

REDWOOD TRUST INC
Form 10-Q
November 05, 2012
Table of Contents

UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

 OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended: September 30, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

 OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from _____ to _____.

Commission File Number 1-13759

REDWOOD TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland

68-0329422

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(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

One Belvedere Place, Suite 300

Mill Valley, California

94941

(Address of Principal Executive Offices)

(Zip Code)

(415) 389-7373

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

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

Large accelerated filer x Accelerated filer " Non-accelerated filer " Smaller reporting company "

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

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

Common Stock, \$0.01 par value per share

81,522,712 shares outstanding as of November 2, 2012

Table of Contents

**REDWOOD TRUST, INC.
2012 FORM 10-Q REPORT
TABLE OF CONTENTS**

		Page
<u>PART I</u>		
Item 1.	<u>Financial Statements</u>	1
	<u>Consolidated Balance Sheets at September 30, 2012 (Unaudited) and December 31, 2011</u>	1
	<u>Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	2
	<u>Statements of Consolidated Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	3
	<u>Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	4
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	5
	<u>Notes to Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	52
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	106
Item 4.	<u>Controls and Procedures</u>	106
<u>PART II</u>		
Item 1.	<u>Legal Proceedings</u>	107
Item 1A.	<u>Risk Factors</u>	109
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	109
Item 3.	<u>Defaults Upon Senior Securities</u>	109
Item 4.	<u>Mine Safety Disclosures (Not Applicable)</u>	109
Item 5.	<u>Other Information</u>	109
Item 6.	<u>Exhibits</u>	110
	<u>Signatures</u>	111

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****REDWOOD TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In Thousands, Except Share Data)**

(Unaudited)	September 30, 2012	December 31, 2011
ASSETS		
Residential loans (includes \$377,393 and \$2,169 at fair value)	\$ 3,494,562	\$ 4,194,885
Commercial loans (includes \$12,150 and \$12,129 at fair value)	298,220	169,855
Real estate securities, at fair value	1,312,347	981,837
Cash and cash equivalents	39,384	267,176
Total earning assets	5,144,513	5,613,753
Restricted cash	42,546	14,987
Accrued interest receivable	16,079	15,840
Derivative assets	3,424	2,373
Deferred securities issuance costs	6,284	8,083
Other assets	84,009	88,262
Total Assets ⁽¹⁾	\$ 5,296,855	\$ 5,743,298
LIABILITIES AND EQUITY		
Liabilities		
Short-term debt	\$ 522,214	\$ 428,056
Accrued interest payable	6,494	8,134
Derivative liabilities	108,555	127,564
Accrued expenses and other liabilities	41,233	8,105
Asset-backed securities issued (includes \$255,411 and \$209,381 at fair value)	3,429,007	4,139,355
Long-term debt	139,500	139,500
Total liabilities ⁽¹⁾	4,247,003	4,850,714
Equity		
Common stock, par value \$0.01 per share, 125,000,000 shares authorized; 81,526,321 and 78,555,908 issued and outstanding	815	786
Additional paid-in capital	1,739,841	1,697,979
Accumulated other comprehensive income (loss)	73,872	(13,151)
Cumulative earnings	590,974	501,283
Cumulative distributions to stockholders	(1,355,650)	(1,294,313)

Total equity		1,049,852		892,584
Total Liabilities and Equity		\$ 5,296,855	\$	5,743,298

- (1) Our consolidated balance sheets include assets of consolidated variable interest entities (VIEs) that can only be used to settle obligations of these VIEs and liabilities of consolidated VIEs for which creditors do not have recourse to the primary beneficiary (Redwood Trust, Inc.). At September 30, 2012 and December 31, 2011, assets of consolidated VIEs totaled \$3,718,551 and \$4,408,350, respectively, and liabilities of consolidated VIEs totaled \$3,486,728 and \$4,209,124, respectively. See *Note 4* for further discussion.

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

Table of Contents**REDWOOD TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(In Thousands, Except Share Data)	Three Months Ended September 30, Nine Months Ended September 30,			
	2012	2011	2012	2011
(Unaudited)				
Interest Income				
Residential loans	\$ 20,419	\$ 20,192	\$ 65,041	\$ 57,564
Commercial loans	7,482	2,353	18,363	5,379
Real estate securities	31,805	30,845	94,532	97,703
Cash and cash equivalents	17	6	52	38
Total interest income	59,723	53,396	177,988	160,684
Interest Expense				
Short-term debt	(2,737)	(78)	(6,863)	(267)
Asset-backed securities issued	(23,171)	(21,855)	(73,827)	(62,526)
Long-term debt	(2,377)	(2,384)	(7,132)	(7,130)
Total interest expense	(28,285)	(24,317)	(87,822)	(69,923)
Net Interest Income	31,438	29,079	90,166	90,761
Provision for loan losses	(1,319)	(3,978)	(254)	(8,367)
Other market valuation adjustments	(2,263)	(12,365)	(7,661)	(25,164)
Other-than-temporary impairments ⁽¹⁾	(1,207)	(1,083)	(1,842)	(5,171)
Other market valuation adjustments, net	(3,470)	(13,448)	(9,503)	(30,335)
Net Interest Income After Provision and Other Market Valuation Adjustments	26,649	11,653	80,409	52,059
Mortgage banking activities, net	16,730	-	22,743	-
Operating expenses	(17,102)	(11,507)	(46,900)	(35,107)
Realized gains, net	13,940	1,145	34,555	10,844
Net income before provision for income taxes	40,217	1,291	90,807	27,796
Provision for income taxes	(516)	(14)	(1,116)	(42)
Net income	39,701	1,277	89,691	27,754
Less: Net loss attributable to noncontrolling interest	-	(20)	-	(1,147)
Net Income Attributable to Redwood Trust, Inc.	\$ 39,701	\$ 1,297	\$ 89,691	\$ 28,901
Basic earnings per common share	\$ 0.48	\$ 0.01	\$ 1.10	\$ 0.35
Diluted earnings per common share	\$ 0.48	\$ 0.01	\$ 1.09	\$ 0.35
Regular dividends declared per common share	\$ 0.25	\$ 0.25	\$ 0.75	\$ 0.75
Basic weighted average shares outstanding	79,685,099	78,470,625	78,908,057	78,275,796
Diluted weighted average shares outstanding	80,764,380	78,470,625	80,175,660	78,275,796

- (1) For the three months ended September 30, 2012, other-than-temporary impairments were \$1,580 of which \$373 were recognized in Accumulated Other Comprehensive Income. For the three months ended September 30, 2011, other-than-temporary impairments were \$1,372, of which \$289 were recognized in Accumulated Other Comprehensive Income. For the nine months ended September 30, 2012, other-than-temporary impairments were \$2,472 of which \$630 were recognized in Accumulated Other Comprehensive Income. For the nine months ended September 30, 2011, other-than-temporary impairments were \$7,339, of which \$2,168 were recognized in Accumulated Other Comprehensive Income.

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

Table of Contents**REDWOOD TRUST, INC. AND SUBSIDIARIES****STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME**

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
(Unaudited)	2012	2011	2012	2011
Net Income	\$ 39,701	\$ 1,297	\$ 89,691	\$ 28,901
Other comprehensive income:				
Net unrealized gain (loss) on available-for-sale securities	41,392	(12,366)	83,467	(42,885)
Reclassification of other-than-temporary impairments to net income	796	957	1,210	3,306
Net unrealized gain (loss) on interest rate agreements	2,346	(37,970)	(914)	(39,498)
Reclassification of unrealized loss on interest rate agreements to net income	1,126	1,067	3,260	3,211
Total other comprehensive income (loss)	45,660	(48,312)	87,023	(75,866)
Total comprehensive income (loss)	85,361	(47,015)	176,714	(46,965)
Less: Comprehensive income attributable to noncontrolling interest	-	-	-	4,164
Comprehensive Income (Loss) Attributable to Redwood Trust, Inc.	\$ 85,361	\$ (47,015)	\$ 176,714	\$ (51,129)

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

Table of Contents**REDWOOD TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****For the Nine Months Ended September 30, 2012**

(In Thousands, Except Share Data)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income		Cumulative Earnings	Cumulative Distributions to Stockholders	Noncontrolling Interest	Total
	Shares	Amount							
(Unaudited)									
December 31, 2011	78,555,908	\$ 786	\$ 1,697,979	\$ (13,151)	\$ 501,283	\$ (1,294,313)	\$ -	\$	892,584
Net income	-	-	-	-	89,691	-	-	-	89,691
Other comprehensive income	-	-	-	87,023	-	-	-	-	87,023
Issuance of common stock:									
Dividend reinvestment & stock purchase plans	2,609,151	26	36,398	-	-	-	-	-	36,424
Employee stock purchase and incentive plans	361,262	3	(1,905)	-	-	-	-	-	(1,902)
Non-cash equity award compensation	-	-	7,369	-	-	-	-	-	7,369
Common dividends declared	-	-	-	-	-	(61,337)	-	-	(61,337)
September 30, 2012	81,526,321	\$ 815	\$ 1,739,841	\$ 73,872	\$ 590,974	\$ (1,355,650)	\$ -	\$	1,049,852

For the Nine Months Ended September 30, 2011

(In Thousands, Except Share Data)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income		Cumulative Earnings	Cumulative Distributions to Stockholders	Noncontrolling Interest	Total
	Shares	Amount							
(Unaudited)									
December 31, 2010	78,124,668	\$ 781	\$ 1,689,851	\$ 112,339	\$ 474,940	\$ (1,213,158)	\$ 10,839	\$	1,075,592
Net income (loss)	-	-	-	-	28,901	-	(1,147)	-	27,754
Other comprehensive (loss) income	-	-	-	(80,030)	-	-	4,164	-	(75,866)
Issuance of common stock:									
Dividend reinvestment & stock purchase plans	310,146	3	4,580	-	-	-	-	-	4,583
Employee stock purchase and incentive plans	282,458	3	(2,857)	-	-	-	-	-	(2,854)
Non-cash equity award compensation	-	-	6,764	-	-	-	-	-	6,764
Share repurchases	(222,386)	(2)	(2,696)	-	-	-	-	-	(2,698)
Distributions to noncontrolling interest, net	-	-	-	-	-	-	(14,112)	-	(14,112)
Common dividends declared	-	-	-	-	-	(60,474)	-	-	(60,474)
Deconsolidation elimination	-	-	-	-	-	-	256	-	256
September 30, 2011	78,494,886	\$ 785	\$ 1,695,642	\$ 32,309	\$ 503,841	\$ (1,273,632)	\$ -	\$	958,945

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

Table of Contents

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands, Except Share Data)	Nine Months Ended September 30,	
(Unaudited)	2012	2011
Cash Flows From Operating Activities:		
Net income attributable to Redwood Trust, Inc.	\$ 89,691	\$ 28,901
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization of premiums, discounts, and securities issuance costs, net	(18,045)	(24,618)
Depreciation and amortization of non-financial assets	1,727	768
Purchases of loans - mortgage banking	(1,522,949)	-
Proceeds from sales of loans - mortgage banking	1,128,232	-
Principal payments on loans - mortgage banking	7,438	-
Net settlements of derivatives - mortgage banking	(20,376)	-
Provision for loan losses	254	8,367
Non-cash equity award compensation	7,369	6,764
Market valuation adjustments, net	4,489	30,335
Realized gains, net	(52,003)	(10,844)
Net change in:		
Accrued interest receivable	(1,359)	(1,405)
Deferred tax asset	-	3,487
Other assets	6,897	(31,672)
Accrued interest payable	14,180	11,301
Accrued expenses and other liabilities	12,278	(5,892)
 Net cash (used in) provided by operating activities	 (342,177)	 15,492
Cash Flows From Investing Activities:		
Purchases of loans	(135,662)	(724,950)
Proceeds from sales of loans ⁽¹⁾	388,507	1,857
Principal payments on loans	425,344	282,126
Purchases of real estate securities	(445,277)	(90,512)
Proceeds from sales of real estate securities	172,265	86,254
Principal payments on real estate securities	173,849	129,838
Proceeds from deconsolidation	6,386	-
Net (decrease) increase in restricted cash	(27,600)	7,513
 Net cash provided by (used in) investing activities	 557,812	 (307,874)
Cash Flows From Financing Activities:		
Proceeds from borrowings on short-term debt	1,043,767	-