PMC COMMERCIAL TRUST /TX
Form 10-Q
May 10, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10 - Q

(Mark One)

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

For the quarterly period ended **March 31, 2007**

OR

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

For the transition period from ___to ___.

Commission File Number 1-13610

PMC COMMERCIAL TRUST

(Exact name of registrant as specified in its charter)

TEXAS	75-6446078
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
17950 Preston Road, Suite 600, Dallas, TX 75252	(972) 349-3200
(Address of principal executive offices)	(Registrant s telephone number)

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 þ NO o

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 o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2). YES o NO þ

As of May 4, 2007, the Registrant had outstanding 10,753,803 Common Shares of Beneficial Interest, par value $.01 per share.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
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PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31, 2007	December 31, 2006
	(Unaudited)	
ASSETS		
Loans receivable, net	$ 165,725	$ 169,181
Retained interests in transferred assets	54,813	55,724
Cash and cash equivalents	8,955	3,739
Restricted investments	2,706	995
Real estate investment held for sale, net	2,370	
Real estate investments, net	2,002	4,414
Mortgage-backed security of affiliate	586	643
Rent and related receivables, net	329	567
Deferred tax asset, net	212	203
Other assets	5,181	4,938
Total assets	$ 242,879	$ 240,404
LIABILITIES AND BENEFICIARIES EQUITY		
Liabilities:		
Credit facilities	$ 27,568	$ 26,968
Junior subordinated notes	27,070	27,070
Mortgage notes and debentures payable	10,769	10,803
Borrower advances	4,034	3,694
Redeemable preferred stock of subsidiary	3,693	3,668
Due to affiliates, net	3,464	683
Dividends payable	3,288	4,365
Accounts payable and accrued expenses	2,073	2,578
Deferred gains on property sales	1,993	1,574
Other liabilities	1,052	810
Total liabilities	85,004	82,213
Commitments and contingencies		
Cumulative preferred stock of subsidiary	900	900
Beneficiaries equity:		
Common shares of beneficial interest; authorized 100,000,000 shares of $0.01 par value; 11,040,153 shares issued at March 31, 2007 and December 31, 2006,	110	110

10,753,803 shares outstanding at March 31, 2007 and December 31, 2006		
Additional paid-in capital	152,198	152,178
Net unrealized appreciation of retained interests in transferred assets	3,325	3,256
Cumulative net income	140,805	137,984
Cumulative dividends	(136,232)	(133,006)
	160,206	160,522
Less: Treasury stock; at cost, 286,350 shares at March 31, 2007 and December 31, 2006	(3,231)	(3,231)
Total beneficiaries equity	156,975	157,291
Total liabilities and beneficiaries equity	$ 242,879	$ 240,404

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

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(Unaudited)	
Revenues:		
Interest income	$ 4,056	$ 3,682
Income from retained interests in transferred assets	1,901	2,253
Hotel property revenues	169	301
Other income	741	909
Total revenues	6,867	7,145
Expenses:		
Interest	1,352	1,434
Salaries and related benefits	1,167	1,060
General and administrative	739	650
Provision for loss on rent and related receivables	239	300
Hotel property expenses	148	237
Provision for loan losses, net	65	51
Permanent impairments on retained interests in transferred assets	24	48
Total expenses	3,734	3,780
Income before income tax provision, minority interest and discontinued operations	3,133	3,365
Income tax provision	(142)	(84)
Minority interest (preferred stock dividend of subsidiary)	(22)	(22)
Income from continuing operations	2,969	3,259
Discontinued operations:		
Net gains on sales of real estate	27	1,877
Impairment losses	(233)	(73)
Net earnings (losses)	58	(22)
	(148)	1,782

Net income	$ 2,821	$ 5,041
Weighted average shares outstanding:		
Basic	10,754	10,746
Diluted	10,767	10,746
Basic and diluted earnings per share:		
Income from continuing operations	$ 0.27	$ 0.30
Discontinued operations	(0.01)	0.17
Net income	$ 0.26	$ 0.47

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

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended March 31,	
	2007	**2006**
	(Unaudited)	
Net income	$ 2,821	$ 5,041
Change in unrealized appreciation (depreciation) of retained interests in transferred assets:		
Net unrealized appreciation (depreciation) arising during period	179	(489)
Net realized gains included in net income	(110)	(178)
	69	(667)
Comprehensive income	$ 2,890	$ 4,374

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

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF BENEFICIARIES EQUITY
(In thousands, except share and per share data)

Three Months Ended March 31, 2006
(Unaudited)

	Common Shares of Beneficial Interest Outstanding	Par Value	Additional Paid-in Capital	Net Unrealized Appreciation of Retained Interests in Transferred Assets	Cumulative Net Income	Cumulative Dividends	Treasury Stock	Total Beneficiaries Equity
Balances, January 1, 2006	10,766,021	$ 110	$ 152,047	$ 4,519	$ 122,300	$ (119,031)	$ (2,928)	$ 157,017
Net unrealized depreciation				(667)				(667)
Shares repurchased	(24,100)						(303)	(303)
Issuance of restricted shares			17					17
Dividends ($0.30 per share)						(3,223)		(3,223)
Net income					5,041			5,041
Balances, March 31, 2006	10,741,921	$ 110	$ 152,064	$ 3,852	$ 127,341	$ (122,254)	$ (3,231)	$ 157,882

Three Months Ended March 31, 2007
(Unaudited)

	Common Shares of Beneficial Interest Outstanding	Par Value	Additional Paid-in Capital	Net Unrealized Appreciation of Retained Interests in Transferred Assets	Cumulative Net Income	Cumulative Dividends	Treasury Stock	Total Beneficiaries' Equity
Balances, January 1, 2007	10,753,803	$ 110	$ 152,178	$ 3,256	$ 137,984	$ (133,006)	$ (3,231)	$ 157,291
Net unrealized appreciation				69				69

Issuance of restricted shares			20					20
Dividends ($0.30 per share)						(3,226)		(3,226)
Net income					2,821			2,821
Balances, March 31, 2007	10,753,803	$ 110	$ 152,198	$ 3,325	$ 140,805	$ (136,232)	$ (3,231)	$ 156,975

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

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31, 2007	2006
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 2,821	$ 5,041
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	46	71
Permanent impairments on retained interests in transferred assets	24	48
Net gains on sales of real estate	(27)	(1,877)
Deferred income taxes	(9)	(36)
Provision for loan losses	65	51
Provision for losses on rent and related receivables	239	300
Impairment losses	233	73
Premium income adjustment	41	8
Amortization and accretion, net	(39)	(41)
Share-based compensation	20	17
Capitalized loan origination costs	(37)	(106)
Loans funded, held for sale	(968)	(860)
Proceeds from sale of guaranteed loans	2,045	418
Loan fees collected, net	103	80
Change in operating assets and liabilities:		
Due to/from affiliates, net	(736)	(825)
Other assets	(5)	(231)
Borrower advances	340	396
Accounts payable and accrued expenses	(505)	(710)
Other liabilities	216	(291)
Net cash provided by operating activities	3,867	1,526
Cash flows from investing activities:		
Loans funded	(9,584)	(3,766)
Principal collected on loans receivable	15,284	13,695
Principal collected on retained interests in transferred assets	1,227	1,712
Proceeds from assets acquired in liquidation, net	58	531
Proceeds from sales of hotel properties, net		2,529
Proceeds from mortgage-backed security of affiliate	70	13
Investment in retained interests in transferred assets	(253)	
Investment in restricted investments, net	(1,711)	(925)
Purchase of furniture, fixtures and equipment	(4)	(29)
Net cash provided by investing activities	5,087	13,760

Cash flows from financing activities:		
Purchase of treasury shares		(303)
Proceeds from (payment of principal on) credit facilities, net	600	(3,500)
Payment of principal on mortgages payable and debentures	(35)	(8,249)
Payment of dividends	(4,303)	(3,232)
Net cash used in financing activities	(3,738)	(15,284)
Net increase in cash and cash equivalents	5,216	2
Cash and cash equivalents, beginning of year	3,739	3,967
Cash and cash equivalents, end of period	$ 8,955	$ 3,969

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

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Interim Financial Statements:

The accompanying consolidated balance sheet of PMC Commercial Trust (PMC Commercial or together with its wholly-owned subsidiaries, we, us or our) as of March 31, 2007 and the consolidated statements of income, comprehensive income, beneficiaries equity and cash flows for the three months ended March 31, 2007 and 2006 have not been audited by independent accountants. In the opinion of management, the financial statements reflect all adjustments necessary to fairly present our financial position at March 31, 2007 and our results of operations for the three months ended March 31, 2007 and 2006. These adjustments are of a normal recurring nature.

Certain notes and other information have been omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect (1) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and (2) the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The results for the three months ended March 31, 2007 are not necessarily indicative of future financial results.

Note 2. Business:

PMC Commercial is a real estate investment trust (REIT) that either directly or through its subsidiaries, primarily originates loans to small businesses collateralized by first liens on the real estate of the related business. The majority of these loans are to borrowers in the hospitality industry. We also originate loans on commercial real estate to borrowers in the service, retail, multi-family and manufacturing industries and loans guaranteed by the Small Business Administration (SBA) collateralized by business assets and/or real estate. In addition, our investments include the ownership of commercial properties in the hospitality industry. Our common shares are traded on the American Stock Exchange under the symbol PCC.

Note 3. Consolidation:

We consolidate entities that we control as well as variable interest entities (VIEs) for which we are the primary beneficiary. To the extent we do not have a majority voting interest, we use the equity method to account for investments for which we have the ability to exercise significant influence over operating and financial policies. Consolidated net income includes our share of the net earnings of any VIE for which we are not the primary beneficiary. All material intercompany balances and transactions have been eliminated.

The consolidated financial statements include the accounts of PMC Commercial, First Western SBLC, Inc. (First Western), PMC Investment Corporation (PMCIC), Western Financial Capital Corporation (Western Financial), PMC Commercial Trust, Ltd. 1998-1 (PMCT Trust), PMC Funding Corp. (PMC Funding), PMC Asset Holding, LLC (Asset Holding), PMC Conduit, L.P. (PMC Conduit), PMC Properties, Inc. (PMC Properties) and separate subsidiaries created in conjunction with the purchase of certain hotel properties in 1999.

First Western is licensed as a small business lending company that originates loans through the SBA 7(a) Guaranteed Loan Program. PMCIC and Western Financial are licensed specialized small business investment companies under the Small Business Investment Act of 1958, as amended (SBIA). PMCT Trust was formed in conjunction with our 1998 structured loan financing transaction. PMC Funding, Asset Holding and PMC Conduit hold assets on our behalf. PMC Properties is the operator, through third party managers, of our hospitality properties.

In addition, we own subordinate financial interests in several non-consolidated special purpose entities (*i.e.,* retained interests in transferred assets (Retained Interests)). These are PMC Capital, L.P. 1998-1 (the 1998 Partnership), PMC Capital, L.P. 1999-1 (the 1999 Partnership), PMC Joint Venture, L.P. 2000 (the 2000 Joint Venture), PMC Joint Venture, L.P. 2001 (the 2001 Joint Venture), PMC Joint Venture, L.P. 2002-1 (the 2002 Joint Venture) and PMC Joint Venture, L.P.

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2003 (the 2003 Joint Venture, and together with the 2000 Joint Venture, the 2001 Joint Venture and the 2002 Joint Venture, the Joint Ventures, and the Joint Ventures together with the 1998 Partnership and the 1999 Partnership, the QSPEs) created in connection with structured loan sale transactions.

We account for our Retained Interests in accordance with Statement of Financial Accounting Standards (SFAS) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (SFAS No. 140) and Emerging Issues Task Force Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets. While we are the servicer of the assets held by these QSPEs, we are required under the transaction documents to comply with strict servicing standards and are subject to the approval of the trustees and/or noteholders regarding any significant issues associated with the assets. As a result, we believe we have relinquished control of the assets sold to the QSPEs. Accordingly, the assets, liabilities, partners capital and results of operations of the QSPEs are not included in our consolidated financial statements.

Note 4. Variable Interest Entities:

A VIE is an entity for which control is achieved through means other than voting rights. An entity should consolidate a VIE if that entity will absorb a majority of the VIE s expected losses, receive a majority of the VIE s expected residual returns, or both. The following entities have been determined to be VIEs.

PMC Conduit

During 2005, we entered into a $100.0 million conduit warehouse facility (the Conduit Facility). The Conduit Facility operates as a revolving line of credit, collateralized by loans originated by us, which have been or will be sold to PMC Conduit. The transfers of loans to PMC Conduit did not meet the requirements of SFAS No. 140 for sale treatment. PMC Commercial has not guaranteed the repayment of the obligations of the Conduit Facility.

Since PMC Commercial is the primary beneficiary of PMC Conduit, it is consolidated in the financial statements of PMC Commercial.

PMC Preferred Capital Trust-A

During 2005, PMC Commercial issued notes payable (the Junior Subordinated Notes) of approximately $27.1 million due March 30, 2035 to a special purpose subsidiary, PMC Preferred Capital Trust-A, a Delaware statutory trust (the Preferred Trust). The Junior Subordinated Notes, included in our consolidated balance sheets, are subordinated to PMC Commercial s existing debt.

Since PMC Commercial is not considered to be the primary beneficiary of the Preferred Trust, it is not consolidated in PMC Commercial s financial statements. The equity method is used to account for our investment in the Preferred Trust.

PMCT Plainfield, L.P.

During 2006, we leased a hotel property owned by a separate subsidiary (PMCT Plainfield, L.P.) which was previously consolidated. The hotel property is the primary asset of the subsidiary. The lessee has the option, and is expected to exercise this option, to purchase the property for $1,825,000 at termination of the lease in January 2011 or earlier if certain events occur. Our subsidiary received a substantial non-refundable up-front payment of $452,000. Based on the terms of this lease agreement including the fixed price purchase option, the subsidiary was determined to be a VIE.

Since PMC Commercial is not considered to be the primary beneficiary of PMCT Plainfield, L.P., it is not consolidated in PMC Commercial s financial statements. The equity method is used to account for our investment in PMCT Plainfield, L.P.

Note 5. Reclassifications:

Certain prior period amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net income or total beneficiaries equity.

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 6. Share-Based Compensation Plans:

At March 31, 2007, we have options outstanding under share-based compensation plans. We use the fair value recognition provisions of SFAS No. 123R, Accounting for Stock-Based Compensation, to account for all awards granted, modified or settled.

We issued an aggregate of 9,060 restricted shares to executive officers and our Board of Trust Managers on both June 10, 2006 and June 11, 2005 at the then current market price of the shares. Compensation expense is being recognized over the vesting period. We recorded compensation expense of approximately $20,000 and $17,000 during the three months ended March 31, 2007 and 2006, respectively, related to the restricted share issuances. As of March 31, 2007, there was approximately $32,000 of total unrecognized compensation expense related to the restricted shares which will be recognized over the next year.

Note 7. Recently Issued Accounting Pronouncements:

The Financial Accounting Standards Board (FASB) issued SFAS No. 157 (SFAS No. 157), Fair Value Measurements in September 2006. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability, establishes a fair value hierarchy that prioritizes the information used to develop those assumptions and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating the impact of SFAS No. 157 on our consolidated financial statements; however, we do not expect the adoption to have a material impact on our consolidated financial statements.

The FASB issued SFAS No. 159 (SFAS No. 159), The Fair Value Option for Financial Assets and Financial Liabilities in February 2007. SFAS No. 159 allows entities the option to measure eligible financial instruments at fair value at specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We have not yet determined the impact, if any, of SFAS No. 159 on our consolidated financial statements.

Note 8. Loans Receivable, net:

Loans receivable, net, consisted of the following:

	March 31, 2007	December 31, 2006
	(In thousands)	
SBIC commercial mortgage loans	$ 29,895	$ 36,243
SBA 7(a) Guaranteed Loan Program loans	13,400	14,749
Conduit Facility loans (1)	40,952	43,612
Other commercial mortgage loans	82,013	75,089
Total loans receivable	166,260	169,693
Less:		
Deferred commitment fees, net	(453)	(449)
Loan loss reserves	(82)	(63)
Loans receivable, net	$ 165,725	$ 169,181

(1) These loans are collateral for our Conduit

Facility.

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Additional information on our loans receivable, net, was as follows:

		March 31, 2007			December 31, 2006		
		Loans receivable, net		Weighted Average Interest	Loans receivable, net		Weighted Average Interest
		Amount	%	Rate	Amount	%	Rate
		(Dollars in thousands)					
Variable-rate	LIBOR	$ 125,767	75.9%	9.2%	$ 127,931	75.6%	9.4%
Fixed-rate		23,545	14.2%	8.7%	23,419	13.9%	8.8%
Variable-rate	prime	16,413	9.9%	10.1%	17,831	10.5%	10.2%
		$ 165,725	100.0%	9.3%	$ 169,181	100.0%	9.4%

Our loans receivable were approximately 93% concentrated in the hospitality industry at March 31, 2007. Any economic factors that negatively impact the hospitality industry could have a material adverse effect on our financial condition or results of operations.

The activity in our loan loss reserves was as follows:

	Three Months Ended March 31,	
	2007	2006
	(In thousands)	
Balance, beginning of year	$ 63	$ 427
Provision for loan losses	71	89
Reduction of loan losses	(6)	(38)
Principal balances written-off, net	(46)	(430)
Balance, end of period	$ 82	$ 48

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
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(Unaudited)

Impaired loans are defined by generally accepted accounting principles as loans for which it is probable that the lender will be unable to collect all amounts due according to the original contractual terms of the loan. Information on those loans considered to be impaired loans was as follows:

	March 31, 2007	December 31, 2006
	(In thousands)	
Impaired loans requiring reserves	$ 106	$ 82
Impaired loans expected to be fully recoverable (1)	3,995	1,837
Total impaired loans	$ 4,101	$ 1,919

	Three Months Ended March 31, 2007	2006
	(In thousands)	
Average impaired loans	$ 1,548	$ 2,891
Interest income on impaired loans (2)	$	$ 70

(1) *Loans acquired were recorded at their estimated fair value and as such are reflected at discounted amounts. Certain of these loans have no reserves and are thus shown in impaired loans expected to be fully recoverable with respect to our recorded investment in the loan; however, we do not expect to*

collect all amounts due according to the original contractual terms of the note.

(2) *Recorded primarily on the cash basis.*

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 9. Real Estate Investments, Real Estate Investments Held for Sale and Rent and Related Receivables:

Our real estate investments consisted of the following:

	At March 31, 2007		At December 31, 2006
	Real Estate Investment	Real Estate Investment Held for Sale	Real Estate Investments
	(In thousands)		
Land	$ 194	$ 300	$ 494
Buildings and improvements	2,281	2,187	4,468
Furniture, fixtures and equipment	273	19	292
	2,748	2,506	5,254
Accumulated depreciation	(746)	(136)	(840)
	$ 2,002	$ 2,370	$ 4,414

At March 31, 2007, two of the three hotel properties that we own were included in our consolidated financial statements. On September 29, 2006, we leased a hotel property owned by a separate subsidiary that was previously consolidated. The lessee has the option, and is expected to exercise this option, to purchase the property for $1,825,000 at termination of the lease in January 2011 or earlier if certain events occur. Our subsidiary received a substantial up-front payment of $452,000. As a VIE, the subsidiary which owns the hotel property was no longer consolidated in PMC Commercial s financial statements effective September 29, 2006.

The three hotel properties were part of a sale and leaseback transaction with Arlington Hospitality, Inc. (AHI) whereby we purchased the properties from AHI and then leased the properties to a wholly-owned subsidiary of AHI, Arlington Inns, Inc. (AII and together with AHI, Arlington). During June 2005, AII filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code (Bankruptcy). On August 31, 2005, AHI filed for Bankruptcy (the Arlington Bankruptcy).

In April 2007, we sold our hotel property held for sale for $2.6 million. We financed the sale of the property through origination of a loan of $2.1 million with an interest rate of LIBOR plus 3.75% and maturity and amortization periods of 20 years. In conjunction with the sale, we repaid the mortgage note collateralized by the property.

At March 31, 2007, we were marketing to sell or lease our remaining hotel property. Subsequent to quarter end, we are negotiating to sell this property and a sale is currently pending. There can be no assurance that this property will be sold.

At March 31, 2007, our rent and related receivables consisted of unpaid rent, property taxes, legal fees incurred, termination damages, notes receivable and other charges (the Arlington Claims) of approximately $2,747,000 before reserves. As a result of the uncertainty and timing of collection, our claim in the Arlington Bankruptcy is well in excess of our recorded investment in the Arlington Claims.

On a quarterly basis, we perform analyses of our anticipated future proceeds related to the Arlington Bankruptcy to determine the collectibility of our investment in the rent and related receivables based on best available information provided to us. As a result, we recorded provisions for loss of approximately $239,000 and $300,000 during the three months ended March 31, 2007 and 2006, respectively. Our net recorded investment in the rent and related receivables was approximately $329,000 as of March 31, 2007. In addition, at March 31, 2007, we have recorded liabilities to

Arlington of approximately $329,000. As a result of the pending settlement agreement, we do not anticipate either (1) the receipt of any significant future recoveries from Arlington or (2) having to make any payments to Arlington in connection with their asserted claims. Therefore, we anticipate that receivables and payables will be offset.

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 10. Retained Interests:

In our structured loan sale transactions, we contributed loans receivable to a QSPE in exchange for cash and beneficial interests in that entity. The QSPE issued notes payable (the Structured Notes) to unaffiliated parties (Structured Noteholders). The QSPE then distributed a portion of the proceeds from the Structured Notes to us. The Structured Notes are collateralized solely by the assets of the QSPE which means that should the financial assets in the QSPE be insufficient for the trustee to make payments on the Structured Notes, the Structured Noteholders have no recourse against us. Upon the completion of our structured loan sale transactions, we recorded the transfer of loans receivable as a sale in accordance with SFAS No. 140. As a result, the loans receivable contributed to the QSPE, the Structured Notes issued by the QSPE, and the operating results of the QSPE are not included in our consolidated financial statements. The difference between (1) the carrying value of the loans receivable sold and (2) the sum of (a) the cash received and (b) the relative fair value of our Retained Interests, constituted the gain or loss on sale. Retained Interests are carried at estimated fair value, with realized gains and permanent impairments recorded in net income and unrealized gains and losses recorded in beneficiaries equity.

We completed joint structured loan sale transactions with PMC Capital, Inc., our affiliate through common management. Our interests related to the loans receivable we contributed to these structured loan sale transactions are the Originated Structured Loan Sale Transactions. During 2004, we acquired PMC Capital, Inc. s Retained Interests in the Joint Ventures and 100% of the 1998 Partnership and the 1999 Partnership (collectively, the Acquired Structured Loan Sale Transactions).

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Information pertaining to our Originated Structured Loan Sale Transactions as of March 31, 2007 was as follows:

	2000 Joint Venture	2001 Joint Venture	2002 Joint Venture	2003 Joint Venture
		(Dollars in thousands)		
Principal outstanding on sold loans	$ 28,675	$ 5,562	$ 15,327	$ 20,443
Structured Notes balance outstanding	$ 23,275	$ 2,975	$ 12,588	$ 19,454
Cash in the collection account	$ 350	$ 96	$ 198	$ 379
Cash in the reserve account	$ 1,683	$ 624	$ 923	$ 1,446
Weighted average interest rate on loans (1)	9.55%	9.63%	9.56%	L+4.02%
Discount rate assumptions (2)	7.5% to 12.2%	7.5% to 12.2%	7.5% to 12.2%	8.2% to 12.2%
Constant prepayment rate assumption (3)	18.00%	18.00%	18.00%	16.00%
Weighted average remaining life of Retained Interests (4)	2.16 years	1.50 years	2.05 years	3.02 years
Aggregate losses assumed (5)	1.44%	%	1.43%	1.49%
Aggregate principal losses to date (6)	0.33%	0.56%	%	%

(1) *Variable interest rates are denoted by the spread over the 90-day LIBOR (L).*

(2) *Discount rates utilized were (a) 7.5% to 8.2% for our required overcollateralization, (b) 9.2% for our reserve funds and (c) 12.2% for our interest-only strip receivables.*

(3) *The prepayment rate was based on the actual performance of the loan pools, adjusted for anticipated principal prepayments considering similar loans.*

(4)

The weighted average remaining life of Retained Interests was calculated by summing the product of (a) the sum of the principal collections expected in each future period multiplied by (b) the number of periods until collection, and then dividing that total by (c) the remaining principal balance.

(5) *Represents aggregate estimated future losses as a percentage of the principal outstanding based upon per annum losses ranging from 0.0% to 1.2%. To the extent any loans are likely to be liquidated in the next twelve months, estimated losses were assumed to occur during that period. Generally, no losses are assumed in the twelve months ending March 31, 2008 for those structured loan sale transactions with no current potential impaired loans.*

(6) *Represents aggregate principal losses to date as a percentage of the principal outstanding at inception. For the 2000 Joint Venture, represents the loss on a loan receivable repurchased by PMC*

Commercial due to a loan modification and assumption. For the 2001 Joint Venture, represents the loss on a delinquent loan receivable with a charged-off status repurchased by PMC Commercial.

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Information pertaining to our Acquired Structured Loan Sale Transactions as of March 31, 2007 was as follows:

	1998 Partnership	1999 Partnership	2000 Joint Venture	2001 Joint Venture	2002 Joint Venture	2003 Joint Venture
			(Dollars in thousands)			
Principal outstanding on sold loans	$ 10,924	$ 14,775	$ 8,432	$ 15,258	$ 16,984	$ 34,653
Structured Notes balance outstanding	$ 10,702	$ 11,356	$ 5,741	$ 11,397	$ 12,723	$ 29,674
Cash in the collection account	$ 522	$ 291	$ 84	$ 208	$ 226	$ 1,122
Cash in the reserve account	$ 1,334	$ 1,215	$ 563	$ 988	$ 1,027	$ 2,136
Weighted average interest rate of loans (1)	P+0.96%	9.07%	9.00%	9.62%	9.52%	L+4.02%
Discount rate assumptions (2)	7.9% to 12.2%	7.5% to 12.2%	7.5% to 12.2%	7.5% to 12.2%	7.5% to 12.2%	8.1% to 12.2%
Constant prepayment rate assumption (3)	16.00%	18.00%	18.00%	18.00%	18.00%	16.00%
Weighted average remaining life of Retained Interests (4)	2.65 years	2.08 years	2.13 years	1.48 years	2.30 years	3.01 years
Aggregate principal losses assumed (5)	1.54%	1.55%	1.41%	1.16%	1.76%	1.51%
Aggregate principal losses to date (6)	%	%	4.28%	1.78%	1.31%	%

(1) Variable interest rates are denoted by the spread over the prime rate (P) or the 90-day LIBOR (L).

(2) Discount rates utilized were (a) 7.5% to 8.1% for our required overcollateralization, (b) 9.2% for our reserve funds and (c) 12.2% for our interest-only strip receivables.

(3) *The prepayment rate was based on the actual performance of the loan pools, adjusted for anticipated principal prepayments considering similar loans.*

(4) *The weighted average remaining life of Retained Interests was calculated by summing the product of (a) the sum of the principal collections expected in each future period multiplied by (b) the number of periods until collection, and then dividing that total by (c) the remaining principal balance.*

(5) *Represents aggregate estimated future losses as a percentage of the principal outstanding based upon per annum losses ranging from 0.0% to 2.1%. To the extent any loans are likely to be liquidated in the next twelve months, estimated losses were assumed to occur during that period. Generally, no losses are assumed in the twelve months ending March 31, 2008 for those structured loan sale transactions with no current potential impaired loans.*

(6) Represents aggregate principal losses to date as a percentage of the principal outstanding at inception. For the 2000 Joint Venture, represents historical losses incurred prior to our acquisition. For the 2001 Joint Venture and the 2002 Joint Venture, represents losses on delinquent loans receivable with a charged-off status repurchased by PMC Commercial.

At March 31, 2007, none of the loans sold to the QSPEs were delinquent over 60 days as to principal and interest.

First Western has Retained Interests related to the sale of loans originated pursuant to the SBA 7(a) Guaranteed Loan Program. The SBA guaranteed portions of First Western s loans receivable are sold to either dealers in government guaranteed loans receivable or institutional investors (Secondary Market Loan Sales) as the loans are fully funded. On Secondary Market Loan Sales, we may retain an excess spread between the interest rate paid to us from our borrowers and the rate we pay to the purchaser of the guaranteed portion of the note and servicing costs. At March 31, 2007, the aggregate principal balance of First Western s serviced loans receivable on which we had an excess spread was approximately $39.3 million and the weighted average excess spread was approximately 0.6%. In determining the fair value of our Retained Interests related to Secondary Market Loan Sales, our assumptions at March 31, 2007 included a prepayment speed of 20% per annum and a discount rate of 12.2%.

The estimated fair value of our Retained Interests is based upon an estimate of the discounted future cash flows we will receive. In determining the present value of expected future cash flows, estimates are made in determining the amount and timing of those cash flows and the discount rates. The amount and timing of cash flows is generally determined based on estimates of loan losses and anticipated prepayment speeds relating to the loans receivable contributed to the QSPE. Actual

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loan losses and prepayments may vary significantly from assumptions. The discount rates that we utilize in computing the estimated fair value are based upon estimates of the inherent risks associated with each cash flow stream. Due to the limited number of entities that conduct transactions with similar assets, the relatively small size of our Retained Interests and the limited number of buyers for such assets, no readily ascertainable market exists. Therefore, our estimate of the fair value may or may not vary from what a willing buyer would pay for these assets.

The components of our Retained Interests are as follows:

(1) Our required overcollateralization (the OC Piece). The OC Piece represents the excess of the loans receivable contributed to the QSPE over the principal amount of the Structured Notes Payable issued by the QSPE, which serves as additional collateral for the Structured Noteholders.

(2) The Reserve Fund and the interest earned thereon. The Reserve Fund represents cash that is required to be kept in a liquid cash account by the QSPE, pursuant to the terms of the transaction documents, as collateral for the Structured Noteholders, a portion of which was contributed by us to the QSPE upon formation and a portion of which is built up over time by the QSPE from the cash flows of the underlying loans receivable.

(3) The interest-only strip receivable (the IO Receivable). The IO Receivable is comprised of the cash flows that are expected to be received by us in the future after payment by the QSPE of (a) all interest and principal due to the Structured Noteholders, (b) all principal and interest on the OC Piece, (c) any required funding of the Reserve Fund and (d) on-going costs of the transaction.

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Our Retained Interests consisted of the following:

	March 31, 2007				
	Estimated Fair Value				
	OC Piece	Reserve Fund	IO Receivable	Total	Cost
	(In thousands)				
First Western	$	$	$ 648	$ 648	$ 620
1998 Partnership	664	1,102	323	2,089	1,951
1999 Partnership	3,811	1,016	301	5,128	4,908
2000 Joint Venture	8,809	2,039	696	11,544	10,321
2001 Joint Venture	6,874	1,500	551	8,925	8,605
2002 Joint Venture	7,571	1,764	968	10,303	9,650
2003 Joint Venture	10,744	3,211	2,221	16,176	15,433
	$ 38,473	$ 10,632	$ 5,708	$ 54,813	$ 51,488

	December 31, 2006				
	Estimated Fair Value				
	OC Piece	Reserve Fund	IO Receivable	Total	Cost
	(In thousands)				
First Western	$	$	$ 652	$ 652	$ 641
1998 Partnership	699	1,094	321	2,114	2,013
1999 Partnership	3,795	973	311	5,079	4,932
2000 Joint Venture	8,763	2,058	728	11,549	10,295
2001 Joint Venture	6,844	1,627	768	9,239	8,788
2002 Joint Venture	7,649	1,700	1,066	10,415	9,751
2003 Joint Venture	10,817	3,316	2,543	16,676	16,048
	$ 38,567	$ 10,768	$ 6,389	$ 55,724	$ 52,468

The difference between the estimated fair value and cost of our Retained Interests is reflected in our consolidated balance sheets as unrealized appreciation of Retained Interests.

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The following sensitivity analysis of our Retained Interests as of March 31, 2007 highlights the volatility that results when prepayments, losses and discount rates are different than our assumptions:

Changed Assumption	Estimated Fair Value	Asset Change (1)
	(In thousands)	
Losses increase by 50 basis points per annum (2)	$ 53,382	($1,431)
Losses increase by 100 basis points per annum (2)	$ 51,986	($2,827)
Rate of prepayment increases by 5% per annum (3)	$ 54,386	($427)
Rate of prepayment increases by 10% per annum (3)	$ 54,042	($771)
Discount rates increase by 100 basis points	$ 53,399	($1,414)
Discount rates increase by 200 basis points	$ 52,038	($2,775)

(1) Any depreciation of our Retained Interests is either included in the accompanying statement of income as a permanent impairment (if there is a reduction in expected future cash flows) or on our balance sheet in beneficiaries equity as an unrealized loss.

(2) If we experience losses in excess of anticipated losses, the effect on our Retained Interests would first reduce the value of the IO Receivables. To the extent the IO Receivables

could not fully absorb the losses, the effect would then be to reduce the value of our Reserve Funds and then the value of our OC Pieces.

(3) *For example, a 16% assumed rate of prepayment would be increased to 21% or 26% based on increases of 5% or 10% per annum, respectively.*

These sensitivities are hypothetical and should be used with caution. Values based on changes in these assumptions generally cannot be extrapolated since the relationship of the change in an assumption to the change in fair value is not linear. The effect of a variation in a particular assumption on the fair value of our Retained Interests is calculated without changing any other assumption. In reality, changes in one factor are not isolated from changes in another which might magnify or counteract the sensitivities.

We monitor the governing pooling and servicing agreements for each of our structured loan sale transactions and believe the servicing-related terms set forth therein are industry standard and consistent with QSPE criteria. However, views about permitted servicing activities involving QSPEs may not be consistent among organizations. As accounting standard setters continue to interpret QSPE criteria under SFAS No. 140, there may be a material resultant impact on our consolidated financial statements.

In accordance with SFAS No. 140, our consolidated financial statements do not include the assets, liabilities, partners capital, revenues or expenses of the QSPEs. As a result, at March 31, 2007 and December 31, 2006 our consolidated balance sheets do not include the $190.9 million and $207.7 million of assets, respectively, and $140.3 million and $156.5 million of liabilities, respectively, related to our structured loan sale transactions recorded by the QSPEs. At March 31, 2007, the partners capital of the QSPEs was approximately $50.6 million compared to the value of the associated Retained Interests of $54.2 million.

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The following information summarizes the financial position of the QSPEs at March 31, 2007 and December 31, 2006.

Summary of Financial Position:

	1998 Partnership		1999 Partnership		2000 Joint Venture	
	March 31, 2007	December 31, 2006	March 31, 2007	December 31, 2006	March 31, 2007	December 31, 2006
	(In thousands)					
Loans receivable, net	$ 10,914	$ 11,784	$ 14,775	$ 15,060	$ 37,107	$ 37,579
Total assets	$ 12,840	$ 13,978	$ 16,378	$ 16,608	$ 40,022	$ 40,484
Structured Notes	$ 10,702	$ 11,757	$ 11,356	$ 11,579	$ 29,016	$ 29,457
Total liabilities	$ 10,767	$ 11,829	$ 11,420	$ 11,644	$ 29,103	$ 29,546
Partners capital	$ 2,073	$ 2,149	$ 4,958	$ 4,964	$ 10,919	$ 10,938

	2001 Joint Venture		2002 Joint Venture		2003 Joint Venture	
	March 31, 2007	December 31, 2006	March 31, 2007	December 31, 2006	March 31, 2007	December 31, 2006
	(In thousands)					
Loans receivable, net	$ 20,820	$ 27,092	$ 32,311	$ 32,643	$ 55,096	$ 64,111
Total assets	$ 22,833	$ 31,065	$ 34,920	$ 35,257	$ 63,918	$ 70,333
Structured Notes	$ 14,372	$ 22,437	$ 25,311	$ 25,617	$ 49,128	$ 55,137
Total liabilities	$ 14,409	$ 22,497	$ 25,381	$ 25,688	$ 49,263	$ 55,288
Partners capital	$ 8,424	$ 8,568	$ 9,539	$ 9,569	$ 14,655	$ 15,045

The following information summarizes the results of operations of the QSPEs.

Summary of Operations:

	Three Months Ended March 31,					
	1998 Partnership		1999 Partnership		2000 Joint Venture	
	2007	2006	2007	2006	2007	2006
	(In thousands)					
Interest income	$ 282	$ 343	$ 352	$ 445	$ 902	$ 1,013
Total revenues	$ 300	$ 344	$ 355	$ 459	$ 908	$ 1,016
Reduction of losses	$ (1)	$ (1)	$	$	$	$ (17)
Interest expense	$ 203	$ 236	$ 189	$ 265	$ 532	$ 625
Total expenses	$ 214	$ 250	$ 203	$ 284	$ 563	$ 644
Net income	$ 86	$ 94	$ 152	$ 175	$ 345	$ 372

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	Three Months Ended March 31,					
	2001 Joint Venture		2002 Joint Venture		2003 Joint Venture	
	2007	2006	2007	2006	2007	2006
	(In thousands)					
Interest income	$ 614	$ 1,124	$ 793	$ 1,041	$ 1,570	$ 1,687
Total revenues	$ 771	$ 1,348	$ 806	$ 1,049	$ 1,705	$ 1,706
Reduction of losses	$	$	$	$	$	$ (6)
Interest expense	$ 315	$ 640	$ 425	$ 595	$ 873	$ 949
Total expenses	$ 338	$ 679	$ 451	$ 630	$ 926	$ 1,006
Net income	$ 433	$ 669	$ 355	$ 419	$ 779	$ 700

The income from our Retained Interests represents the accretion (recognized using the effective interest method) on our Retained Interests which is determined based on estimates of future cash flows and includes any fees collected (*i.e.,* late fees, prepayment fees, etc.) by the QSPEs in excess of anticipated fees. We update our cash flow assumptions on a quarterly basis and any changes to cash flow assumptions impact the yield on our Retained Interests. The annualized yield on our Retained Interests, which is comprised of the income earned less permanent impairments, was 11.9% and 13.2% during the three months ended March 31, 2007 and 2006, respectively.

Servicing fee income for the three months ended March 31, 2007 and 2006 for loans held by the QSPEs was approximately $142,000 and $186,000, respectively. We have not established a servicing asset or liability related to the loans held by the QSPEs as the servicing fees are considered adequate compensation.

We received approximately $3.1 million and $4.0 million in cash distributions from the QSPEs during the three months ended March 31, 2007 and 2006, respectively.

During March 2007, PMC Commercial repurchased a loan from the 2003 Joint Venture which had become charged-off as defined in the transaction documents with an outstanding principal balance of approximately $3.5 million. We foreclosed on the underlying collateral of the loan, a full service hospitality property, during May 2007. We received a deposit on the sale of the property during May 2007 and expect the sale to close during the second quarter of 2007. No loss is expected on the sale.

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Note 11. Other Assets:

Other assets consisted of the following:

	March 31, 2007	December 31, 2006
	(In thousands)	
Assets acquired in liquidation, net (1)	$ 1,218	$ 975
Deferred borrowing costs, net	1,012	1,069
Interest receivable	904	1,016
Investment in Preferred Trust	820	820
Prepaid expenses and deposits	663	614
Investment in PMCT Plainfield, L.P.	68	6
Other	496	438
Other assets	$ 5,181	$ 4,938

(1) During May 2007, we received a deposit on the sale of our asset acquired in liquidation. We expect the sale to close during the second quarter of 2007 and no loss is expected on the sale.

Note 12. Debt:

Information on our debt was as follows:

	March 31, 2007		December 31, 2006			Weighted Average Coupon Rate at	
	Face Amount	Carrying Value	Face Amount	Carrying Value	Range of Maturities	March 31, 2007	December 31, 2006
	(Dollars in thousands, except footnotes)						
Mortgage notes and debentures payable:							
Debentures	$ 8,190	$ 8,162	$ 8,190	$ 8,161	2013 to 2015	5.90%	5.90%
Mortgage notes (1)	2,607	2,607	2,642	2,642	2011 to 2017	8.02%	8.02%

	10,797	10,769	10,832	10,803			
Junior Subordinated Notes	27,070	27,070	27,070	27,070	2035	8.61%	8.62%
Credit facilities:							
Conduit Facility	24,968	24,968	26,968	26,968	2008	6.34%	6.35%
Revolving credit facility	2,600	2,600			2007	7.50%	N/A
	27,568	27,568	26,968	26,968			
Redeemable preferred stock of subsidiary	4,000	3,693	4,000	3,668	2009 to 2010	4.00%	4.00%
Debt	$ 69,435	$ 69,100	$ 68,870	$ 68,509			

(1) Does not include a mortgage note with a principal balance of approximately $1.3 million and a fixed interest rate of 8.5% due January 1, 2011 of an unconsolidated subsidiary.

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Principal payments required on our consolidated debt at March 31, 2007 were as follows (face amount):

Twelve Months Ending March 31,	Total *(In thousands)*
2008 (1)	$ 28,840
2009	90
2010	2,097
2011	2,105
2012	113
Thereafter	36,190
	$ 69,435

(1) Includes the repayment of a $1.2 million mortgage note on April 2, 2007.

Debentures

Debentures represent amounts due to the SBA as a result of borrowings made pursuant to the SBIA. The debentures have a weighted average cost of funds of approximately 6.0% and require semi-annual interest only payments.

Mortgage Notes

The mortgage notes collateralize our hotel properties, are amortized over 20 years, mature in January 2011 and December 2017 and have restrictive provisions which provide for substantial prepayment penalties. During April 2007, we repaid one of the mortgage notes due January 2011 with a principal balance of approximately $1.2 million. As a result of the prepayment, we incurred a fee of approximately $167,000. At both March 31, 2007 and December 31, 2006, approximately $1.4 million of our mortgage notes were guaranteed by PMC Commercial.

Junior Subordinated Notes

In connection with the formation of the Preferred Trust, during 2005, PMC Commercial issued Junior Subordinated Notes which are subordinated to PMC Commercial s existing debt. The Junior Subordinated Notes bear interest at a floating rate which resets on a quarterly basis at the 90-day LIBOR plus 3.25% (computed on a 360-day year). The Junior Subordinated Notes may be redeemed at our option, without penalty, beginning on March 30, 2010. Interest payments are due on a quarterly basis.

Conduit Facility

During 2005, we entered into a three-year $100.0 million Conduit Facility expiring February 6, 2008. Interest payments on the advances are payable by PMC Conduit on a monthly basis at a rate approximating LIBOR, plus 0.85% and PMC Conduit s principal repayment obligations are expected to be financed through future securitizations of the loans collateralizing advances under the Conduit Facility. In addition, we are charged an unused fee equal to 12.5 basis points computed based on the daily available balance. The Conduit Facility allows for advances based on the amount of eligible collateral sold and has minimum collateral requirements. The Conduit Facility has covenants, the most restrictive of which are maximum delinquency ratios for our contributed loans and serviced portfolio, as defined in the transaction documents. At March 31, 2007, we were in compliance with the covenants of this facility.

Revolving Credit Facility

PMC Commercial has a revolving credit facility that matures in December 2007 and provides us with credit availability up to $20 million. We are charged interest on the balance outstanding under the revolving credit facility at our election of either the prime rate of the lender less 75 basis points or 162.5 basis points over the 30, 60 or 90-day

LIBOR. In addition, we are charged an unused fee equal to 37.5 basis points computed based on our daily available balance. The credit facility requires us to meet certain covenants, the most restrictive of which (1) provides for an asset coverage test based on our cash and cash equivalents, loans receivable, Retained Interests and real estate investments as a ratio to our senior debt and (2) limits our ability to pay out returns of capital as part of our dividends. At March 31, 2007, we were in compliance with the covenants of this facility.

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Redeemable Preferred Stock of Subsidiary

PMCIC has outstanding 40,000 shares of $100 par value, 4% cumulative preferred stock (the 4% Preferred Stock). The 4% Preferred Stock is held by the SBA pursuant to the SBIA.

The 4% Preferred Stock was issued during 1994 ($2.0 million) and 1995 ($2.0 million) and must be redeemed at par no later than 15 years from the date of issuance. In accordance with SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, we have classified the 4% Preferred Stock as a liability on our consolidated balance sheet. Dividends of approximately $40,000 were recognized on the 4% Preferred Stock during both the three months ended March 31, 2007 and 2006 and are included in interest expense on our consolidated statements of income.

Note 13. Cumulative Preferred Stock of Subsidiary:

PMCIC has outstanding 30,000 shares of $100 par value, 3% cumulative preferred stock (the 3% Preferred Stock) held by the SBA pursuant to the SBIA.

PMCIC is entitled to redeem, in whole or part, the 3% Preferred Stock by paying the par value ($3.0 million) of these securities plus dividends accumulated and unpaid on the date of redemption. While the 3% Preferred Stock may be redeemed, redemption is not mandatory. Dividends of approximately $22,000 were recognized on the 3% Preferred Stock during both the three months ended March 31, 2007 and 2006 and are reflected in our consolidated statements of income as minority interest.

Note 14. Earnings Per Share:

The computations of basic earnings per common share are based on our weighted average shares outstanding. The weighted average number of common shares outstanding was approximately 10,754,000 and 10,746,000 for the three months ended March 31, 2007 and 2006, respectively. For purposes of calculating diluted earnings per share, the weighted average shares outstanding were increased by approximately 13,000 shares during the three months ended March 31, 2007 for the dilutive effect of options to purchase common shares. During the three months ended March 31, 2006, no shares were added to the weighted average shares outstanding for purposes of calculating diluted earnings per share as all options were anti-dilutive.

Not included in the computation of diluted earnings per share were outstanding options to purchase approximately 19,000 and 170,000 common shares during the three months ended March 31, 2007 and 2006, respectively, because the options exercise prices were greater than the average market price of the shares.

Note 15. Dividends Declared:

The Board of Trust Managers declared a $0.30 per share quarterly dividend to common shareholders of record on March 30, 2007, which was paid on April 9, 2007.

We have certain covenants within our debt facilities that limit our ability to pay out returns of capital as part of our dividends. These restrictions have not historically limited the amount of dividends we have paid and management does not believe that they will restrict future dividend payments.

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Note 16. Taxable Income:

PMC Commercial has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code). To qualify as a REIT, PMC Commercial must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our taxable income to our shareholders. As a REIT, PMC Commercial generally will not be subject to corporate level Federal income tax on net income that is currently distributed to shareholders. We may, however, be subject to certain Federal excise taxes and state and local taxes on our income and property. If PMC Commercial fails to qualify as a REIT in any taxable year, it will be subject to Federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and will not be able to qualify as a REIT for four subsequent taxable years.

In order to meet our prior year taxable income distribution requirements, we may make an election under the Code to treat a portion of the distributions declared in the current year as distributions of the prior year s taxable income.

PMC Commercial has wholly-owned taxable REIT subsidiaries (TRS s) which are subject to Federal income taxes: PMCIC, First Western, PMC Funding and PMC Properties. The income generated from the TRS s is taxed at normal corporate rates. We account for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes which uses the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The measurement of net deferred tax assets is adjusted by a valuation allowance, if, based on our ongoing assessment of this future realization, it is more likely than not that they will not be realized.

We calculate our current and deferred tax provisions based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on the final tax returns are generally recorded in the period when the returns are filed.

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The following table reconciles our net income to REIT taxable income:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(In thousands, except per share data)	
Net income	$ 2,821	$ 5,041
Less: TRS net income, net of tax	(244)	(178)
Add: Book depreciation	46	71
Less: Tax depreciation	(57)	(334)
Book/tax difference on Retained Interests, net	294	228
Book/tax difference on property sales	419	350
Impairment losses	233	43
Provision for loss on rent and related receivables	239	300
Book/tax difference on amortization and accretion	(74)	(37)
Asset valuation	(302)	(889)
Other book/tax differences, net	264	42
REIT taxable income	$ 3,639	$ 4,637
Distributions declared	$ 3,226	$ 3,223
Dividends declared per share	$ 0.30	$ 0.30

Income tax provision related to the TRS s consists of the following:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(In thousands)	
Federal:		
Current provision	$ 151	$ 120
Deferred benefit	(9)	(36)
Income tax provision	$ 142	$ 84

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The provision for income taxes results in effective tax rates that differ from Federal statutory rates of 35%. The reconciliation of TRS income tax attributable to net income computed at Federal statutory rates to income tax expense was as follows:

	Three Months Ended March 31, 2007	2006
	(In thousands)	
Income before income taxes for TRS s	$ 386	$ 262
Expected Federal income tax provision	$ 134	$ 92
Preferred dividend of subsidiary recorded as minority interest	8	8
Other adjustment		(16)
Income tax provision	$ 142	$ 84

The components of the net deferred tax asset were as follows:

	March 31, 2007	December 31, 2006
	(In thousands)	
Deferred tax assets:		
Retained Interests	$ 167	$ 161
Loans receivable	91	94
Servicing asset	53	69
Operating loss carryforwards	13	
Total gross deferred tax assets	324	324
Deferred tax liabilities:		
Discount on acquired redeemable preferred stock of subsidiary and debentures payable	112	121
Total gross deferred tax liabilities	112	121
Deferred tax asset, net	$ 212	$ 203

Our operating loss carryforwards were generated by PMC Properties and are available to offset future taxable income of PMC Properties. Based on estimates of future pretax earnings for the properties, management believes that we will realize the full benefit of these net operating loss carryforwards. The net operating loss carryforwards expire in 2027.

The FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, in July 2006. FIN 48 clarifies the accounting and disclosure for uncertainty in income tax positions, as defined, imposes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We are subject to the provisions of FIN 48 as of January 1, 2007, and to the extent applicable, have analyzed filing positions in all of the federal and state jurisdictions where we are required to file income tax returns, as well as all open tax years in those jurisdictions. We have identified our federal tax returns and our state returns in Texas as major tax jurisdictions, as defined. The periods subject to examination for our federal tax returns and state returns in Texas are the 2003 through 2006 tax years. We believe that all income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our financial position. Therefore, no reserves for uncertain tax positions have been recorded pursuant to FIN 48. In addition, we did not record a cumulative effect adjustment related to the adoption of FIN 48.

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In accordance with FIN 48, we have established a policy on classification of penalties and interest related to audits of our federal and state income tax returns. If incurred, our policy for recording interest and penalties associated with audits will be to record such items as a component of income before income tax provision, minority interest and discontinued operations. Penalties, if incurred, will be recorded in general and administrative expense and interest paid or received will be recorded in interest expense or interest income, respectively, in the statement of income.

Note 17. Other Income:

Other income consisted of the following:

	Three Months Ended March 31,	
	2007	2006
	(In thousands)	
Prepayment fees	$ 248	$ 446
Servicing income (1)	214	280
Premium income (2)	160	34
Other loan related income	63	98
Equity in earnings of unconsolidated subsidiaries	24	16
Lease income		35
Other	32	
Other income	$ 741	$ 909

(1) We earn fees for servicing all loans held by the QSPEs and First Western s loans sold into the secondary market.

(2) Premium income results from the sale of First Western s loans pursuant to Secondary Market Loan Sales.

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Note 18. Discontinued Operations:

Discontinued operations of our hotel properties (one and 13 hotel properties during the three months ended March 31, 2007 and 2006, respectively) and assets acquired in liquidation (primarily three and two limited service hospitality properties during the three months ended March 31, 2007 and 2006, respectively) consisted of the following:

	Three Months Ended March 31,	
	2007	2006
	(In thousands)	
Hotel and Lease Operations:		
Revenues:		
Hotel operating revenues	$ 192	$ 841
Lease income base and other		168
Total revenues	192	1,009
Expenses:		
Hotel operating expenses	124	834
Interest expense (1)	26	133
Depreciation	19	28
Total expenses	169	995
Net earnings, hotel and lease operations	23	14
Assets Acquired in Liquidation Operations:		
Revenues	91	129
Expenses	56	165
Net earnings (losses), assets acquired in liquidation operations	35	(36)
Total net earnings (losses)	58	(22)
Net gains on sales of real estate	27	1,877
Impairment losses	(233)	(73)
Discontinued operations	$ (148)	$ 1,782

(1) Represents interest expense

on the mortgages payable related to our Amerihost hotel properties included in discontinued operations. No additional interest expense was allocated to discontinued operations.

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Note 19. Supplemental Disclosure of Cash Flow Information:

Information regarding our non-cash activities was as follows:

	Three Months Ended March 31,	
	2007	2006
	(In thousands)	
Non-cash investing activities:		
Loan receivable originated through due to affiliate	$ 3,486	$
Reclassification from loans receivable to assets acquired in liquidation	$ 1,451	$ 3,786
Loans receivable originated in connection with sales of asset acquired in liquidation	$ 1,363	$ 2,760
Loans receivable originated in connection with sales of hotel properties	$	$ 10,244

Note 20. Commitments and Contingencies:

Loan Commitments

Commitments to extend credit are agreements to lend to a customer provided the terms established in the contract are met. Our outstanding loan commitments and approvals to fund new loans were approximately $30.4 million at March 31, 2007, of which approximately $4.9 million were for prime-based loans to be originated by First Western, the government portion of which (approximately 75% of each individual loan) will be sold pursuant to Secondary Market Loan Sales.

At March 31, 2007, the majority of our commitments and approvals were for variable-rate loans based on the prime rate or the 90-day LIBOR at spreads over the prime rate generally ranging from 1.50% to 2.75% and over LIBOR generally ranging from 2.88% to 4.25%. The weighted average interest rate on our loan commitments and approvals at March 31, 2007 was approximately 9.0%. Commitments generally have fixed expiration dates and require payment of a fee to us. Since some commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements.

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Operating Lease

We lease office space in Dallas, Texas under a lease which expires in October 2011. Future minimum lease payments under this lease are as follows:

Twelve Months Ending March 31,	Total *(In thousands)*
2008	$ 182
2009	194
2010	205
2011	217
2012	131
	$ 929

Employment Agreements

We have employment agreements with our executive officers for three-year terms expiring June 30, 2009. In the event of a change in responsibilities, as defined, during the employment period, the agreements provide for severance compensation to the executive officer in an amount equal to 2.99 times the average of the last three years annual compensation paid to the executive officer.

Structured Loan Sale Transactions

The transaction documents of the QSPEs contain provisions (the Credit Enhancement Provisions) that govern the assets and the inflow and outflow of funds of the QSPEs formed as part of the structured loan sale transactions. The Credit Enhancement Provisions include specified limits on the delinquency, default and loss rates on the loans receivable included in each QSPE. If, at any measurement date, the delinquency, default or loss rate with respect to any QSPE were to exceed the specified limits, the Credit Enhancement Provisions would automatically increase the level of credit enhancement requirements for that QSPE. During the period in which the specified delinquency, default or loss rate was exceeded, excess cash flow from the QSPE, if any, which would otherwise be distributable to us, would be used to fund the increased credit enhancement levels up to the principal amount of such loans and would delay or reduce our distribution. In general, there can be no assurance that amounts deferred under Credit Enhancement Provisions would be received in future periods or that future deferrals or losses will not occur.

Environmental

PMC Funding has a recorded liability of approximately $300,000 at March 31, 2007 related to a loan with collateral that has environmental remediation obligations which are the primary responsibility of our borrower. Under purchase accounting, the liability was assumed and the loan was acquired by PMC Commercial in the merger with PMC Capital, Inc. The sale was financed by PMC Capital, Inc. through a loan with an outstanding principal balance of approximately $510,000 at March 31, 2007 which is in default. As a result, we filed a lawsuit in the State of Georgia. The borrower has filed a counterclaim alleging, among other things, breach of contract and non-default under the loan documents. We do not believe there is any merit to the counterclaim and intend to vigorously pursue all remedies available to us under the law.

During 2005, we were informed by the Georgia Department of Natural Resources that the current remediation plan for the property requires revision. While our borrower has the primary responsibility for the environmental remediation, to the extent we were forced to reacquire the property, we currently believe that the estimated fair value of the collateral underlying the loan exceeds the current outstanding principal balance on the loan. At the present time, we have been unable to quantify additional costs, if any, of the potential changes in remediation methods requested by Georgia; however, these costs could be material and may exceed the value of the collateral net of the recorded liability and the current outstanding principal balance of the loan.

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Litigation

We have significant outstanding claims against Arlington s bankruptcy estate. Arlington has objected to our claims and initiated a complaint in the bankruptcy seeking, among other things, the return of payments Arlington made pursuant to the property leases and the Master Lease Agreement. Although the value of our claims against Arlington is significantly higher than Arlington s claims against us, there is no assurance that we will collect our claims from Arlington nor is there any assurance we will not be required to make payments to the bankruptcy estate in connection with Arlington s asserted claim.

In the normal course of business we are periodically party to certain legal actions and proceedings involving matters that are generally incidental to our business (*i.e.,* collection of loans receivable). In management s opinion, the resolution of these legal actions and proceedings will not have a material adverse effect on our consolidated financial statements.

Note 21. Business Segments:

Operating results and other financial data are presented for our principal business segments. These segments are categorized by line of business which also corresponds to how they are operated. The segments include (1) the Lending Division, which originates loans to small businesses primarily in the hospitality industry and (2) the Property Division which owns and operates our hotel properties. With respect to the operations of our lending division, we do not differentiate between subsidiaries or loan programs.

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PMC COMMERCIAL TRUST AND SUBSIDIARIES
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Business segment data for the three months ended March 31, 2007 and 2006 was as follows:

	For the Three Months Ended March 31,					
	2007			2006		
	Total	Lending Division	Property Division	Total	Lending Division	Property Division
	(In thousands)					
Revenues:						
Interest income loans and other income	$ 4,797	$ 4,790	$ 7	$ 4,591	$ 4,556	$ 35
Hotel property revenues	169		169	301		301
Income from Retained Interests	1,901	1,901		2,253	2,253	
Total	6,867	6,691	176	7,145	6,809	336
Expenses:						
Interest	1,352	1,325	27	1,434	1,376	58
Salaries and related benefits (1)	1,167	1,132	35	1,060	954	106
Hotel property expenses	148		148	237		237
General and administrative	739	683	56	650	516	134
Permanent impairments on Retained Interests	24	24		48	48	
Provision for losses on rent and related receivables	239		239	300		300
Provision for loan losses, net	65	65		51	51	
Total	3,734	3,229	505	3,780	2,945	835
Income (loss) before income tax provision, minority interest and discontinued operations	3,133	3,462	(329)	3,365	3,864	(499)
Income tax benefit (provision)	(142)	(155)	13	(84)	(84)	
Minority interest (preferred stock dividend of subsidiary)	(22)	(22)		(22)	(22)	
Income (loss) from continuing operations	2,969	3,285	(316)	3,259	3,758	(499)
Discontinued operations:						

Net gains on sales of real estate	27	21	6	1,877	21	1,856
Impairment losses	(233)	(233)		(73)	(30)	(43)
Net earnings (losses)	58	35	23	(22)	(34)	12
Net income (loss)	$ 2,821	$ 3,108	$ (287)	$ 5,041	$ 3,715	$ 1,326

(1) Salaries and related benefits were allocated to the Property Division based on management s estimate of time spent for oversight.

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PART I
Financial Information
ITEM 2.
Management s Discussion and Analysis of Financial Condition and Results of Operations

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created thereby. Such forward-looking statements can be identified by the use of forward-looking terminology such as may, will, expect, intend, believe, anticipate, estimate, or continue, or the negative thereof or other variations or similar words or phrases. These statements include the plans and objectives of management for future operations, including, but not limited to, plans and objectives relating to future growth of the loan portfolio and availability of funds. The forward-looking statements included herein are based on current expectations and there can be no assurance that these expectations will be attained. For a description of certain factors that could cause our future results to differ materially from those expressed in any such forward-looking statement, see Executive Summary and Current Operating Overview and Significant Economic Factors. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date they are made. We do not undertake to update them to reflect changes that occur after the date they are made.

The following discussion of our financial condition at March 31, 2007 and results of operations for the three months ended March 31, 2007 and 2006 should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2006.

BUSINESS

Our mission is to derive income primarily from the origination of collateralized loans and from ownership in income producing real estate. Through conservative underwriting and exceptional service, we strive to provide our shareholders with the highest dividend, consistent with the focus on preservation of investment capital.

PMC Commercial Trust (PMC Commercial and, together with its wholly-owned subsidiaries, the Company, our, us or we) is a real estate investment trust (REIT). Our common shares are traded on the American Stock Exchange under the symbol PCC. We are primarily a commercial lender that originates loans to small businesses that are principally collateralized by first liens on the real estate of the related business. Our loans are primarily to borrowers in the limited service hospitality industry. We also originate loans on commercial real estate to borrowers primarily in the service, retail, multi-family and manufacturing industries. We then sell certain of our loans receivable through privately-placed structured loan transactions. Historically, we have retained residual interests in all loans receivable sold through our subordinate financial interest in the related qualifying special purpose entities (QSPEs).

Our revenues have historically included the following:

- Interest earned on loans receivable;
- Income on our retained interests in transferred assets (Retained Interests);
- Lease and operating income on our hotel properties; and
- Other related loan fees, including servicing fees, late fees, prepayment fees, assumption fees and construction monitoring fees.

Our ability to generate interest income, as well as other revenue sources, is dependent upon economic, regulatory and competitive factors that influence interest rates and loan originations, and our ability to secure financing for our investment activities. The amount of income earned will vary based on the volume of loans funded, the timing and amount of financings, the volume of loans receivable which prepay and the resultant applicable prepayment fees, if any, the mix of loans (construction vs. non-construction), the rate on loans originated as well as the general level of interest rates. For a more detailed description of the risks affecting our financial condition and results of operations, see Risk Factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006.

We seek to maximize shareholder value through long-term growth in dividends paid to our shareholders. As a REIT, we must annually distribute at least 90% of our REIT taxable income to our shareholders.

EXECUTIVE SUMMARY

Lending

The competitive marketing challenges that we are facing have impacted our financial position through the significant amount of prepayments of our outstanding portfolio and are expected to impact future operating results. These challenges include:

- The number of lenders who compete with us for limited service hospitality loans has increased and many of these competitors have a lower cost of funds and are therefore able to offer rates below what we can offer;

- The yield curve combined with increased competition has caused margin compression (*i.e.,* the margins we currently receive between the interest rate we charge our borrowers and the interest rate we are charged by our lenders have compressed);

- The loan products we offer do not include a competitive fixed-rate loan product and our volume of origination for variable-rate loans has diminished as many potential customers have sought a fixed-rate loan product;

- Prepayments have been at all time highs and caused significant reductions in both our serviced and retained portfolios;

- The differential between short-term interest rates (the prime rate is currently 8.25%) and long-term interest rates (5-year treasury rates are approximately 4.7%) has resulted in fixed-rate loans being more attractive than higher priced variable-rate loans; and

- An inverse/flat yield curve has eliminated the premium we historically achieved for providing a longer term (typically 20 years) fully amortizing loan.

As a result of these loan origination challenges and our goal to expand our portfolio, we are exploring additional investment opportunities. We expect to identify and invest in opportunities in the real estate market that are natural additions to supplement our core business. Currently, we are evaluating investments including, but not limited to, development of hotel properties, ownership of properties including office buildings, retail centers, office warehouses, convenience and service stations and restaurants, joint venture ownership of hotels and acquisitions of real estate related businesses. We are also evaluating opportunities with banks (or internet banks) which may provide alternative and/or lower costs of funds that will allow us to lend against real estate collateral. In order to finance these investments, we anticipate utilization of our credit facilities. While we are using resources to evaluate these opportunities, there can be no assurance that we will ultimately invest in any of these alternatives. In addition, some of these alternatives may initially generate negative cash flow and could impact our ability to maintain our dividend payments at their current levels. However, we anticipate, that as a result of earnings from our core business and gains generated on our property sales during 2006, that we will maintain our current regular quarterly dividend of $0.30 per share through the end of 2007.

We have expanded our marketing initiatives for the Small Business Administration s (SBA) 7(a) Guaranteed Loan Program (SBA 7(a) Program). Our wholly-owned subsidiary, First Western SBLC, Inc. (First Western), is licensed as a small business lending company that originates loans through the SBA 7(a) Program. First Western is a Preferred Lender nationwide, as designated by the SBA. Preferred Lender status shortens the time period necessary to originate SBA 7(a) Program loans. We anticipate that as a result of our Preferred Lender status and expanded marketing initiatives, our originations under the SBA 7(a) Program will increase; however, to date we have not realized a significant increase in origination volume or commitments since our marketing efforts generally take time to provide benefits.

Fixed-rate lending: As a result of the prolonged period in which the yield curve has been inverted or flat (*i.e.,* compression of long-term and short-term interest rates) combined with increased competition from fixed-rate lenders, our margins for fixed-rate loans have contracted. In addition, the market has changed where borrowers are looking predominately for fixed-rate loans; however, our ability to offer fixed-rate loans is constrained by our cost of funds. In addition, local banks offer a five-year maturity, 20-year amortization loan (mini-perm loan) at a more attractive rate than we can offer based on our current sources of funds. Consequently, we are currently predominately committing to loans with a variable rate.

To the extent we reduce our rates in order to originate fixed-rate loans, it is likely that the spread on our next fixed-rate securitization would be significantly lower than we have historically achieved on our fixed-rate securitizations. In addition, there is a risk that during the interim period between when we make loans with fixed interest rates and when we complete a fixed-rate structured loan transaction, if rates were to rise, we would be negatively affected by interest rate spread compression. We continue to actively pursue alternative sources of funds and evaluate interest rate hedges to reduce our cost of funds and/or reduce interest rate risk, which may allow us to originate fixed-rate loans at more competitive rates.

Variable-rate lending: Due to increased competition from variable-rate lenders, our margins for variable-rate loans have also contracted. Whereas historically we originated variable-rate loans at 3.5% to 4.5% over LIBOR, currently we are offering rates between 2.9% to 4.0% over LIBOR.

In addition, as a result of our weighted average spread over LIBOR being reduced on our variable-rate loan originations, we anticipate that the spread between the interest rates charged to our borrowers and the cost of funds may be less than the spread of 2.77% on our variable-rate securitization completed during 2003.

Prepayments

We continue to experience significant prepayment activity. Prepayments of our retained portfolio were approximately $10.4 million during the first three months of 2007. In addition, during the three months ended March 31, 2007, we had prepayments of approximately $12.0 million in loans sold as part of securitizations. This activity is primarily a result of competitors providing refinance opportunities for our borrowers combined with the effect of the reduction or expiration of our prepayment fees on certain of our loans due to the structure of the fees (*i.e.,* expiration of lock out or yield maintenance provisions). We believe that we will continue to see high levels of prepayment activity during the remainder of 2007.

Property Ownership

We originally purchased a total of 30 properties, operated as Amerihost Inns, during 1998 and 1999. In June 2005, Arlington Inns, Inc. (AII) filed for bankruptcy protection. This was followed in August 2005 with the bankruptcy filing of Arlington Hospitality, Inc. (AHI and together with AII, Arlington), the parent of AII and the guarantor of all lease obligations. On January 13, 2006, AII rejected the leases and turned over property operations to us. We commenced selling properties during 2000, and owned only three properties at the beginning of 2007.

At March 31, 2007, two of the three hotel properties that we own were included in our consolidated financial statements. A subsidiary that owns one of our hotel properties is no longer consolidated in our financial statements due to the nature of its lease and the equity method is used to account for our investment in the subsidiary.

In April 2007, we sold our hotel property held for sale for $2.6 million. We financed the sale of the property through origination of a loan of $2.1 million with an interest rate of LIBOR plus 3.75% and maturity and amortization periods of 20 years.

At March 31, 2007, we were marketing to sell or lease our remaining hotel property. Subsequent to quarter end, we are negotiating to sell this property and a sale is currently pending. There can be no assurance that this property will be sold.

CURRENT OPERATING OVERVIEW AND SIGNIFICANT ECONOMIC FACTORS

The following provides an update of our current operating overview and significant economic factors included in our Annual Report on Form 10-K for the year ended December 31, 2006 that may have an impact on our financial condition and results of operations. The factors described below could impact the volume of loan originations, the income we earn on our assets, our ability to complete a securitization, the performance of our loans and/or the performance of the QSPEs.

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Loans originated during the first three months of 2007 were $15.4 million (including $3.5 million repurchased from one of our securitizations and $1.4 million from the sale of an asset acquired in liquidation) which is less than the $17.6 million of loans we originated during same period of 2006 (including approximately $13.0 million from sales of hotel properties and assets acquired in liquidation). We currently anticipate loan originations to be between $45 million and $60 million during the remaining nine months of 2007. At March 31, 2007, December 31, 2006 and March 31, 2006, our outstanding commitments to fund new loans were approximately $30.4 million, $32.6 million and $43.8 million, respectively. The majority of our current commitments are for variable-rate loans which provide an interest rate match with our present sources of funds.

Several key factors (as described both in Executive Summary and in more detail below) that affect our estimates of future loan originations are as follows:

- our current inability to originate fixed-rate loans with an adequate spread;
- borrowers looking to fix their cost of capital (borrow at fixed rates);
- uncertainty as to the cost of funds of future securitizations; and
- increased competition from local and regional banks and other lenders, who are willing to lend at lower rates.

We believe that in the current interest rate environment borrowers are looking predominately for fixed-rate loans; however, to the extent we originate fixed-rate loans, we have potential exposure to interest rate risk. Local bank competitors offer, among other things, five-year fixed-rate loans with rates that are below the long-term interest rates that we can presently offer. Historically, the rate for our fixed-rate product needed to be around 3.75% to 4.00% over the 10-year treasury rate in order to provide us with what management believed was a reasonable spread. With the 10-year treasury rate at approximately 4.7%, the rate we need to obtain is approximately 8.50% to 8.75% for a quality loan with a 20-year amortization and maturity in order to achieve our historical spread. The local banks currently offer a five-year maturity, 20-year amortization loan at approximately 7.25% to 7.50%. Management believes that the difference between our competitor s fixed rate products and our variable-rate products is causing a greater percentage of borrowers to take on the refinancing risk that rates will not rise significantly or be unavailable in five years and they are therefore accepting refinancing with our competitor s mini-perm loans. Most of our competitors are presently pricing fixed-rate loans based on a spread over the interest rate swap market. We are currently offering fixed-rate loans to borrowers at approximately 3.0% over 5-year swap rates and anticipate the maximum amount of fixed-rate loans we will originate under this program to be $30.0 million. We anticipate utilizing the swap market or interest rate caps to lock in a fixed cost of funds so that we can offer this more competitive fixed-rate product. While we anticipate utilizing hedging our cost of funds, it is expected that any hedging programs will be limited due to the interest rate risk if unanticipated repayment of these fixed-rate loans occurs.

The net interest margin for our leveraged portfolio is dependent upon the difference between the cost of our borrowed funds and the rate at which we invest these funds (the net interest spread). In general, a significant reduction in net interest spread may have a material adverse effect on our results of operations and may cause us to re-evaluate our lending focus. See Executive Summary.

We believe that our LIBOR-based loan program (1) allows us to compete more effectively with the diminishing market share of variable-rate products, (2) provides us with a more attractive securitization product and (3) provides us with a net interest spread that is less susceptible to interest rate risk than fixed-rate loan programs.

PORTFOLIO INFORMATION

Lending Activities

General

Loans originated and principal repayments on our retained loans receivable were as follows:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(In millions)	
Loan Originations:		
Commercial mortgage loans	$ 11.0	$ 3.4
SBA 7(a) Loan Program loans	1.4	1.2
Loans originated in connection with sale of assets acquired in liquidation and hotel properties	1.4	13.0
SBA 504 program loans (1)	1.6	
Total loans originated	$ 15.4	$ 17.6
Principal Repayments:		
Prepayments	$ 10.4	$ 11.4
Proceeds from the sale of SBA 7(a) guaranteed loans	2.0	0.4
Scheduled principal payments	1.0	1.0
Balloon maturities of SBA 504 program loans	3.9	1.3
Total principal repayments	$ 17.3	$ 14.1

(1) Represents second mortgages obtained through the SBA 504 Program which are repaid by certified development companies.

At March 31, 2007, our retained portfolio does not include approximately $210.8 million of aggregate principal balance remaining on loans we service that were sold in structured loan sale transactions and secondary market loan sales. Since we retain a residual interest in the cash flows from these sold loans, the performance of these loans impacts our profitability and our cash available for dividend distributions. Therefore, we provide information on both our loans receivable retained (the Retained Portfolio) and combined with sold loans that we service (the Aggregate Portfolio). The weighted average contractual interest rate on our Aggregate Portfolio was 9.4%, 9.5% and 9.0% at March 31, 2007, December 31, 2006 and March 31, 2006, respectively.

Information on our Retained Portfolio was as follows:

	March 31, 2007	December 31, 2006	March 31, 2006
Weighted average contractual interest rate	9.3%	9.4%	8.8%
Annualized average yield (1) (2)	9.8%	11.0%	9.5%

(1) In addition to interest income, the yield includes all fees earned and is adjusted by the provision for loan losses, net.

(2) For the three month periods ended March 31, 2006 and 2007 and for the year ended December 31, 2006.

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Our loans receivable were approximately 93% concentrated in the hospitality industry at March 31, 2007. Any economic factors that negatively impact the hospitality industry could have a material adverse effect on our financial condition or results of operations.

At March 31, 2007, approximately $142.2 million (86%) of our loans receivable had variable interest rates (reset on a quarterly basis) with a weighted average interest rate of approximately 9.3% based primarily on the 90-day LIBOR, or the prime rate (primarily related to our SBA 7(a) Guaranteed Loan Program). The spread that we charge over LIBOR generally ranges from 3.00% to 4.50% and the spread we charge over the prime rate generally ranges from 1.50% to 2.75%. The LIBOR and the prime rate used in determining interest rates to be charged to our borrowers during the second quarter of 2007 (set on April 1, 2007) is 5.35% and 8.25%, respectively, while the LIBOR and prime rate charged during the first quarter of 2007 (set on January 1, 2007) was 5.36% and 8.25%, respectively. To the extent LIBOR or the prime rate changes, we will have changes in interest income from our variable-rate loans receivable. In addition, at March 31, 2007 approximately $23.5 million (14%) of our loans receivable had a fixed interest rate with a weighted average interest rate of approximately 8.7%.

Prepayment Activity

Prepayment activity for our aggregate fixed-rate loans receivable has remained at high levels as a result of the continued low long-term interest rate environment combined with increased competition and the reduction or expiration of prepayment fees. Prepayment activity for our aggregate variable-rate loans receivable has increased since borrowers with variable-rate loans are generally seeking fixed-rate loans due to currently marketed fixed-rate interest rates being lower than the current interest rate on their loan and/or concerns of possible rising interest rates. We believe that we will continue to see prepayment activity at these higher levels during 2007.

The timing and volume of our prepayment activity for both our variable and fixed-rate loans receivable fluctuate and are impacted by numerous factors including the following:

- The competitive lending environment (*i.e.,* availability of alternative financing);
- The current and anticipated interest rate environment;
- Competitors providing higher loan advances to our current borrowers;
- The market value of limited service hospitality properties; and
- The amount of the prepayment fee and the length of prepayment prohibition, if any.

When loans receivable are repaid prior to their maturity, we generally receive prepayment fees. Prepayment fees result in one-time increases in our income. In addition, prepayments of sold loans will have an impact on our financial condition and results of operations. Prepayments of sold loans with higher interest rates negatively impact the value of our Retained Interests to a greater extent than prepayments of sold loans with lower interest rates. Prepayments in excess of our assumptions will cause a decline in the value of our Retained Interests primarily relating to a reduction in the excess funds (our interest-only strip receivable) expected from our structured loan sale transactions. The spread that is lost may be offset in part or in whole by the prepayment fee that we collect. Many of the prepayment fees for our aggregate fixed-rate loans receivable are based upon a yield maintenance premium which provides for greater prepayment fees as interest rates decrease. For our aggregate fixed-rate loans receivable, these fees are generally greater for those loans with higher interest rates although the prepayment fees also decline or may be eliminated as the loans get closer to their maturity. In addition, certain loans receivable have prepayment prohibitions of up to five years. Prepayment fees for our aggregate variable-rate loans receivable and fixed-rate loans receivable whose prepayment prohibition have expired are generally not significant. For our loans receivable, the proceeds from the prepayments we receive are either used to repay debt or invested initially in temporary investments. It is difficult for us to accurately predict the volume or timing of prepayments since the factors listed above are not all-inclusive and changes in one factor are not isolated from changes in another which might magnify or counteract the rate or volume of prepayment activity.

Our SBLC sells the guaranteed portion of most of its originated loans through private placements. The Retained Interests related to these sales are especially sensitive to prepayments. Our Retained Interests in these loan sales consist only of the spread between the interest collected from the borrower and the interest paid to the purchaser of the guaranteed portion of the loan. Therefore, to the extent the prepayments of these loans exceed estimates, there is a significant impact on the value of the associated Retained Interests. In addition, loans originated under the SBA 7(a) Program do not have prepayment fees which are retained by us.

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Impaired Loans

Senior management closely monitors our impaired loans which are classified into two categories: Problem Loans and Special Mention Loans (together, Impaired Loans). Our Problem Loans are loans which are not complying with their contractual terms, the collection of the balance of the principal is considered unlikely and on which the fair value of the collateral is less than the remaining unamortized principal balance. Our Special Mention Loans are those loans that are either not complying or had previously not complied with their contractual terms but, in general, we expect a full recovery of the principal balance through either collection efforts or liquidation of collateral.

Historically, we have not had a significant amount of Impaired Loans or delinquent loans nor have we had a significant amount of charged-off loans. Our Impaired Loans were as follows (balances represent our investment in the loans prior to loan loss reserves and deferred commitment fees):

	March 31, 2007	December 31, 2006
	(In thousands)	
Problem Loans:		
Loans receivable	$ 583	$ 1,887
Sold loans of QSPEs (1)		
	$ 583	$ 1,887
Special Mention Loans:		
Loans receivable (2)	$ 3,518	$ 32
Sold loans of QSPEs (1) (2)		3,496
	$ 3,518	$ 3,528
Percentage Problem Loans:		
Loans receivable	0.4%	1.1%
Sold loans of QSPEs (1) (2)		
Percentage Special Mention Loans:		
Loans receivable	2.1%	
Sold loans of QSPEs (1) (2)		1.9%

(1) We do not include the remaining outstanding principal of serviced loans pertaining to the guaranteed portion of loans sold into the secondary market since the

SBA has guaranteed payment of principal on these loans.

(2) During March 2007, PMC Commercial repurchased a loan from the 2003 Joint Venture which had become charged-off as defined in the transaction documents with an outstanding principal balance of approximately $3.5 million. We foreclosed on the underlying collateral of the loan, a full service hospitality property, during May 2007. We received a deposit on the sale of the property during May 2007 and expect the sale to close during the second quarter of 2007. No loss is expected on the sale.

At March 31, 2007 and December 31, 2006, we had reserves in the amount of approximately $82,000 and $63,000, respectively, against loans receivable that we have deemed to be Impaired Loans. Our provision for loan losses (excluding reductions of loan losses) as a percentage of our weighted average outstanding loans receivable was 0.04% and 0.06% during the three months ended March 31, 2007 and 2006, respectively. To the extent one or several of our loans experience significant operating difficulties and we are forced to liquidate the loans, future losses may be substantial.

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RESULTS OF OPERATIONS

Three Months Ended March 31, 2007 Compared to the Three Months Ended March 31, 2006

Overview

Income from continuing operations decreased to $2,969,000 ($0.27 per share) during the three months ended March 31, 2007 from $3,259,000 ($0.30 per share) during the three months ended March 31, 2006. As described in more detail below, the primary reasons for the decrease were:

A decrease in income from Retained Interests of $352,000 due primarily to a decrease in our weighted average balance outstanding due mainly to prepayments;

A decrease in other income of $168,000 due primarily to decreased prepayment fee income; and

An increase in our combined general and administrative expenses and salaries and related benefits expense of $196,000 primarily due to a reduction in costs capitalized relating to new loans funded and costs of evaluation of new investments and alternative sources of funds; partially offset by

An increase in interest income of $374,000 due primarily to increases in variable interest rates and our weighted average loans outstanding; and

A decrease in interest expense of $82,000 due to the repayment during 2006 of our structured notes and certain debentures partially offset by increased utilization of our credit facilities and increases in variable interest rates.

Net income decreased to $2,821,000 ($0.26 per share) during the three months ended March 31, 2007 from $5,041,000 ($0.47 per share) during the three months ended March 31, 2006. The primary reason for the decrease in net income was net gains on sales of real estate included in discontinued operations of $1,877,000 during the three months ended March 31, 2006 resulting primarily from the sale of six hotel properties.

More detailed comparative information on the composition of and changes in our revenues and expenses is provided below.

Revenues

Interest income consisted of the following:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Increase
	(In thousands)		
Interest income loans	$ 3,846	$ 3,544	$ 302
Accretion of loan fees and discounts	131	86	45
Interest income idle funds	79	52	27
	$ 4,056	$ 3,682	$ 374

The increase in interest income loans was primarily attributable to an increase in (1) our weighted average interest rate from 8.8% at March 31, 2006 to 9.3% at March 31, 2007 and (2) our weighted average loans receivable outstanding of $8.0 million (5%) to $165.6 million during the three months ended March 31, 2007 from $157.6 million during the three months ended March 31, 2006. The increase in our weighted average interest rate is primarily due to increases in LIBOR and the prime rate. At March 31, 2007, approximately 86% of our loans receivable had variable interest rates.

Income from Retained Interests decreased $352,000 primarily due to a decrease in the weighted average balance of our Retained Interests outstanding of $6.5 million to $55.3 million during the three months ended March 31, 2007 compared to $61.8 million during the three months ended March 31, 2006. The income from our Retained Interests consists of the accretion on our Retained Interests which is determined based on estimates of future cash flows and includes any fees collected by the QSPEs in excess of anticipated fees. The yield on our Retained Interests, which is comprised of the income earned less permanent impairments, decreased to 11.9% during the three months ended March 31, 2007 from 13.2% during the three months ended March 31, 2006.

Other income consisted of the following:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(In thousands)	
Prepayment fees	$ 248	$ 446
Servicing income	214	280
Premium income	160	34
Other loan related income	63	98
Equity in earnings of unconsolidated subsidiaries	24	16
Lease income		35
Other	32	
Other income	$ 741	$ 909

Our prepayment activity has remained at relatively high levels and we believe that we will continue to see prepayment activity at these higher levels during the remainder of 2007. See Portfolio Information Lending Activities Prepayment Activity.

We earn fees for servicing all loans held by the QSPEs and loans sold into the secondary market by First Western. As these fees are based on the principal balances of sold loans outstanding, until we complete our next securitization, they will decrease over time as scheduled principal payments and prepayments occur.

Premium income results from the sale of First Western s loans into the secondary market. We sold four loans and one loan and collected cash premiums of approximately $200,000 and $42,000 during the three months ended March 31, 2007 and 2006, respectively. To the extent we are able to increase our volume of loans originated by First Western, there should be a corresponding increase in premiums received.

Interest Expense

Interest expense consisted of the following:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(In thousands)	
Junior subordinated notes	$ 590	$ 533
Conduit facility	519	398
Debentures payable	122	240
Revolving credit facility	21	38
Mortgages on hotel properties	27	58
Structured notes		90
Other	73	77
	$ 1,352	$ 1,434

The cost of funds on our variable-rate debt has increased due to increases in LIBOR and the prime rate. The weighted average cost of our funds at March 31, 2007 was 7.1% compared to 6.8% at March 31, 2006. Interest on our junior subordinated notes increased due to increases in LIBOR. Interest on our conduit facility increased primarily as a result of increased utilization of the facility and increases in variable interest rates.

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During the third quarter of 2006, we prepaid, without penalty, $7,310,000 of fixed-rate SBA debentures with an interest rate of approximately 8.5%. In addition, the remaining balance outstanding on our structured notes was repaid on December 1, 2006.

Other Expenses

Our combined general and administrative expenses and salaries and related benefits expense during the three months ended March 31, 2007 increased to $1,906,000 compared to $1,710,000 during the three months ended March 31, 2006. Our salaries and related benefits increased by $107,000 primarily due to a reduction in costs capitalized relating to new loans funded. Our general and administrative expenses increased by $89,000 due primarily to costs of evaluation of new investments and alternative sources of funds.

Permanent impairments on Retained Interests were $24,000 and $48,000 for the three months ended March 31, 2007 and 2006, respectively, resulting primarily from a reduction in expected future cash flows due to increased prepayments on our acquired Retained Interests.

Our provision for losses on rent and related receivables was $239,000 and $300,000 during the three months ended March 31, 2007 and 2006, respectively. We performed analyses of our anticipated future distribution related to the bankruptcy of Arlington based on best available information provided to us to determine the collectibility of our investment in the rent and related receivables. We have significant claims in the bankruptcy cases and the debtors have claims against our assets in response. While we are confident a substantial portion of our claims would be allowed and the claims against us would be disallowed, due to the exorbitant cost of defense coupled with the likelihood of reduced available assets in the debtors estates to pay claims, we have reached an agreement (which has not yet been fully executed by all parties) to settle our claims against Arlington and Arlington s claims against us. The settlement provides that Arlington will dismiss its claims seeking the return of certain payments made pursuant to the property leases and Master Lease Agreement, and substantially reduces our claims against the Arlington estates. The settlement further provides for mutual releases among the parties. Although the settlement has been approved by Arlington and the official unsecured creditors committee, there is no certainty that other creditors or parties-in-interest will not object to the settlement or that the Bankruptcy Court will approve the settlement.

Our provision for loan losses, net, was $65,000 and $51,000 during the three months ended March 31, 2007 and 2006, respectively. The provision for loan losses during the three months ended March 31, 2007 was related to a limited service hospitality property on which we foreclosed on the underlying collateral during the first quarter of 2007. The provision for loan losses during the three months ended March 31, 2006 was primarily related to two retail establishments on which we foreclosed on the underlying collateral during 2006.

Income tax provision increased to $142,000 during the three months ended March 31, 2007 from $84,000 during the three months ended March 31, 2006 primarily due to increased earnings of one of our taxable subsidiaries.

Hotel Property Revenues and Expenses

Hotel property revenues and expenses includes the operations of our real estate investment held for use. In addition, one hotel property is owned by our non-consolidated subsidiary and was leased effective September 29, 2006. Due to the nature of the lease, the subsidiary that owns the hotel property is no longer consolidated in our financial statements and the equity method is used to account for our investment in the subsidiary effective September 29, 2006. Prior to that time, we operated the property through a third party management company. Hotel property revenues were $169,000 and $301,000, respectively, and hotel property expenses were $148,000 and $237,000, respectively, during the three months ended March 31, 2007 and 2006, related to these two hotel properties.

Discontinued Operations

We had net gains on the sales of real estate of $1,877,000 during the three months ended March 31, 2006 resulting primarily from the sale of six hotel properties for approximately $12.9 million. As the down payments received were not sufficient to qualify for full accrual gain treatment on certain of the sales, we recorded initial installment gains and deferred the remaining gains. We recorded gains of $27,000 during the three months ended March 31, 2007 resulting primarily from

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the sale of an asset acquired in liquidation for approximately $1.5 million. As the down payment received was not sufficient to qualify for full accrual gain treatment, we recorded an initial installment gain and deferred the remaining gain. Our deferred gains total approximately $2.0 million at March 31, 2007. Deferred gains will be recorded to income as principal is received on the related loans receivable until the required amount of cash proceeds are obtained from the purchaser to qualify for full accrual gain treatment. In addition, upon receipt of updated financial information from the purchaser, if the requirements are met, the transaction would qualify for the full accrual method and the remaining deferred gain would be recognized.

Impairment losses were $233,000 and $73,000 for the three months ended March 31, 2007 and 2006, respectively. During the three months ended March 31, 2007, we recorded an impairment loss related to an estimated decline in fair value of our asset acquired in liquidation. For our hotel properties to be sold, we performed a recoverability test to determine if the expected net sales proceeds for the hotel properties exceeded the carrying value of the hotel properties. Based on this analysis, we recorded impairment losses of $43,000 during the three months ended March 31, 2006. In addition, during the three months ended March 31, 2006, we recorded $30,000 in impairment loss related to one of our retail establishments included in assets acquired in liquidation due to a decline in the estimate of its value.

Our net earnings from discontinued operations were $58,000 during the three months ended March 31, 2007 compared to net losses of $22,000 during the three months ended March 31, 2006. Our net earnings from discontinued operations increased primarily due to a reduction in expenses related to our assets acquired in liquidation.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Analysis

Information on our cash flow was as follows:

	Three Months Ended March 31,		
	2007	2006	Change
	(in thousands)		
Cash provided by operating activities	$ 3,867	$ 1,526	$ 2,341
Cash provided by investing activities	$ 5,087	$ 13,760	$ (8,673)
Cash used in financing activities	$ (3,738)	$ (15,284)	$ 11,546

Operating Activities

Net cash flow from operating activities is primarily used to fund our dividends. The increase in cash provided by operating activities is primarily due to an increase in proceeds from the sale of guaranteed loans of $1,627,000. We anticipate that as a result of our SBLC s Preferred Lender status and expanded marketing initiatives, our originations under the SBA 7(a) Program will increase; however, to date we have not realized a significant increase in origination volume or commitments since our marketing efforts generally take time to provide benefits. Our dividends paid during the three months ended March 31, 2007 and 2006, included in financing activities, were $4,303,000 and $3,232,000, respectively.

Investing Activities

During the three months ended March 31, 2007, the primary sources of funds were (1) principal collected on loans receivable, net of loans funded of $5,700,000 and (2) net principal collected on Retained Interests of $974,000. During the three months ended March 31, 2006, the primary sources of funds were (1) net proceeds from the sales of hotel properties and assets acquired in liquidation of $3,060,000, (2) principal collected on Retained Interests of $1,712,000 and (3) principal collected on loans receivable, net of loans funded of $9,929,000. We continue to experience high prepayment activity. This prepayment activity is primarily a result of increased competition combined with the effect of the reduction or expiration of prepayment fees on certain of our loans due to the structure of the fees (*i.e.,* expiration of lock out or yield maintenance provisions). In addition, prepayment activity for our variable-rate loans receivable has increased since borrowers with variable-rate loans are generally seeking fixed-rate loans due to currently marketed fixed interest rates being lower than the

current interest rate on their loan and/or concerns of rising interest rates. In addition, competitors are providing larger advance rates on loans than we typically provide. We anticipate prepayment activity at these higher levels during the remainder of 2007.

Financing Activities

We used funds in financing activities during the three months ended March 31, 2007 primarily for dividends of $4,303,000. We used funds in financing activities during the three months ended March 31, 2006 primarily for (1) payment of principal on notes and mortgages payable of $8,249,000 related primarily to sales of hotel properties, (2) dividends of $3,232,000 and (3) net repayment of the conduit facility of $3,500,000.

Sources and Uses of Funds

General

In general, our liquidity requirements include origination of new loans, debt principal payment requirements, payment of dividends and operating costs. We intend to utilize, as deemed appropriate by prevailing market conditions, a combination of the following sources to generate funds:

Operating revenues;

Principal collections on existing loans receivable and Retained Interests;

Structured loan financings or sales;

Advances under our conduit facility;

Borrowings under our short-term uncollateralized revolving credit facility (the Revolver);

Issuance of SBA debentures;

Issuance of junior subordinated notes; and/or

Common equity issuance.

We had $9.0 million of cash and cash equivalents at March 31, 2007, of which $8.4 million was available only for future operating commitments of our SBICs. Pursuant to SBA rules and regulations, our SBICs cannot advance funds to us. As a result, we borrow funds on our Revolver or conduit facility to make investments even though our SBICs have available cash and cash equivalents. Our outstanding commitments to fund new loans were $30.4 million at March 31, 2007, of which $4.9 million were for prime-rate loans to be originated by First Western, the government guaranteed portion of which (approximately 75% of each individual loan) will be sold into the secondary market. None of our outstanding commitments at March 31, 2007 are for loans to be originated by our SBICs. Commitments have fixed expiration dates and require payment of a fee to us. Since some commitments expire without the proposed loan closing, total committed amounts do not necessarily represent future cash requirements.

We expect that these sources of funds and cash on hand will be sufficient to meet our working capital needs. However, there can be no assurance that we will be able to raise funds through these financing sources. A reduction in the availability of the above sources of funds could have a material adverse effect on our financial condition and results of operations. If these sources are not available, we may have to originate loans at reduced levels or sell assets, potentially on unfavorable terms. Historically, our primary funding source has been the securitization and sale of our loans receivable. Since the completion of our last securitization in October 2003, our working capital has been provided through credit facilities and the issuance of junior subordinated notes in March 2005.

As a REIT, we must distribute to our shareholders at least 90% of our REIT taxable income to maintain our tax status under the Internal Revenue Code, of 1986, as amended (the Code). Accordingly, to the extent the sources above represent taxable income, such amounts have historically been distributed to our shareholders. In general, should we receive less cash from our portfolio of investments, we can lower the dividend so as not to cause any material cash shortfall. During 2007, we anticipate that our cash flows from operating activities will be utilized to fund our expected

2007 dividend distributions and generally will not be available to fund portfolio growth or for the repayment of principal due on our debt.

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Sources of Funds

Prior to 2004, our primary source of long-term funds was structured loan sale transactions. We generated net proceeds of $39.9 million, $24.0 million, $29.5 million and $49.2 million from the completion of our 2003, 2002, 2001 and 2000 structured loan sale transactions, respectively. The proceeds from future structured loan sale transactions, if any, are expected to be greater as a result of the merger. However, the timing of future securitization transactions is dependent upon our portfolio and loan originations. As a result of higher than anticipated prepayments on our loan portfolio, we do not anticipate completing our next structured loan transaction until the fourth quarter of 2007 at which time we expect to have a sufficient pool of variable-rate loans to complete a securitization.

Since we have historically relied on structured loan transactions as our primary source of operating capital to fund new loan originations, any adverse changes in our ability to complete this type of transaction, including any negative impact on the asset-backed securities market for the type of product we generate, could have a detrimental effect on our ability to sell loans receivable, thereby reducing our ability to originate loans. The timing of a structured loan transaction also has significant impact on our financial condition and results of operations. We currently have a significant amount of available capital under our Revolver and conduit facility.

Our subsidiary, PMC Conduit, L.P. (PMC Conduit) has a three-year $100.0 million conduit facility expiring February 6, 2008. Interest payments on the advances are payable by PMC Conduit at a rate approximating 0.85% over LIBOR and PMC Conduit s principal repayment obligations are expected to be refinanced through future securitizations of the loans collateralizing advances under the conduit facility. In addition, we are charged an unused fee equal to 12.5 basis points computed based on the daily available balance. PMC Commercial has not guaranteed the repayment of the advances outstanding under the conduit facility. The conduit facility allows for advances based on the amount of eligible collateral sold and has minimum collateral requirements. At March 31, 2007, approximately $41.0 million of our loans were owned by PMC Conduit and we had outstanding advances of approximately $25.0 million. At March 31, 2007, PMC Commercial had available approximately $21.0 million of loans which are eligible to be sold to PMC Conduit. The conduit facility has covenants, the most restrictive of which are maximum delinquency ratios for our contributed loans and serviced portfolio, as defined in the transaction documents. In addition, the conduit facility is subject to cross default provisions with the Revolver. At March 31, 2007, we were in compliance with the covenants of this facility. We anticipate extending the Conduit Facility for an additional year.

At March 31, 2007, we had availability of $17.4 million under our Revolver which matures December 31, 2007. Under our Revolver, we are charged interest on the balance outstanding at our election of either the prime rate of the lender less 75 basis points or 162.5 basis points over the 30, 60 or 90-day LIBOR. In addition, we are charged an unused fee equal to 37.5 basis points computed based on our daily available balance. The credit facility requires us to meet certain covenants, the most restrictive of which provides for an asset coverage test based on our cash and cash equivalents, loans receivable, Retained Interests and real estate investments as a ratio to our senior debt and limit our ability to pay out returns of capital as part of our dividends. The ratio must exceed 1.25 times. At March 31, 2007, we were in compliance with the covenants of this facility.

Uses of Funds

The primary use of our funds is to originate commercial mortgage loans to small businesses in the limited service hospitality industry. During the remaining nine months of 2007, we anticipate loan originations will range from $45 million to $60 million. See Executive Summary and Current Operating Overview and Significant Economic Factors for information on current market conditions. As a REIT, we also use funds for the payment of dividends to shareholders. We also use funds for payment of our operating overhead including salaries and other general and administrative expenses and we have payment requirements of principal and interest on our borrowings.

We may use funds to repurchase loans from the QSPEs which (1) become charged-off as defined in the transaction documents either through delinquency or initiation of foreclosure or (2) reach maturity. We repurchased a loan from a QSPE which had become charged-off as defined in the transaction documents with an outstanding principal balance of approximately $3.5 million during March 2007.

During April 2007, we repaid a mortgage note on a hotel property of approximately $1.2 million using our Revolver. The remaining mortgage note of approximately $1.4 million would be repaid if the hotel property collateralizing the mortgage note is sold (*i.e.,* versus leased). In addition to principal, a prepayment penalty (in the form of defeasance costs) of approximately $300,000 will be due on the mortgage note upon early repayment.

Additional Information on Debt

Information on our debt was as follows as of March 31, 2007:

	Face Amount *(In thousands)*	Range of Maturities	Weighted Average Coupon Rate	Interest Type
Junior subordinated notes (1)	$ 27,070	2035	8.61%	Variable
Debentures	8,190	2013 to 2015	5.90%	Fixed
Mortgage notes (2)	2,607	2011 to 2017	8.02%	Fixed
Conduit facility	24,968	2008	6.34%	Variable
Revolver	2,600	2007	7.50%	Variable
Redeemable preferred stock of subsidiary	4,000	2009 to 2010	4.00%	Fixed
	$ 69,435			

(1) *The junior subordinated notes may be redeemed at our option, without penalty, beginning on March 30, 2010 and are subordinated to PMC Commercial s existing debt.*

(2) *Does not include a mortgage note with a principal balance of approximately $1.3 million and a fixed interest rate of 8.5% due January 1, 2011 of an unconsolidated*

subsidiary. In addition, we repaid a mortgage note with a principal balance of approximately $1.2 million and a fixed interest rate of 8.5% due January 1, 2011 during April 2007.

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Summarized Contractual Obligations, Commitments and Contingencies

Our contractual obligations at March 31, 2007 are summarized as follows:

Contractual Obligations	Total	Payments Due by Period Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
		(In thousands, except footnotes)			
Debt:					
Mortgage notes and debentures payable (1)	$ 10,797	$ 1,272	$ 187	$ 218	$ 9,120
Revolver	2,600	2,600			
Redeemable preferred stock of subsidiary (2)	4,000		2,000	2,000	
Conduit facility	24,968	24,968			
Junior subordinated debt (3)	27,070				27,070
Interest:					
Consolidated debt (1)	68,615	4,293	5,821	5,790	52,711
Mortgage note of unconsolidated subsidiary	376	107	195	74	
Other Contractual Obligations:					
Mortgage note of unconsolidated subsidiary (4)	1,284	66	150	1,068	
Operating lease (5)	929	182	399	348	
Total contractual cash obligations	$ 140,639	$ 33,488	$ 8,752	$ 9,498	$ 88,901

(1) Mortgage notes and debentures payable are presented at face value. For the interest obligation, the variable rate in effect at March 31, 2007 was utilized and no change in variable interest rates was assumed.

(2) The 4% preferred stock of our subsidiary (presented at par value) is

required to be repaid at par in September 2009 ($2.0 million) and May 2010 ($2.0 million). Dividends of approximately $160,000 are due annually on the 4% preferred stock of our subsidiary (recorded as interest expense).

(3) *The junior subordinated notes may be redeemed at our option, without penalty, beginning March 30, 2010 and are subordinated to PMC Commercial s existing debt.*

(4) *Represents a mortgage note with a fixed interest rate of 8.5% of an unconsolidated subsidiary.*

(5) *Represents future minimum lease payments under our operating lease for office space.*

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Our commitments and contingencies at March 31, 2007 are summarized as follows:

		Amount of Commitment Expiration Per Period			
Commitments	Total Amounts Committed	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
	(In thousands, except footnotes)				
Environmental (1)	$	$	$	$	$
Other commitments (2)	30,395	30,395			
Total commitments	$ 30,395	$ 30,395	$	$	$

(1) PMC Funding Corp. (PMC Funding) has a recorded liability of approximately $300,000 at March 31, 2007 related to a loan with collateral that has environmental remediation obligations which are the primary responsibility of our borrower. Under purchase accounting, the liability was assumed and the loan was acquired by PMC Commercial in the merger with PMC Capital, Inc. The loan was originated in connection with the sale of the underlying collateral by PMC Funding to the borrower.

The sale was financed by PMC Capital, Inc. through a loan with an outstanding principal balance of approximately $510,000 at March 31, 2007 which is in default. As a result, we filed a lawsuit in the State of Georgia. The borrower has filed a counterclaim alleging, among other things, breach of contract and non-default under the loan documents. We do not believe there is any merit to the counterclaim and intend to vigorously pursue all remedies available to us under the law. During 2005, we were informed by the Georgia Department of Natural Resources that the current remediation plan for the property requires revision. While our borrower *has the primary responsibility for the environmental remediation, to the extent we were forced to reacquire the property, we currently believe that the estimated fair value of the collateral underlying the loan exceeds the current outstanding principal balance on the loan. At the present time, we have been unable to quantify additional costs, if any, of the potential changes in remediation methods requested by Georgia; however, these costs could be material and may exceed the value of the collateral net of the recorded liability and the current outstanding principal balance of the loan.*

(2) Represents loan commitments and approvals outstanding.

See Note 20 to the accompanying consolidated financial statements for a detailed discussion of commitments and contingencies.

OFF-BALANCE SHEET ARRANGEMENTS

Our off-balance sheet arrangements have typically been structured loan sale transactions which are our primary method of obtaining funds for new loan originations. In a structured loan sale transaction, we contribute loans receivable to a QSPE that is not subject to consolidation in exchange for cash and beneficial interests in that entity. The QSPE issues notes payable (usually through a private placement) to unaffiliated parties and then distributes a portion of the notes payable proceeds to us. The notes payable are collateralized solely by the assets of the QSPE. The terms of the notes payable issued by the QSPEs provide that the owners of these QSPEs are not liable for any payment on the notes. Accordingly, if the financial assets in the QSPE are insufficient for the trustee to pay the principal or interest due on the notes, the sole recourse of the holders of the notes is against the assets of the QSPE. We have no obligation to pay the notes, nor do the holders of the notes have any recourse against our assets. We account for structured loan sale transactions as sales of our loans receivable and the SPE meets the definition of a QSPE; as a result, neither the loans receivable contributed to the QSPE nor the notes payable issued by the QSPE are included in our consolidated financial statements.

On September 29, 2006, we entered into a lease agreement for one of our hotel properties. The property has a mortgage with a principal balance of $1.3 million with a significant prepayment penalty. Therefore, we structured the lease with the potential buyer of the property for a term equal to the term remaining on the mortgage (matures January 1, 2011) and then a purchase with a price of $1,825,000. Annual base rent on the lease is $116,700 and the lease is a triple net lease. The lessee provided us with a substantial non-refundable up-front payment of $452,000. The hotel property is owned by a separate subsidiary and is the subsidiary s primary asset. Based on this lease agreement, including the fixed price purchase option, the subsidiary was determined to be a variable interest entity. Since we do not expect to absorb the majority of the entity s future expected losses or receive the entity s expected residual returns, PMC Commercial Trust is not considered to be the primary beneficiary. Thus, the subsidiary is no longer consolidated in PMC Commercial Trust s financial statements and the equity method is used to account for the investment in the subsidiary effective September 29, 2006. The subsidiary is contractually responsible for the mortgage note and its repayment. Revenues and expenses of the subsidiary are primarily lease income, interest expense on the mortgage payable, depreciation expense on the real estate investment and amortization of deferred lease costs.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Note 7 of the Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective dates adopted or expected dates of adoption and effect, if any, on our results of operations and financial condition.

SEASONALITY

Generally, we are not subject to seasonal trends. However, since we primarily lend to the limited service hospitality industry, loan delinquencies typically rise temporarily during the winter months due primarily to reductions in business travel and consumer vacations.

DIVIDENDS

On January 8, 2007, we paid a $0.30 per share regular quarterly dividend and a $0.10 per share special dividend to common shareholders of record on December 29, 2006. The Board of Trust Managers (Board) declared a $0.30 per share quarterly dividend to common shareholders of record on March 30, 2007, which was paid on April 9, 2007.

Our shareholders are entitled to receive dividends when and as declared by our Board. Our Board considers many factors including, but not limited to, expectations for future earnings, REIT taxable income, the interest rate environment, competition, our ability to obtain leverage and our loan portfolio activity in determining dividend policy. The Board also uses REIT taxable income plus tax depreciation in determining the amount of dividends declared. In addition, as a REIT we are required to pay out 90% of REIT taxable income. Consequently, the dividend rate on a quarterly basis will not necessarily correlate directly to any single factor such as REIT taxable income or earnings expectations. We anticipate that as a result of earnings from our core business and gains generated on property sales during 2006, that we will maintain our current quarterly dividend of $0.30 per common share through the end of 2007.

We have certain covenants within our debt facilities that limit our ability to pay out returns of capital as part of our dividends. These restrictions have not historically limited the amount of dividends we have paid and management does not believe that they will restrict future dividend payments.

REIT TAXABLE INCOME

REIT taxable income is presented to assist investors in analyzing our performance and is a measure that is presented quarterly in our consolidated financial statements and is one of the factors utilized by our Board in determining the level of dividends to be paid to our shareholders.

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The following reconciles net income to REIT taxable income:

	Three Months Ended March 31,	
	2007	2006
	(In thousands)	
Net income	$ 2,821	$ 5,041
Less: taxable REIT subsidiaries net income, net of tax	(244)	(178)
Add: book depreciation	46	71
Less: tax depreciation	(57)	(334)
Book/tax difference on property sales	419	350
Book/tax difference on Retained Interests, net	294	228
Impairment losses	233	43
Provision for loss on rent and related receivables	239	300
Book/tax difference on amortization and accretion	(74)	(37)
Asset valuation	(302)	(889)
Other book/tax differences, net	264	42
REIT taxable income	$ 3,639	$ 4,637
Distributions declared	$ 3,226	$ 3,223
Weighted average common shares outstanding	10,754	10,746

As a REIT, PMC Commercial generally will not be subject to corporate level Federal income tax on net income that is currently distributed to shareholders provided the distribution exceeds 90% of REIT taxable income. We may make an election under the Code to treat distributions declared in the current year as distributions of the prior year s taxable income. Upon election, the Code provides that, in certain circumstances, a dividend declared subsequent to the close of an entity s taxable year and prior to the extended due date of the entity s tax return may be considered as having been made in the prior tax year in satisfaction of income distribution requirements.

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ITEM 3.
Quantitative and Qualitative Disclosures About Market Risk

Since our consolidated balance sheet consists of items subject to interest rate risk, we are subject to market risk associated with changes in interest rates as described below. Although management believes that the analysis below is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of our balance sheet and other business developments that could affect our financial position and net income. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by these estimates.

LOANS RECEIVABLE

Our loans receivable are recorded at cost and adjusted by net loan origination fees and discounts (which are recognized as adjustments of yield over the life of the loan) and loan loss reserves. Our loans receivable are approximately 86% variable-rate at spreads over LIBOR or the prime rate consistent with the market. Increases or decreases in interest rates will generally not have a material impact on the fair value of our variable-rate loans receivable. If we were required to sell our loans at a time we would not otherwise do so, our losses may be substantial.

Changes in interest rates on our fixed-rate loans receivable do not have an immediate impact on our interest income. Our interest rate risk on our fixed-rate loans receivable is primarily related to loan prepayments and maturities. The average maturity of our loan portfolio is less than their average contractual terms because of prepayments. The average life of mortgage loans receivable tends to increase when the current mortgage rates are substantially higher than rates on existing mortgage loans receivable and, conversely, decrease when the current mortgage rates are substantially lower than rates on existing mortgage loans receivable (due to refinancings of fixed-rate loans).

We had $23.5 million and $23.4 million of fixed-rate loans receivable at March 31, 2007 and December 31, 2006, respectively. The estimated fair value of these fixed interest rate loans receivable (approximately $24.3 million and $23.9 million at March 31, 2007 and December 31, 2006, respectively) is dependent upon several factors including changes in interest rates and the market for the types of loans that we have originated.

At March 31, 2007 and December 31, 2006, we had $142.2 million and $145.8 million of variable-rate loans receivable, respectively, and $54.6 million and $54.0 million of variable-rate debt at March 31, 2007 and December 31, 2006, respectively. On the differential between our variable-rate loans receivable outstanding and our variable-rate debt ($87.6 million and $91.8 million at March 31, 2007 and December 31, 2006, respectively) we have interest rate risk. To the extent variable rates decrease, our interest income net of interest expense would decrease.

As a result of $12.2 million and $16.4 million at March 31, 2007 and December 31, 2006, respectively, of our variable-rate loans receivable having interest rate floors (from 5.25% to 6.0%), we are deemed to have derivative investments. However, in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, we are not required to bifurcate these instruments; therefore, they are not accounted for as derivatives. To the extent that interest rates decline with respect to our loans that have floors, our interest expense on our variable-rate debt may be reduced by a higher amount than our interest income. We do not use derivatives for speculative purposes.

The sensitivity of our variable-rate loans receivable and debt to changes in interest rates is regularly monitored and analyzed by measuring the characteristics of our assets and liabilities. We assess interest rate risk in terms of the potential effect on interest income net of interest expense in an effort to ensure that we are insulated from any significant adverse effects from changes in interest rates. Based on our analysis of the sensitivity of interest income and interest expense at March 31, 2007 and December 31, 2006, if the consolidated balance sheet were to remain constant and no actions were taken to alter the existing interest rate sensitivity, each hypothetical 100 basis point reduction in interest rates would reduce net income by approximately $876,000 and $918,000, respectively, on an annual basis.

MORTGAGE NOTES AND DEBENTURES PAYABLE, JUNIOR SUBORDINATED NOTES, CREDIT FACILITIES AND REDEEMABLE PREFERRED STOCK OF SUBSIDIARY (DEBT)

As of both March 31, 2007 and December 31, 2006, approximately $14.5 million of our consolidated debt had fixed rates of interest and is therefore not affected by changes in interest rates. Our variable-rate debt is based on the prime rate and/or LIBOR (or approximates LIBOR) and thus subject to adverse changes in market interest rates. Assuming there were no increases or decreases in the balance outstanding under our variable-rate debt at March 31, 2007, each hypothetical 100 basis points increase in interest rates would increase interest expense and decrease net income by approximately $546,000.

Our fixed-rate debt is comprised of SBA debentures and mortgages payable. Our debentures have current prepayment penalties up to 4% of the principal balance. Our consolidated fixed-rate hotel property mortgages have significant penalties for prepayment.

The following presents the principal amounts, weighted average interest rates and fair values required by year of expected maturity to evaluate the expected cash flows and sensitivity to interest rate changes of our outstanding debt at March 31, 2007 and December 31, 2006. Market risk disclosures related to our outstanding debt as of March 31, 2007 and December 31, 2006 were as follows:

	Twelve Month Periods Ending March 31,						Carrying	Fair
	2008	2009	2010	2011	2012	Thereafter	Value	Value (1)
	(Dollars in thousands)							
Fixed-rate debt (2)	$ 1,272	$ 90	$ 1,960	$ 1,935	$ 113	$ 9,092	$ 14,462	$ 14,778
Variable-rate debt (LIBOR based) (3)	27,568					27,070	54,638	54,638
Totals	$ 28,840	$ 90	$ 1,960	$ 1,935	$ 113	$ 36,162	$ 69,100	$ 69,416

(1) The estimated fair value is based on a present value calculation based on prices of the same or similar instruments after considering risk, current interest rates, prepayment fees and remaining maturities.

(2) The weighted average interest rate of our fixed-rate debt at March 31,

2007 was 6.5%.

(3) The weighted average interest rate of our variable-rate debt at March 31, 2007 was 7.5%.

	Years Ending December 31,							
	2007	2008	2009	2010	2011	Thereafter	Carrying Value	Fair Value (1)
	(Dollars in thousands)							
Fixed-rate debt (2)	$ 142	$ 153	$ 2,017	$ 1,998	$ 1,042	$ 9,119	$ 14,471	$ 14,607
Variable-rate debt (LIBOR based) (3)		26,968				27,070	54,038	54,038
Totals	$ 142	$ 27,121	$ 2,017	$ 1,998	$ 1,042	$ 36,189	$ 68,509	$ 68,645

(1) The estimated fair value is based on a present value calculation based on prices of the same or similar instruments after

considering risk, current interest rates and remaining maturities.

(2) The weighted average interest rate of our fixed-rate debt at December 31, 2006 was 6.6%.

(3) The weighted average interest rate of our variable-rate debt at December 31,

2006 was 7.5%.

RETAINED INTERESTS

Our Retained Interests are valued based on various factors including estimates of appropriate discount rates. Changes in the discount rates used in determining the fair value of the Retained Interests will impact their carrying value. Any appreciation of our Retained Interests is included in the accompanying balance sheet in beneficiaries equity. Any depreciation of our Retained Interests is either included in the accompanying statement of income as a permanent impairment (if there is a reduction in expected future cash flows) or on our balance sheet in beneficiaries equity as an unrealized loss. Assuming all other factors (*i.e.,* prepayments, losses, etc.) remained unchanged, if discount rates were 100 basis points and 200 basis points higher than rates estimated at March 31, 2007, the estimated fair value of our Retained Interests at March 31, 2007 would have decreased by approximately $1.4 million and $2.8 million, respectively. Assuming all other factors (*i.e.,* prepayments, losses, etc.) remained unchanged, if discount rates were 100 basis points and 200 basis points higher than rates estimated at December 31, 2006, the estimated fair value of our Retained Interests at December 31, 2006 would have decreased by approximately $1.6 million and $3.1 million, respectively.

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ITEM 4.
Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of our disclosure controls and procedures (as defined under rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of March 31, 2007. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II
Other Information

ITEM 1. Legal Proceedings

We have significant outstanding claims against Arlington s bankruptcy estate. Arlington has objected to our claims and initiated a complaint in the bankruptcy seeking, among other things, the return of payments Arlington made pursuant to the property leases and the Master Lease Agreement. Although the value of our claims against Arlington is significantly higher than Arlington s claims against us, there is no assurance that we will collect our claims from Arlington nor is there any assurance we will not be required to make payments to the bankruptcy estate in connection with Arlington s asserted claim.

In the normal course of business we are periodically party to certain legal actions and proceedings involving matters that are generally incidental to our business (*i.e.,* collection of loans receivable). In management s opinion, the resolution of these legal actions and proceedings will not have a material adverse effect on our consolidated financial statements.

ITEM 1A. Risk Factors

There have no material changes to the factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

A. Exhibits

	3.1	Declaration of Trust (incorporated by reference to the exhibits to the Registrant s Registration Statement on Form S-11 filed with the SEC on June 25, 1993, as amended (Registration No. 33-65910)).
	3.1(a)	Amendment No. 1 to Declaration of Trust (incorporated by reference to the Registrant s Registration Statement on Form S-11 filed with the SEC on June 25, 1993, as amended (Registration No. 33-65910)).
	3.1(b)	Amendment No. 2 to Declaration of Trust (incorporated by reference to the Registrant s Annual Report on Form 10-K for the year ended December 31, 1993).
	3.1(c)	Amendment No. 3 to Declaration of Trust (incorporated by reference to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2003).
	3.2	Bylaws (incorporated by reference to the exhibits to the Registrant s Registration Statement on Form S-11 filed with the SEC on June 25, 1993, as amended (Registration No. 33-65910)).
*	31.1	Section 302 Officer Certification Chief Executive Officer
*	31.2	Section 302 Officer Certification Chief Financial Officer
**	32.1	Section 906 Officer Certification Chief Executive Officer

**	32.2	Section 906 Officer Certification	Chief Financial Officer

* Filed herewith.

** Submitted herewith.

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Signatures

Pursuant to the requirements 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.

		PMC Commercial Trust
Date:	5/10/07	/s/ Lance B. Rosemore
		Lance B. Rosemore President and Chief Executive Officer
Date:	5/10/07	/s/ Barry N. Berlin
		Barry N. Berlin Chief Financial Officer (Principal Accounting Officer)