily to an increase in professional service fees of $240 thousand (due primarily to increased accounting and auditing fees relating to Sarbanes-Oxley), an increase in board of directors fees and expenses of $160 thousand, an increase in rent expenses of $46 thousand and a net increase in all other costs of $30 thousand.

Financial Condition

Agency MBS Portfolio

At December 31, 2006, we held agency mortgage assets whose amortized cost was approximately $4.70 billion, consisting primarily of $3.94 billion of adjustable-rate MBS, $756.8 million of fixed-rate MBS and $11 million of floating-rate CMOs. This amount represents an approximate 2.6% increase from the $4.58 billion held at December 31, 2005. Of the adjustable-rate Agency MBS owned by us, 31% were adjustable-rate pass-through certificates whose coupons reset within one year. The remaining 69% consisted of hybrid adjustable-rate MBS whose coupons will reset between one year and five years. Hybrid adjustable-rate MBS have an initial interest rate that is fixed for a certain period, usually three to five years, and thereafter adjust annually for the remainder of the term of the loan.

The following table presents a schedule of our Agency MBS at fair value owned at December 31, 2006 and December 31, 2005, classified by type of issuer (dollar amounts in thousands):

	At December 31, 2006		At December 31, 2005	
Agency	**Fair Value**	**Portfolio Percentage**	**Fair Value**	**Portfolio Percentage**
Fannie Mae (FNM)	$ 2,895,583	61.9%	$ 2,969,471	65.6%
Freddie Mac (FHLMC)	1,728,525	36.9%	1,471,900	32.5%
Ginnie Mae (GNMA)	54,799	1.2%	83,312	1.9%
Total Agency MBS:	$ 4,678,907	100.0%	$ 4,524,683	100.0%

3

The following table classifies our portfolio of Agency MBS owned at December 31, 2006 and December 31, 2005, by type of interest rate index (dollar amounts in thousands):

	At December 31, 2006		At December 31, 2005	
Index	**Fair Value**	**Portfolio Percentage**	**Fair Value**	**Portfolio Percentage**
One-month LIBOR	$ 10,940	0.2%	$ 13,074	0.3%
Six-month LIBOR	66,262	1.4%	31,333	0.7%
One year LIBOR	2,877,311	61.5%	2,473,909	54.7%
Six-month Certificate of Deposit	3,259	0.1%	4,365	0.1%
Six-month Constant Maturity Treasury	1,093	0.0%	1,287	0.0%
One-year Constant Maturity Treasury	914,451	19.6%	1,474,110	32.6%
Cost of Funds Index	55,112	1.2%	66,890	1.5%
Fixed-rate	750,479	16.0%	459,715	10.1%
Total Agency MBS:	$ 4,678,907	100.0%	$ 4,524,683	100.0%

The fair values indicated do not include interest earned but not yet paid. With respect to our hybrid adjustable-rate MBS, the fair value of these securities appears on the line associated with the index based on which the security will eventually reset once the initial fixed interest rate period has expired.

At December 31, 2006, our total agency portfolio had a weighted average coupon of 5.63%. The average coupon of the adjustable-rate securities was 5.76%, the hybrid securities average coupon was 5.49%, the fixed- rate securities average coupon was 5.95% and the CMO floaters average coupon was 6.13%. At December 31, 2005, our total agency portfolio had a weighted average coupon of 4.73%. The average coupon of the adjustable-rate securities was 4.64%, the hybrid average coupon was 4.65%, the fixed-rate securities average coupon was 5.46% and the CMO floaters average coupon was 5.18%.

At December 31, 2006, the average amortized cost of our agency mortgage-related assets was 101.55%, the average amortized cost of our adjustable-rate securities was 101.64% and the average amortized cost of our fixed-rate securities was 101.10%. Relative to our Agency and Non-Agency MBS portfolio at December 31, 2006, the average interest rate on outstanding repurchase agreements was 5.36% and the average days to maturity was 90 days. After adjusting for interest rate swap transactions, the average interest rate on outstanding repurchase agreements was 5.19% and the weighted average term to next rate adjustment was 301 days.

At December 31, 2005, the average amortized cost of our agency mortgage-related assets was 101.9%, the average amortized cost of our adjustable-rate securities was 101.9% and the average amortized cost of our fixed-rate securities was 101.6%. Relative to our Agency and Non-Agency MBS portfolio at December 31, 2005, the average interest rate on outstanding repurchase agreements was 3.99% and the average days to maturity was 126 days. After adjusting for interest rate swap transactions, the average interest rate on outstanding repurchase agreements was 3.90% and the weighted average term to next rate adjustment was 213 days.

At December 31, 2006 and December 31, 2005, the unamortized net premium paid for our Agency MBS was $72 million and $84 million, respectively.

At December 31, 2006, the current yield on our Agency MBS was 5.54% based on a weighted average coupon of 5.63% divided by the average amortized cost of 101.55%. At December 31, 2005, the current yield on our Agency MBS was 4.64% based on a weighted average coupon of 4.73% divided by the average amortized cost of 101.9%.

We analyze our MBS and the extent to which prepayments impact the yield of the securities. When the rate of prepayments exceeds expectations, we amortize the premiums paid on mortgage assets over a shorter time period, resulting in a reduced yield to maturity on our mortgage assets. Conversely, if actual prepayments are less than the assumed constant prepayment rate, the premium would be amortized over a longer time period, resulting in a higher yield to maturity.

Non-Agency MBS Portfolio

At December 31, 2006, our Non-Agency MBS portfolio consisted of $107 million of CMO floaters with an average coupon of 5.61% which were acquired at par value.

BT Other MBS Portfolio

At December 31, 2006, Belvedere Trust s portfolio of BT Other MBS at fair value included securities which are backed by first-lien hybrid and adjustable-rate residential mortgages. These MBS include investment grade and non-investment grade securities with a carrying value of approximately $162.8 million backed by 29.7% hybrid, 70.0% adjustable-rate and 0.3% fixed-rate mortgages by carrying value. This amount includes approximately $21.9 million in securities that were retained from Belvedere Trust s first securitization (HYB1) (accounted for as a sale) during the first quarter of 2004 consisting of $13.3 million in securities rated AAA, $6.8 million in other investment grade securities and $1.8 million in non-investment grade securities. The remaining balance of approximately $140.9 million were securities that were purchased from major issuers and consist of $127.0 million in investment grade securities and $13.9 million in non-investment grade securities.

At December 31, 2005, Belvedere Trust s portfolio of BT Other MBS at fair value included securities which are backed by first-lien hybrid and adjustable-rate residential mortgages. These MBS include investment grade and non-investment grade securities with a carrying value of approximately $96 million backed by 53.7% hybrid, 45.8% adjustable-rate and 0.5% fixed-rate mortgages by carrying value. This amount includes approximately $30 million in securities that were retained from Belvedere Trust s first securitization (HYB1) (accounted for as a sale) during the first quarter of 2004 consisting of $20 million in securities rated AAA, $8 million in other investment grade securities and $2 million in non-investment grade securities. The remaining balance of approximately $66 million were securities that were purchased from major issuers and consist of $46 million in investment grade securities and $20 million in non-investment grade securities.

At December 31, 2006, Belvedere Trust s $13.9 million in acquired non-investment grade securities includes securities with a carrying value of $1.3 million which are first loss securities and, as such, credit enhance $1.5 billion of underlying residential real estate loans. At December 31, 2005, the underlying amount of residential real estate loans was $1.85 billion. At December 31, 2006, the principal amount of these first loss securities is $4.1 million with a related discount of $2.8 million. If the credit losses from the underlying residential real estate loans exceed this discount, this would cause a reduction in earnings. For the years ended December 31, 2006 and 2005, Belvedere Trust had incurred $17 thousand and $0, respectively, in credit losses on these loans, which was applied against the discount.

At December 31, 2006, Belvedere Trust s portfolio of BT Other MBS had a weighted average coupon of 6.52%. At December 31, 2005, Belvedere Trust s portfolio of BT Other MBS had a weighted average coupon of 4.16%.

At December 31, 2006, the average amortized cost of BT Other MBS was 90.70%. At December 31, 2005, the average amortized cost of BT Other MBS was 74.38%.

Belvedere Trust s Residential Real Estate Loan Portfolio

Residential real estate loans held for securitization and held in securitization trusts are reflected in the financial statements at their amortized cost. At December 31, 2006, residential real estate loans consisted of the following (in thousands):

Residential Real Estate Loans	**Residential Real Estate Loans Pending Securitization**	**Securitized Residential Real Estate Loans**	**Total Residential Real Estate Loans**
Principal balance	$	$ 1,652,773	$ 1,652,773
Principal receivable		11	$ 11
Unamortized premium		30,788	$ 30,788
Valuation reserve on real estate owned		(1,050)	$ (1,050)
Carrying value	$	$ 1,682,522	$ 1,682,522

At December 31, 2005, residential real estate loans consisted of the following (in thousands):

Residential Real Estate Loans	Residential Real Estate Loans Pending Securitization	Residential Real Estate Loans, Securitized	Total Residential Real Estate Loans
Principal balance	$ 499	$ 2,450,894	$ 2,451,393
Principal receivable	101		101
Unamortized premium	13	46,374	46,387
Carrying value	$ 613	$ 2,497,268	$ 2,497,881

At December 31, 2006, the weighted average coupon on residential real estate loans which Belvedere Trust had securitized (including HYB1) was 6.12%. At December 31, 2005, the weighted average coupon on residential real estate loans which Belvedere Trust had securitized (including HYB1) was 5.54%. At December 31, 2006, the weighted average FICO was 727 and the loan-to-value (LTV) was 72. At December 31, 2005, the weighted average FICO was 725 and the LTV was 72.

At December 31, 2006, Belvedere Trust s residential real estate loan portfolio had a weighted average gross coupon of 6.18% and a weighted average net coupon of 5.82%. At December 31, 2005, Belvedere Trust s residential real estate loan portfolio had a weighted average gross coupon of 5.56% and a weighted average net coupon of 5.20%.

At December 31, 2006, the average amortized cost of Belvedere Trust s residential real estate loan portfolio was 101.59%. At December 31, 2005, the average amortized cost of Belvedere Trust s residential real estate loan portfolio was 101.73%.

At December 31, 2006, Belvedere Trust s residential real estate loan portfolio was $1.7 billion, consisting of securitized loans. There were no loans pending securitization. The residential real estate loan portfolio consisted of 4,522 loans with an average loan balance of $365 thousand. The securitized residential real estate loans serve as collateral for $1.5 billion of MBS issued and $155 million of repurchase agreement financings. More detailed information on Belvedere Trust s residential real estate loans is included in Note 4 to the consolidated financial statements.

At December 31, 2005, Belvedere Trust s residential real estate loan portfolio was $2.5 billion, consisting of securitized loans of $2.5 billion and loans pending securitization of $613 thousand. The residential real estate loan portfolio consisted of 6,769 loans with an average loan balance of $362 thousand. The weighted average coupon on residential real estate loans which have been securitized was 5.54% at December 31, 2005. The securitized residential real estate loans served as collateral for $2.07 billion of MBS issued and $359 million of repurchase agreement financings.

Hedging

We periodically enter into derivative transactions, in the form of forward purchase commitments and interest rate swaps, which are intended to hedge our exposure to rising rates on funds borrowed to finance our investments in securities. We designate interest rate swap transactions as cash flow hedges. We also periodically enter into derivative transactions, in the form of forward purchase commitments, which are not designated as hedges. To the extent that we enter into hedging transactions to reduce our interest rate risk on indebtedness incurred to acquire or carry real estate assets, any income or gain from the disposition of hedging transactions should be qualifying income for purposes of the 95% gross income test, but not the 75% gross income test.

As part of our asset/liability management policy, we may enter into hedging agreements such as interest rate caps, floors or swaps. These agreements would be entered into to try to reduce interest rate risk and would be designed to provide us with income and capital appreciation in the event of certain changes in interest rates. We review the need for hedging agreements on a regular basis consistent with our capital investment policy. At December 31, 2006, we were a counter-party to swap agreements, which are derivative instruments as defined by the Financial Accounting Standards Board in FASB 133 and FASB 138, with an aggregate notional amount of $900 million and an average maturity of 2.9 years. We utilize swap agreements to manage interest rate risk and do not anticipate entering into derivative transactions for speculative or trading purposes. In accordance with the swap agreements, we pay a fixed rate of interest during the term of the swap agreements and receive a payment that varies with the three-month LIBOR rate. At December 31, 2006, there were unrealized gains of approximately $4.9 million on our swap agreements.

6

Liquidity and Capital Resources

Our primary source of funds consists of repurchase agreements, relative to our Agency and Non-Agency MBS portfolio, which totaled $4.3 billion at December 31, 2006 and Belvedere Trust s repurchase agreements, which totaled $276 million at December 31, 2006. Our other significant source of funds for the year ended December 31, 2006 consisted of payments of principal from our Agency MBS portfolio, BT Other MBS and Belvedere Trust s residential real estate loans in the amounts of $1.44 billion, $14.9 million and $798 million, respectively.

Relative to our Agency MBS portfolio at December 31, 2006, all of our repurchase agreements were fixed-rate term repurchase agreements with original maturities ranging from one month to 10 months. Belvedere Trust enters into its own repurchase agreements. At December 31, 2006, other than one repurchase agreement that resets monthly based on one-month LIBOR, all of Belvedere Trust s repurchase agreements were fixed-rate term repurchase agreements with original maturities ranging from five days to 36 months. At December 31, 2006, we had borrowing arrangements with 22 different financial institutions and had borrowed funds under repurchase agreements with 15 of these firms. As the repurchase agreements mature, we enter into new repurchase agreements to take their place. Because we borrow money based on the fair value of our MBS and because increases in short-term interest rates can negatively impact the valuation of MBS, our borrowing ability could be reduced and lenders may initiate margin calls in the event short-term interest rates increase or the value of our MBS declines for other reasons. We had adequate cash flow, liquid assets and unpledged collateral with which to meet our margin requirements during the year ended December 31, 2006.

We acquire residential mortgage loans from third party originators, including banks and other mortgage lenders, through our Belvedere Trust subsidiary. Belvedere Trust structures securitization transactions primarily through SPEs (such as REMIC trusts). The principal business activity involves issuing various series of MBS (in the form of pass-through certificates or bonds collateralized by residential real estate loans). The collateral specific to each MBS series is the sole source of repayment of the debt and, therefore, our exposure to loss is limited to our net investment in the collateral. During the year ended December 31, 2006, Belvedere Trust did not transfer any residential mortgage loans to securitization trusts. To date, Belvedere Trust has transferred approximately $3.8 billion of residential real estate loans to securitization trusts. These transactions (except for the first transaction which is more fully described in Note 3 to the accompanying consolidated financial statements) utilized non-qualified SPEs requiring consolidation, which effectively resulted in the transactions being accounted for as financings. The servicing of the residential real estate loans is performed by third parties under servicing arrangements that resulted in no servicing asset or liability.

In accordance with our investment guidelines, Belvedere Trust has the opportunity to invest in asset classes other than mortgage loans intended for securitization. Such investments may be attractive, among other times, when the cost of acquiring residential real estate loans has increased to a point where it becomes un-economical to securitize these loans. This situation may happen at various points of the business and credit cycle, especially when loan production decreases. Belvedere Trust has not securitized loans since May 25, 2005 because of such circumstances. Investments have instead been made in senior and subordinated tranches from various issuers securitizations. The analyses and investment decisions have been based on a similar approach to what Belvedere Trust typically has done for the acquisition of whole loans intended for its own securitizations. It is Belvedere Trust s intent to securitize whole loans again under its shelf registration statement when the price of residential real estate loans relative to securitization execution makes it feasible again.

In the future, we expect that our primary sources of funds will continue to consist of borrowed funds under repurchase agreement transactions and of monthly payments of principal and interest on our MBS portfolio and other mortgage-related assets. Our liquid assets generally consist of unpledged MBS, cash and cash equivalents.

During the year ended December 31, 2006, we raised approximately $359 thousand in capital under our Dividend Reinvestment and Stock Purchase Plan.

At December 31, 2006, our authorized capital included 20 million shares of $0.01 par value preferred stock. During the year ended December 31, 2006, we did not issue any shares of Series A Preferred Stock.

At December 31, 2006, Belvedere Trust did not have any commitments to purchase mortgage loans. Belvedere Trust had whole loan financing facilities which provide for up to $400 million in financing secured by single-family mortgage loans. At December 31, 2006, Belvedere Trust had no outstanding borrowings under these facilities.

At December 31, 2006, Belvedere Trust had no commitments to acquire MBS.

During the year ended December 31, 2006, we repurchased (as more fully described in Note 10 to the accompanying consolidated financial statements) 37,500 shares of our common stock at an average cost of $7.60 per share. The shares were acquired at prevailing prices through open market transactions and were made subject to restrictions to volume, pricing and timing subject to applicable SEC rules.

On February 1 and 7, 2007, we issued an aggregate of 1.15 million shares of Series B Cumulative Convertible Preferred Stock, or Series B Preferred Stock, (as more fully described in Note 18 to the consolidated financial statements) and received net proceeds of approximately $27 million. We intend to use the proceeds from this offering to acquire mortgage-related assets consistent with our investment policy.

Off-Balance Sheet and Contractual Arrangements

The following table represents our contractual obligations at December 31, 2006 (in thousands):

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Repurchase agreements (Anworth(1))	$ 4,329,921	$ 4,329,921	$	$	$
Repurchase agreements (Belvedere Trust(1))	275,733	235,733	40,000		
MBS issued(2)	1,472,876	368,219	483,287	271,849	349,521
Junior subordinated notes(3)	37,380				37,380
Lease commitment (Anworth)	1,627	277	578	614	158
Lease commitment (Belvedere Trust)	102	65	37		
Total(4):	$ 6,117,639	$ 4,934,215	$ 523,902	$ 272,463	$ 387,059

(1) These represent amounts due by maturity.
(2) Principal is paid on the MBS issued following receipt of principal payments on the loans. For the table above, the principal payments have been estimated based on the underlying contractual payments as adjusted for prepayment assumptions. The actual principal paid in each year will be dependent upon the principal received on the underlying loans. These estimates may change significantly from the amounts presented above.
(3) These represent amounts due by contractual maturity. However, we do have the option to redeem these after March 30, 2010 and April 30, 2010 as more fully described in Note 7 to the accompanying consolidated financial statements.
(4) This does not include annual compensation agreements and incentive compensation agreements, which are more fully described in Note 11 to the accompanying consolidated financial statements.

The following table represents our contractual obligations at December 31, 2005 (in thousands):

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Repurchase agreements (Anworth(1))	$ 4,099,410	$ 4,099,410	$	$	$
Repurchase agreements (Belvedere Trust(1))	429,919	348,519	81,400		
Whole loan financing facilities	493	493			
MBS issued(2)	2,070,333	517,583	679,328	382,122	491,300
Junior subordinated notes(3)	37,380				37,380
Lease commitment (Anworth)	1,896	269	562	596	469
Lease commitment (Belvedere Trust)	167	65	102		
Total(4):	$ 6,639,598	$ 4,966,339	$ 761,392	$ 382,718	$ 529,149

(1) These represent amounts due by maturity.

8

(2) Principal is paid on the MBS issued following receipt of principal payments on the loans. For the table above, the principal payments have been estimated based on the underlying contractual payments as adjusted for prepayment assumptions. The actual principal paid in each year will be dependent upon the principal received on the underlying loans.
(3) These represent amounts due by contractual maturity. However, we do have the option to redeem these after March 30, 2010 and April 30, 2010.
(4) This does not include annual compensation agreements and incentive compensation agreements, which are more fully described in Note 11 to the accompanying consolidated financial statements.

Stockholders Equity

We use available-for-sale treatment for our Agency and Non-Agency MBS and BT Other MBS, which are carried on our balance sheet at fair value rather than historical cost. Residential real estate loans are held for investment and carried at historical amortized cost. Based upon these treatments, our total equity base at December 31, 2006 was $491 million. Common stockholders equity was approximately $444 million, or $9.74 book value per share.

Under our available-for-sale accounting treatment, unrealized fluctuations in fair values of assets are assessed to determine whether they are other-than-temporary. To the extent we determine that these unrealized fluctuations are not other-than-temporary, they do not impact GAAP income or taxable income but rather are reflected on the balance sheet by changing the carrying value of the assets and reflecting the change in stockholders equity under Accumulated other comprehensive income, unrealized gain (loss) on available-for-sale securities.

As a result of this mark-to-market accounting treatment, our book value and book value per share are likely to fluctuate far more than if we used historical amortized cost accounting on all of our assets. As a result, comparisons with some companies that use historical cost accounting for all of their balance sheet may not be meaningful.

Unrealized changes in the fair value of MBS have one significant and direct effect on our potential earnings and dividends: positive mark-to-market changes will increase our equity base and allow us to increase our borrowing capacity, while negative changes will tend to reduce borrowing capacity under our capital investment policy. A very large negative change in the net market value of our MBS might reduce our liquidity, requiring us to sell assets with the likely result of realized losses upon sale. Accumulative other comprehensive income, unrealized loss on available-for-sale Agency MBS was $50.5 million, or 1.1% of the amortized cost of Agency MBS, at December 31, 2006. This, along with Accumulative other comprehensive gain, derivatives, of $4.9 million, and Accumulative other comprehensive gain, Other MBS, of $0.2 million, constitute the total Accumulative other comprehensive loss of $45.4 million.

Critical Accounting Policies

Management has the obligation to ensure that its policies and methodologies are in accordance with GAAP. Management has reviewed and evaluated its critical accounting policies and believes them to be appropriate.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these consolidated financial statements, management has made its best estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. We do not believe that there is a great likelihood that materially different amounts would be reported related to accounting policies described below. Nevertheless, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ materially from these estimates.

Our accounting policies are described in Note 1 to the accompanying consolidated financial statements. Management believes the more significant of these to be as follows:

Revenue Recognition

The most significant source of our revenue is derived from our investments in mortgage-related assets. We reflect income using the effective yield method which, through amortization of premiums and accretion of discounts at an effective yield, recognizes periodic income over the estimated life of the investment on a constant yield basis, as adjusted for actual prepayment activity. Management believes our revenue recognition policies are appropriate to reflect the substance of the underlying transactions.

Interest income on our mortgage-related assets is accrued based on the actual coupon rate and the outstanding principal amounts of the underlying mortgages. Premiums and discounts are amortized or accreted into interest income over the expected lives of the securities using the effective interest yield method, adjusted for the effects of actual prepayments and estimated prepayments based on the Statement of Financial Accounting Standards, or SFAS, No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17. Our policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, street consensus prepayment speeds and current market conditions. If our estimate of prepayments is incorrect, as compared to the aforementioned references, we may be required to make an adjustment to the amortization or accretion of premiums and discounts that would have an impact on future income.

Interest income on BT Other MBS is determined in accordance with FASB Emerging Issues Task Force (EITF) 99-20. The excess of estimated future cash flows over the initial investment is the accretable yield to be recognized as interest income over the life of the investment using the effective yield method. If the current fair value of any individual security is lower than its current amortized cost, we determine whether an impairment charge is required to be taken through current income. If there is a continued adverse change in estimated cash flows (considering both the timing and the amount of the cash flows, and taking into consideration receipt of cash flows to date), then the security is written down to fair value, which then becomes the new amortized cost basis for future amortization.

Allowance for Loan Losses

We establish and maintain an allowance for estimated loan losses inherent in our residential real estate loan portfolio. The loan loss reserves are based upon our assessment of various factors affecting the credit quality of our assets including, but not limited to, the characteristics of the loan portfolio, review of loan level data, borrowers credit scores, delinquency and collateral value. The reserves are reviewed on a regular basis and adjusted as deemed necessary. The allowance for loan losses on our residential real estate loans is established by taking loan loss provisions through our Consolidated Statements of Income.

Valuation and Classification of Investment Securities

We carry our investment securities on the balance sheet at fair value. The fair values of our MBS are generally based on market prices provided by certain dealers who make markets in such securities. The fair values of other marketable securities are obtained from the last reported sale of such securities on its principal exchange or, if no representative sale is reported, the mean between the closing bid and ask prices. If, in the opinion of management, one or more securities prices reported to us are not reliable or unavailable, management estimates the fair value based on characteristics of the security it receives from the issuer and available market information. The fair values reported reflect estimates and may not necessarily be indicative of the amounts we could realize in a current market exchange. We review various factors (i.e., expected cash flows, changes in interest rates, credit protection, etc.) in determining whether and to what extent an other-than-temporary impairment exists. To the extent that unrealized losses on our Agency MBS and BT Other MBS are attributable to changes in interest rates and not credit quality, and we have the ability and intent to hold these investments until a recovery of fair value up to (or beyond) its cost, which may be maturity, we do not consider these investments to be other-than-temporarily impaired. Losses on securities classified as available-for-sale, which are determined by management to be other-than-temporary in nature, are reclassified from Accumulated other comprehensive income to current-period income.

Variable Interest Entities

Belvedere Trust structures securitization transactions primarily through non-qualified SPEs (such as REMIC trusts). The principal business activity involves issuing various series of MBS (in the form of pass-through certificates or bonds collateralized by residential real estate loans). The collateral specific to each series of MBS is the sole source of repayment of the debt and, therefore, our exposure to loss is limited to our net investment in the collateral. Under FIN 46, these interests in non-qualified SPEs are deemed to be VIEs and we are considered the primary beneficiary. Therefore, we consolidate these non-qualified SPEs. In addition, we consolidate our interests in loans financed through warehouse agreements where we are acquiring assets prior to securitization. We disclose our interests in VIEs under FIN 46 in the Investments in Residential Real Estate Loans footnote (Note 4 to the accompanying consolidated financial statements).

Accounting for Derivatives and Hedging Activities

In accordance with FASB No. 133, Accounting for Derivative Instruments and Hedging Activities, or FASB 133, as amended by FASB No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, or FASB 138, a derivative that is designated as a hedge is recognized as an asset/liability and measured at estimated fair value. In order for our interest rate swap agreements to qualify for hedge accounting, upon entering into the swap agreement, we must anticipate that the hedge will be highly effective, as defined by FASB 133.

On the date we enter into a derivative contract, we designate the derivative as a hedge of the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a cash flow hedge). Changes in the fair value of a derivative that are highly effective and that are designated and qualify as a cash flow hedge, to the extent that the hedge is effective, are recorded in Other comprehensive income and reclassified to income when the forecasted transaction affects income (e.g., when periodic settlement interest payments are due on repurchase agreements). The swap agreements are carried on our Consolidated Balance Sheets at their fair value based on values obtained from major financial institutions. Hedge ineffectiveness, if any, is recorded in current-period income.

We formally assess, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. If it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, we discontinue hedge accounting.

When we discontinue hedge accounting, the gain or loss on the derivative remains in Accumulated other comprehensive income and is reclassified into income when the forecasted transaction affects income. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, we will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current-period income.

For purposes of the cash flow statement, cash flows from derivative instruments are classified with the cash flows from the hedged item.

In connection with its loan acquisitions, Belvedere Trust enters into forward loan purchase commitments. To mitigate the impact of rising interest rates on the consummation of forward loan purchase commitments in connection with planned securitization funding, Belvedere Trust may enter into Eurodollar futures transactions. Both of these are treated as derivatives, carried at fair value, and any changes in fair value are recognized in current-period income.

Residential Real Estate Loans

We acquire residential mortgage loans and hold them as long-term investments through our Belvedere Trust subsidiary. We finance the mortgage loans with short-term debt (see Note 6 to the accompanying consolidated financial statements) until a sufficient quantity has been accumulated for securitization into MBS in order to obtain long-term financing and to enhance liquidity. While all mortgage loans are acquired with the intention of securitizing them, we may not be successful in our efforts to securitize the loans into MBS. Our residential real estate loans are classified as held-for-investment and are carried at their unpaid principal balance, adjusted for unamortized premiums or discounts. Premiums or discounts are amortized into current operations using the effective interest yield method, as adjusted for actual prepayments and considering estimated future prepayments, based on SFAS 91.

To meet our investment criteria, mortgage loans acquired by us will generally conform to the underwriting guidelines established by Freddie Mac, Fannie Mae and Ginnie Mae, or to secondary market standards for high credit-quality mortgage loans. Applicable banking laws generally require that an appraisal be obtained in connection with the original issuance of mortgage loans by the lending institution and we do not intend to obtain additional appraisals at the time of acquiring mortgage loans. Mortgage loans may be originated by or purchased from various suppliers of mortgage-related assets throughout the United States including savings and loan associations, banks, mortgage bankers and other mortgage lenders. We may acquire mortgage loans directly from originators and from entities holding mortgage loans originated by others.

Belvedere Trust maintains an allowance for loan losses for residential real estate loans held in consolidated securitization trusts and for loans held prior to securitization. The balance is included in Allowance for loan losses on the Consolidated Balance Sheets.

Income Taxes

Other than BT Finance, as noted below, our financial results do not reflect provisions for current or deferred income taxes. Management believes that we have and intend to continue to operate in a manner that will continue to allow us to be taxed as a REIT and, as a result, does not expect to pay substantial corporate level taxes. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to federal income tax.

BT Finance, our indirect wholly-owned subsidiary, is a taxable REIT subsidiary and may be liable for corporate income tax expenses.

Subsequent Events

On February 1 and 7, 2007, we issued an aggregate of 1.15 million shares of Series B Preferred Stock and received net proceeds of approximately $27 million (net of underwriting fees, commissions and other costs). The shares have a liquidation value of $25.00 per share and will pay cash dividends at a rate of 6.25% per year of the $25.00 liquidation preference. The conversion rate will initially be 2.3809 shares of our common stock per share of Series B Preferred Stock. The conversion rate will be adjusted in any fiscal quarter in which the cash dividends paid to common stockholders results in an annualized common dividend yield which is greater than 6.25%. The conversion ratio will also be subject to adjustment upon the occurrence of certain specific events such as a change of control.

We intend to classify the Series B Preferred Stock as temporary equity, which we believe follows the guidance of Emerging Issues Task Force (EITF) Topic D-98, Classification and Measurement of Redeemable Securities. The Series B Preferred Stock contains certain fundamental change provisions that allow the holder to redeem the preferred stock for cash only if certain events occur. As redemption under these circumstances is not solely within our control, we believe the guidance specifies the treatment of these securities as temporary equity.

We have also analyzed whether the conversion features in the Series B Preferred Stock should be bifurcated under the guidance in FAS 133, Accounting for Derivative Instruments and Hedging Activities and EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock and have determined that these do not need to be bifurcated.

Since December 31, 2006, we have entered into five additional swap agreements with an aggregate notional amount of $500 million for terms of up to three years. We utilize swap agreements to manage interest rate risk. In accordance with these swap agreements, we pay a fixed rate of interest during the term of the swap agreements and receive a payment that varies with the three-month LIBOR rate.

In February 2007, Belvedere Trust sold one of its interest-only securities for approximately $2.37 million. At December 31, 2006, we wrote down the value of this security from an amortized cost of approximately $3.34 million to its fair value of approximately $2.51 million. This write-down of approximately $830 thousand was reflected in impairment charges. Based on the sales price of approximately $2.37 million, Belvedere Trust recorded in February 2007 an additional loss of approximately $140 thousand on the sale of this security. In addition to the sale of this security, during January and February 2007, Belvedere Trust sold six other securities from its BT Other MBS portfolio, having a fair value at December 31, 2006 of approximately $27.4 million. Belvedere Trust expects to recognize a gain on the sale of these six securities of approximately $1 million. Belvedere Trust sold all of these securities as part of its asset/liability management program in order to reduce its credit risk exposure and to minimize future volatility to its earnings.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

(3) The following exhibits are filed herewith:

Exhibit Number	Description
31.1	Certification of the Principal Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of the Principal Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED: April 17, 2007

ANWORTH MORTGAGE ASSET CORPORATION

/s/ JOSEPH LLOYD MCADAMS
Joseph Lloyd McAdams

Chairman of the Board, President and

Chief Executive Officer

(Principal Executive Officer)

/s/ THAD M. BROWN
Thad M. Brown

Chief Financial Officer

(Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of the Principal Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of the Principal Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934

* Represents a management contract or compensatory plan, contract or arrangement in which any director or any of the named executives participates.