CAPITAL LEASE FUNDING INC
Form 10-Q
August 11, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2005

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 001-32039

Capital Lease Funding, Inc.

(Exact name of registrant as specified in its charter)

Maryland **(State or Other Jurisdiction of Incorporation or Organization)**	**52-2414533** **(I.R.S. Employer Identification No.)**
110 Maiden Lane, New York, NY **(Address of Principal Executive Offices)**	**10005** **(ZIP Code)**
Registrant's Telephone Number, Including Area Code:	**(212) 217-6300**

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of August 11, 2005, there were 27,868,480 shares of common stock of Capital Lease Funding, Inc., $0.01 par value per share, outstanding ("Common Stock").

Capital Lease Funding, Inc.

Index to Form 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Capital Lease Funding, Inc. and Subsidiaries
Consolidated Balance Sheets
As of June 30, 2005 (unaudited) and December 31, 2004
(in thousands)

Assets	As of June 30, 2005 Unaudited	As of December 31, 2004
Cash and cash equivalents	$ 55,826	$ 30,721
Mortgage loans held for investment	237,977	207,347
Real estate investments, net	391,607	194,541
Real estate investments consolidated under FIN46	81,500	48,000
Securities available for sale	124,995	87,756
Structuring fees receivable	4,150	4,426
Prepaid expenses and other assets	36,756	7,941
Amounts due from affiliates and members	79	81
Accrued rental income	1,928	507
Derivative assets	–	42
Furniture, fixtures and equipment, net	360	340
Total Assets	$ 935,178	$ 581,702
Liabilities and Stockholders' Equity:		
Accounts payable and accrued expenses	$ 8,114	$ 3,479
Deposits and escrows	2,993	10,725
Due to servicer and dealers	–	4,357
Repurchase agreement obligations	45,744	133,831
Mortgages on real estate investments	265,314	111,539
Mortgage on real estate investments consolidated under FIN46	50,887	4,815
Collateralized debt obligations	268,138	–
Derivative liabilities	3,451	7,355
Deferred rental revenue	850	–
Intangible liabilities on real estate investments	11,525	7,028
Dividends payable	5,016	4,124
Total Liabilities	662,032	287,253
Minority interest in real estate investments consolidated under FIN46	26,613	41,185
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 100,000,000 shares authorized, no shares issued and outstanding	–	–
Common stock, $0.01 par value, 500,000,000 shares authorized, 27,868,480 and 27,491,700 shares issued and outstanding, respectively	279	275
Additional paid in capital	246,445	251,786
Accumulated other comprehensive income (loss)	(191)	1,203

Retained earnings		–		–
Total Stockholders' Equity		246,533		253,264
Total Liabilities and Stockholders' Equity	$	935,178	$	581,702

See notes to consolidated financial statements

Capital Lease Funding, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)
(in thousands, except per share data)

	For the three months ended June 30, 2005	2004	For the six months ended June 30, 2005	2004
Revenues:				
Interest income from mortgage loans and securities	$ 6,641	$ 2,756	$ 12,748	$ 4,678
Gain on sales of mortgage loans and securities	174	–	237	–
Rental revenue	7,124	–	11,459	–
Property expense recoveries	1,356	–	2,719	–
Other revenue	93	43	132	86
Total revenues	15,388	2,799	27,295	4,764
Expenses:				
Interest expense	6,214	–	9,756	425
Interest expense to affiliates	–	–	–	231
Property expenses	2,291	–	4,074	–
Net loss on derivatives and short sales of securities	–	–	–	724
Loss on securities	250	–	250	–
General and administrative expenses	2,414	1,989	4,967	3,897
General and administrative expenses-stock based compensation	467	334	922	3,167
Depreciation and amortization expense on real property	1,920	–	3,188	–
Loan processing expenses	63	33	148	69
Total expenses	13,619	2,356	23,305	8,513
Income (loss) before minority interest	1,769	443	3,990	(3,749)
Minority interest in consolidated entities	(215)	–	(215)	–
Net income (loss)	$ 1,554	$ 443	$ 3,775	$ (3,749)
Earnings per share				
Net income per share, basic and diluted	$ 0.06	$ 0.02	$ 0.14	$ (0.22)
Weighted average number of common shares outstanding, basic and diluted	27,868	27,488	27,698	16,699
Dividends declared per common share	$ 0.18	$ -	$ 0.36	$ -

See notes to consolidated financial statements

Capital Lease Funding, Inc. and Subsidiaries
Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)
(in thousands)

	Common Stock at Par	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 31, 2004	$ 275	$ 251,786	$ 1,203	$ –	$ 253,264
Incentive stock plan compensation expense	–	922	–	–	922
Incentive stock plan grants issued	4	(4)	–		–
Net income	–	–	–	3,775	3,775
Dividends declared	–	(6,259)	–	(3,775)	(10,034)
Unrealized change in value of securities available for sale	–	–	4,665	–	4,665
Unrealized change in value of derivatives	–	–	3,806	–	3,806
Realized gains (losses) on derivatives, net of amortization	–	–	(9,865)	–	(9,865)
Balance at June 30, 2005	$ 279	$ 246,445	$ (191)	$ –	$ 246,533

See notes to consolidated financial statements

Capital Lease Funding, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	For the six months ended June 30, 2005	2004
Operating activities		
Net income (loss)	$ 3,775	$ (3,749)
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	2,824	41
Amortization of stock based compensation	922	3,167
Amortization of below market leases	(212)	–
Gain on sale of mortgage loans and securities	(237)	–
Loss on derivatives and short sales of securities	–	724
Accrued rental income	(1,421)	–
Deferred rental revenue	850	–
Amortization of discounts/premiums, and origination fees/costs	(210)	(100)
Amortization of debt issuance costs	475	–
Changes in operating assets and liabilities:		
Funds used in hedging and risk management activities	–	(1,827)
Structuring fees receivable	276	532
Prepaid expenses and other assets	(9,858)	(1,382)
Accounts payable and accrued expenses	4,581	(1,552)
Deposits and escrows	(7,732)	1,142
Due to servicer and dealer	(4,359)	(38)
Net cash used in operating activities	(10,326)	(3,042)
Investing activities		
Proceeds from sale of mortgage loans	2,310	–
Principal advanced to borrowers	(33,865)	(38,342)
Principal received from borrowers	7,121	5,357
Loan origination costs	55	(4)
Purchase of securities available for sale	(45,167)	(69,026)
Sale of securities available for sale	5,787	20,397
Principal amortization on securities available for sale	1,001	–
Purchases of real estate investments	(195,128)	–
Deposits on potential equity investments	(4,000)	–
Return of deposit on equity investment	2,500	–
Purchases of furniture, fixtures and equipment	(72)	(31)
Net cash used in investing activities	(259,458)	(81,649)
Financing activities		
Borrowing under repurchase agreements	123,538	–
Repayments under repurchase agreements	(211,626)	(28,765)
Repayments under repurchase agreements to affiliates	–	(59,322)
Borrowings from mortgages on real estate investments	154,309	–
Repayments of mortgages on real estate investments	(534)	–
Borrowings from collateralized debt obligations	268,130	–
Deferred financing costs	(5,323)	(60)

Deposits and escrows on mortgage notes		(14,269)		–
Funds used in hedging and risk management activities		(10,196)		–
Reverse merger		–		14
Net proceeds from equity offering		–		222,818
Dividends paid		(9,141)		–
Changes in amounts due from affiliates and members		1		30
Net cash provided by financing activities		294,889		134,715
Net increase in cash		25,105		50,024
Cash and cash equivalents at beginning of period		30,721		6,522
Cash and cash equivalents at end of period	$	55,826	$	56,546
Supplemental disclosure of cash flow information				
Dividends declared but not paid	$	5,016	$	–
Supplemental disclosure of noncash operating, investing and financing information				
Prepaid expenses and other assets reclassified to public offering costs	$	–	$	1,040
Unrealized gain (loss) on cash flow hedges	$	3,806	$	2,554
Securities reclassified to mortgage loans held for investment	$	6,180	$	–
Real estate investments consolidated under FIN46	$	81,500	$	–
Real estate investments no longer consolidated under FIN46	$	48,000	$	–
Mortgage on real estate investments consolidated under FIN46	$	50,887	$	–
Mortgage on real estate investments no longer consolidated under FIN46	$	4,815	$	–
Depreciation on real estate investments consolidated under FIN46	$	417	$	–

See notes to consolidated financial statements

Capital Lease Funding, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

June 30, 2005 (unaudited)

1. Organization

Capital Lease Funding, Inc. ("CLF, Inc." and collectively with its wholly-owned subsidiaries, the "Company") was incorporated in the State of Maryland during October 2003, and was formed for the purpose of continuing the existing business operations and acquiring the assets and liabilities of Caplease, LP ("LP" or the "Predecessor"). CLF, Inc. completed this acquisition through a reverse merger and its initial public offering during March 2004.

The Company invests in real estate mortgage loans, equity interests in real estate properties, real estate securities and other real estate assets. The Company's investments primarily consist of real estate related assets that are backed by commercial properties typically subject to long-term net leases from investment grade and near investment grade tenants.

The accompanying financial statements include the historical results of operations of the Predecessor prior to its acquisition by CLF, Inc. The Predecessor's principal activity was the origination and sale or securitization of commercial mortgage loans. Since 1995, the Predecessor was primarily engaged in the business of underwriting, originating and selling or securitizing mortgage loans to owners of real properties subject to long term leases to high credit quality tenants. These loans were typically secured by a first lien on the leased property and an assignment of the leases and all rents due under the leases.

In March 2004, CLF, Inc. sold 23 million shares of its common stock in an initial public offering at a price to the public of $10.50 per share, for net proceeds of approximately $222 million. CLF, Inc. had 27,868,480 shares of common stock outstanding at June 30, 2005.

CLF, Inc. is organized and conducts its operations to qualify as a real estate investment trust ("REIT") for federal income tax purposes. As such, it will generally not be subject to federal income tax on that portion of its income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements. On March 22, 2005, CLF, Inc. declared a dividend of $0.18 per common share, payable on April 15, 2005, to stockholders of record as of March 31, 2005. The dividend declared in March was paid on April 15, 2005. On June 15, 2005, CLF, Inc. declared a dividend of $0.18 per common share, payable on July 15, 2005, to stockholders of record as of June 30, 2005. The dividend declared in June was paid on July 15, 2005.

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in the financial statements prepared under accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with the Company's consolidated financial statements for the fiscal year ended December 31, 2004 and notes thereto, included in the Company's Form 10-K filed with the SEC on March

30, 2005.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements include the assets, liabilities, and results of operations of the Predecessor prior to March 24, 2004 and CLF, Inc. and its wholly-owned subsidiaries thereafter. Results of operations of properties acquired are included in the Consolidated Statement of Operations from the date of acquisition. All significant intercompany transactions, balances and accounts have been eliminated in consolidation.

Capital Lease Funding, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

June 30, 2005 (unaudited)

Investments in Mortgage Loans

Mortgage loans are secured by an assignment of the long-term real property leases (the majority of whose tenants are investment grade) and mortgages on the underlying real estate. Mortgage loans held for investment are carried at cost (unpaid principal balance adjusted for unearned discount and deferred expenses), and are amortized using the effective interest method over the life of the loan.

Purchase Accounting for Acquisition of Real Estate

The fair value of rental real estate acquired subject to existing leases is allocated to the following based on fair values:

- the acquired tangible assets, consisting of land, building and improvements; and
- identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, the value of in-place leases and the value of tenant relationships, based in each case on their fair values.

In estimating the fair value of the tangible and intangible assets acquired, the Company considers information obtained about each property as a result of its due diligence activities and other market data, and utilizes various valuation methods, such as estimated cash flow projections utilizing appropriate discount and capitalization rates, estimates of replacement costs, and available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

Above-market and below-market lease values for acquired properties are recorded based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the differences between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management’s estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market rate renewal options for below-market leases. The capitalized above-market lease values are amortized as a reduction of base rental revenue over the remaining term of the respective leases, and the capitalized below-market lease values are amortized as an increase to base rental revenue over the remaining initial terms plus the terms of any below-market fixed rate renewal options of the respective leases.

Other intangible assets acquired include amounts for in-place lease values and tenant relationship values which are based on management's evaluation of the specific characteristics of each tenant's lease and the Company’s overall relationship with the respective tenant. Factors considered by management in its analysis of in-place lease values include an estimate of carrying costs during the hypothetical expected time it would take management to find a tenant to lease the space for the existing lease term (a “lease-up period”) considering current market conditions, and costs to execute similar leases. Management estimates carrying costs, including such factors as real estate taxes, insurance and other operating expenses during the expected lease-up period, considering current market conditions and costs to execute similar leases. In estimating costs to execute similar leases, management considers leasing commissions, legal and other related expenses. Characteristics considered by management in valuing tenant relationships include the nature and extent of the Company’s existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals. The value of in-place leases is amortized to expense over the remaining initial terms of the respective leases. The value of tenant relationship intangibles is amortized to expense over the anticipated life of the relationships.

Real estate taxes, insurance and interest expense on properties that are under development are capitalized in accordance with the Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 34, *Capitalization of Interest Cost* and SFAS 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects.*

Depreciation is determined by the straight-line method over the remaining estimated economic useful lives of the properties. The Company generally depreciates buildings and building improvements over periods not exceeding 40 years. Direct costs incurred in acquiring properties are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Significant renovations which extend the useful life of the properties are capitalized.

Capital Lease Funding, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

June 30, 2005 (unaudited)

Securities Available for Sale

Securities are classified as available-for-sale and are reported at fair value on the Company's balance sheet, with unrealized gains and losses included in other comprehensive income, and other than temporary impairments included in current earnings on the Statement of Operations, in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* The Company has also adopted the disclosure requirements of EITF Issue No. 03-01 regarding disclosures to be made when held-to-maturity or available-for-sale investments are impaired at the balance sheet date but for which an "other than temporary" loss has not been recognized.

Deferred Origination Fees and Costs

In accordance with SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, the Company defers the recognition of fees and expenses associated with the origination of its commercial mortgage loans held for investment. These items include lender fee income, rate lock income, certain legal fees, insurance costs, rating agency fees and certain other expenses. Deferred fees and costs are recognized as an adjustment to the effective yield over the life of the related asset.

Revenue Recognition

Interest income from mortgage loans (including mortgage loans with associated valuation reserves), securities, and structuring fees receivable, is recognized on the accrual basis of accounting. Interest income from securities (including interest-only strips) is recognized over the life of the investment using the effective interest method. The cost basis of interest-only strips is adjusted to reflect any prepayments from underlying assets, using the initial yield-to-maturity at the purchase date.

Rental revenue on real estate is recognized in accordance with SFAS No. 13, *Accounting for Leases*. Rental revenue is recognized on a straight-line basis over the non-cancelable term of the lease unless another systematic and rational basis is more representative of the time pattern in which the use benefit is derived from the leased property.

Gains are recognized on the sale of mortgage loans and securities in accordance with the requirements of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. As part of the Company's 10-year credit tenant loan program, the Company may from time to time bifurcate its mortgage loan investments into two notes, a real estate note and a corporate credit note. In these instances, the Company will generally sell the real estate note to a third party and retain the corporate credit note in portfolio. The Company computes gain on these sales by comparing the sales proceeds on the note sold to its cost basis. The Company computes its cost basis on the note sold by allocating the entire basis in the loan between the two notes based on the present value of expected cash flows on each note. In computing present values, management estimates a discount rate based on a benchmark rate plus a market spread based on the underlying credit. These estimates reflect market rates that management believes are reasonable. However, the use of different estimates could have an impact on the calculation of gain on sale revenue.

The Company may periodically receive breakup fees on contracts in connection with its investments in real estate. The Company recognizes revenues from contract breakup fees when the contractual conditions have occurred to trigger the receipt of such a fee, when the amounts of such revenue can be reasonably determined, and when collection is probable.

Income Taxes

CLF, Inc. is subject to federal income taxation at corporate rates on its "REIT taxable income"; however, CLF, Inc. is allowed a deduction for the amount of dividends paid to its stockholders, thereby subjecting the distributed net income of CLF, Inc. to taxation at the stockholder level only. CLF, Inc. intends to operate in a manner consistent with and to elect to be treated as a REIT for tax purposes. From time to time, the Company may conduct a portion of its business through a taxable REIT subsidiary (“TRS”), and the income from the activities at the TRS is subject to federal and state taxation at the applicable corporate rates.

Capital Lease Funding, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

June 30, 2005 (unaudited)

Earnings per Share

In accordance with the Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), the Company presents both basic and diluted earnings per share ("EPS"). Basic EPS excludes dilution and is computed by dividing net income allocable to common shareholders by the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS amount. The Company has no such securities or other contracts outstanding and, therefore, there is no difference between basic and diluted EPS results for the Company.

The following summarizes the Company's EPS computations for the three and six months ended June 30, 2005 and June 30, 2004 (in thousands, except per share amounts):

	For the three months ended June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
Net income (loss)	$ 1,554	$ 443	$ 3,775	$ (3,749)
Weighted average number of common shares outstanding, basic and diluted	27,868	27,488	27,698	16,699
Earnings per share, basic and diluted	$ 0.06	$ 0.02	$ 0.14	$ (0.22)
Non-vested shares included in weighted average number of shares outstanding above	497	251	497	251

Recently Issued Accounting Pronouncements

On December 16, 2004, the FASB issued SFAS No. 153: *Exchanges of Non-monetary Assets – An Amendment of APB Opinion No. 29*. The amendments made by SFAS No. 153 are based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for non-monetary exchanges of similar productive assets and replace it with a broader exception for exchanges of non-monetary assets that do not have "commercial substance." SFAS No. 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 on June 15, 2005 did not have a material effect on the Company's consolidated financial statements.

On December 16, 2004, the FASB issued SFAS No. 123R: (Revised 2004) –*Share-Based Payment* ("SFAS No. 123R"). SFAS 123R replaces SFAS No. 123, which the Company adopted on January 1, 2003. SFAS No. 123R requires that the compensation cost relating to share-based payment transactions be recognized in financial statements and be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123R is effective as of the first interim or annual reporting period that begins after December 31, 2005 (or as of January 1, 2006 for the Company). The Company does not believe that the adoption of SFAS No. 123R will have a material effect on the Company's consolidated financial statements.

Reclassification

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

Capital Lease Funding, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

June 30, 2005 (unaudited)

3. Cash and Cash Equivalents

The Company defines cash equivalents as highly liquid investments purchased with maturities of three months or less at date of purchase. From time to time, the Company's account balance held at financial institutions exceeds Federal Depository Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to the balance on deposit in excess of FDIC insurance coverage. The Company believes that the risk of loss is not significant.

4. Mortgage Loan Held for Investment

Mortgage loans held for investment at June 30, 2005 and December 31, 2004 consist predominantly of loans on properties subject to leases to investment grade companies with credit ratings generally ranging from AA to BB**-** from Standard & Poor's. These loans are summarized in the following table:

	Jun 30, 2005 Unaudited	Dec 31, 2004
Principal	$ 236,576	$ 206,735
Premium (discount)	1,965	1,158
Carrying amount of mortgages	238,541	207,893
Deferred origination fees, net	(564)	(546)
Total	$ 237,977	$ 207,347

At June 30, 2005, the mortgage loans carried interest rates ranging from 5.36% to 10.00% and at December 31, 2004, the mortgage loans carried interest rates ranging from 4.71% to 10.00%. At June 30, 2005 and December 31, 2004, the weighted average effective interest rate on the mortgage loans, as measured against our cost basis, was 6.64% and 6.56%, respectively.

5. Real Estate Investments

Real estate held for investment and related intangible liabilities on real estate investments consisted of the following at June 30, 2005 and December 31, 2004:

	Jun 30, 2005 Unaudited	Dec 31, 2004
Real estate investments, at cost:		
Land and improvements	$ 75,716	$ 28,226
Building and improvements	286,160	154,078
Intangible assets under SFAS 141	33,783	13,518

Less: Accumulated depreciation and amortization		(4,052)		(1,281)
Real estate investments, net	$	391,607	$	194,541
Intangible liabilities on real estate investments:				
Intangible liabilities under SFAS 141	$	11,817	$	7,108
Less: Accumulated amortization		(292)		(80)
Intangible liabilities on real estate investments, net	$	11,525	$	7,028

Capital Lease Funding, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

June 30, 2005 (unaudited)

Some leases provide for scheduled rent increases throughout the lease term. Such amounts are recognized on a straight-line basis over the terms of the leases. For the three and six months ended June 30, 2005, the Company recognized $993 and $1,421, respectively, of such revenue. At June 30, 2005, the balance of accrued rental income was $1,928. At June 30, 2005, the balance of deferred rental income was $850. Amortization of intangible assets on real estate investments totaled $371 and $678, respectively, for the three and six months ended June 30, 2005, and is included in “Depreciation and amortization expense” on the Company’s Consolidated Statement of Operations. Amortization of intangible liabilities on real estate investments totaled $113 and $212, respectively, for the three and six months ended June 30, 2005, and is included in “Rental revenue” on the Company’s Consolidated Statement of Operations.

Scheduled amortization on existing intangible assets and liabilities on real estate investments is as follows:

	Intangible Assets	Intangible Liabilities
6 months ending December 31, 2005	$ 1,368	$ 393
2006	2,736	787
2007	2,736	787
2008	2,736	787
2009	2,736	