

IMPAC MORTGAGE HOLDINGS INC
Form 10-Q/A
September 17, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

FORM 10-Q/A

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

For the quarterly period ended June 30, 2008 or

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

For the transition period from to .

Commission File Number: 1-14100

IMPAC MORTGAGE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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Maryland
(State or other jurisdiction of
incorporation or organization)

33-0675505
(I.R.S. Employer
Identification No.)

19500 Jamboree Road, Irvine, California 92612

(Address of principal executive offices)

(949) 475-3600

(Registrant's telephone number, including area code)

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 No

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.

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

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

There were 76,096,392 shares of common stock outstanding as of September 12, 2008.

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EXPLANATORY NOTE

Impac Mortgage Holdings, Inc. (the Company) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2008 filed with the Securities and Exchange Commission on September 15, 2008 solely for the purpose of correcting a typographical error in Exhibit 32.1 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 regarding the quarter end to which the Certificate applies, which is the quarter ended June 30, 2008.

Except as described above, and except for currently dating the Exhibits attached hereto, this Amendment No. 1 on Form 10-Q/A does not modify or update any information reported in the original Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 and it does not reflect events occurring after the date of the filing of the original Quarterly Report.

IMPAC MORTGAGE HOLDINGS, INC.

FORM 10-Q/A QUARTERLY REPORT

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(in thousands, except share data)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Cash and cash equivalents	\$ 25,971	\$ 24,387
Trust assets		
Investment securities available-for-sale	8,644	15,248
Securitized mortgage collateral (at fair value at June 30, 2008)	11,055,382	16,532,633
Derivative assets	109	7,497
Real estate owned (REO) at net realizable value	621,433	400,863
Total trust assets	11,685,568	16,956,241
Assets of discontinued operations	203,320	353,250
Other assets	48,684	57,194
Total assets	\$ 11,963,543	\$ 17,391,072
LIABILITIES		
Trust liabilities		
Securitized mortgage borrowings (at fair value at June 30, 2008)	\$ 11,497,132	\$ 17,780,060
Derivative liabilities	136,580	127,757
Total trust liabilities	11,633,712	17,907,817
Trust preferred securities (at fair value at June 30, 2008)	46,266	98,398
Liabilities of discontinued operations	253,334	405,341
Other liabilities	5,723	57,244
Total liabilities	11,939,035	18,468,800
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Series-A junior participating preferred stock, \$0.01 par value; 2,500,000 shares authorized; none issued and outstanding		
Series-B 9.375% cumulative redeemable preferred stock, \$0.01 par value; liquidation value \$50,000; 2,000,000 shares authorized, issued and outstanding	20	20
Series-C 9.125% cumulative redeemable preferred stock, \$0.01 par value; liquidation value \$111,765; 5,500,000 shares authorized; 4,470,600 shares issued and outstanding as of June 30, 2008 and December 31, 2007	45	45

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Common stock, \$0.01 par value; 200,000,000 shares authorized; 76,096,392 shares issued and outstanding as of June 30, 2008 and December 31, 2007	761	761
Additional paid-in capital	1,175,125	1,173,562
Accumulated other comprehensive income		1,028
Net accumulated deficit:		
Cumulative dividends declared	(811,355)	(803,912)
Retained deficit	(340,088)	(1,449,232)
Net accumulated deficit	(1,151,443)	(2,253,144)
Total stockholders' equity (deficit)	24,508	(1,077,728)
Total liabilities and stockholders' equity	\$ 11,963,543	\$ 17,391,072

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE EARNINGS (LOSS)

(in thousands, except per share data)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
INTEREST INCOME:				
Total interest income	\$ 407,855	\$ 316,443	\$ 679,811	\$ 621,191
INTEREST EXPENSE:				
Total interest expense	403,599	308,569	668,206	605,374
Net interest income	4,256	7,874	11,605	15,817
Provision for loan losses		161,163		190,295
Net interest income (expense) after provision for loan losses	4,256	(153,289)	11,605	(174,478)
NON-INTEREST INCOME:				
Change in fair value of derivative instruments		91,670		73,672
Change in fair value of net trust assets, excluding REO	(11,161)		(7,633)	
Change in fair value of trust preferred securities	(997)		(5,020)	
Losses from real estate owned	(4,830)	(19,328)	(9,086)	(29,220)
Real estate advisory fees	4,696		8,540	
Other	1,544	(1,538)	3,442	3,749
Total non-interest (expense) income	(10,748)	70,804	(9,757)	48,201
NON-INTEREST EXPENSE:				
General and administrative	4,925	4,451	8,912	9,960
Personnel expense	2,820	1,620	5,150	2,464
Total non-interest expense	7,745	6,071	14,062	12,424
Net loss from continuing operations	(14,237)	(88,556)	(12,214)	(138,701)
Income tax expense from continuing operations	2,202	4,969	8,728	8,956
Net loss from continuing operations	(16,439)	(93,525)	(20,942)	(147,657)
Net loss from discontinued operations, net of tax	(11,048)	(59,022)	(10,360)	(126,558)
Net loss	(27,487)	(152,547)	(31,302)	(274,215)
Cash dividends on cumulative redeemable preferred stock	(3,722)	(3,722)	(7,443)	(7,443)
Net loss available to common stockholders	\$ (31,209)	\$ (156,269)	\$ (38,745)	\$ (281,658)

See accompanying notes to consolidated financial statements.

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Net loss	\$ (27,487)	\$ (152,547)	\$ (31,302)	\$ (274,215)
Net unrealized losses on securities:				
Unrealized holding losses arising during year		(1,656)		(2,718)
Reclassification of losses included in net earnings		1,596		1,596
Net unrealized losses		(60)		(1,122)
Comprehensive loss	\$ (27,487)	\$ (152,607)	\$ (31,302)	\$ (275,337)
Net loss per common share - Basic:				
Loss from continuing operations	\$ (0.26)	\$ (1.28)	\$ (0.37)	\$ (2.04)
Loss from discontinued operations	(0.15)	(0.78)	(0.14)	(1.66)
Net loss per share	\$ (0.41)	\$ (2.05)	\$ (0.51)	\$ (3.70)
Net loss per common share - Diluted:				
Loss from continuing operations	\$ (0.26)	\$ (1.28)	\$ (0.37)	\$ (2.04)
Loss from discontinued operations	(0.15)	(0.78)	(0.14)	(1.66)
Net loss per share	\$ (0.41)	\$ (2.05)	\$ (0.51)	\$ (3.70)
Dividends declared per common share	\$	\$	\$	\$ 0.10

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Six Months Ended June 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss from continuing operations	\$ (20,942)	\$ (147,657)
Provision for loan losses		190,295
Provision for REO losses	14,323	28,074
Loss (gain) on sale of REO	(5,237)	1,145
Amortization of deferred charge, net	8,728	9,069
Amortization of debt issuance costs and mortgage servicing rights	948	807
Amortization of premiums and securitization costs		84,863
Change in fair value of derivative instruments	12,144	1,354
Change in fair value of net trust assets, excluding REO and derivatives	(75,878)	
Change in fair value of trust preferred securities	5,020	
Accretion of interest income and expense	(25,191)	
Stock-based compensation	653	812
Net change in accrued interest receivable		(547)
Net cash provided by (used in) operating activities of discontinued operations	91,219	(3,157,915)
Net change in other assets and liabilities	(41,444)	(8,968)
Net cash used in operating activities	(35,657)	(2,998,668)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Securitized mortgage collateral	1,342,015	3,468,817
Mortgages held-for-investment	22	(3,229)
Purchase of premises and equipment	386	(873)
Principal change on investment securities available-for-sale	1,196	6,404
Proceeds from the sale of real estate owned	197,796	76,532
Net cash provided by (used in) investing activities of discontinued operations	11,805	191,664
Net cash provided by investing activities	1,553,220	3,739,315
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash disbursements under reverse repurchase agreements		(90,642)
Cash receipts from reverse repurchase agreements		92,392
Proceeds from securitized mortgage borrowings		3,858,143
Repayment of securitized mortgage borrowings	(1,393,987)	(4,323,044)
Common stock dividends paid		(30,326)
Preferred stock dividends paid	(7,443)	(7,443)
Proceeds from sale of cumulative redeemable preferred stock		608
Net cash (used in) provided by investing activities of discontinued operations	(116,465)	(306,831)
Net cash used in financing activities	(1,517,895)	(807,143)
Net change in cash and cash equivalents	(332)	(66,496)
Cash and cash equivalents at beginning of period	26,462	179,677
Cash and cash equivalents at end of period - Continuing Operations	25,971	107,083

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Cash and cash equivalents at end of period - Discontinued Operations		159		6,098
Cash and cash equivalents at end of period	\$	26,130	\$	113,181

See accompanying notes to consolidated financial statements.

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	For the Six Months Ended June 30,	
	2008	2007
SUPPLEMENTARY INFORMATION (Continuing and Discontinued Operations):		
Interest paid	\$ 315,545	\$ 651,736
Taxes paid		116
NON-CASH TRANSACTIONS (Continuing and Discontinued Operations):		
Accumulated other comprehensive loss	\$	\$ (1,122)
Transfer of loans held-for-sale and held-for-investment to real estate owned		20,872
Transfer of securitized mortgage collateral to real estate owned	435,038	255,051
Transfer of loans held-for-sale to securitized mortgage collateral		3,245,500
Transfer of securitized mortgage collateral to loans held-for-sale		27,040

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share data or as otherwise indicated)

Note A Summary of Business and Significant Accounting Policies

1. Business Summary and Financial Statement Presentation

Business Summary

Impac Mortgage Holdings, Inc. (the Company or IMH) is a Maryland corporation incorporated in August 1995 and has the following subsidiaries: IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG), and Impac Funding Corporation (IFC), together with its wholly-owned subsidiaries Impac Secured Assets Corp. (ISAC), Impac Commercial Capital Corporation (ICCC).

During late 2007, the Company's board of directors elected to discontinue the non-conforming mortgage operations conducted by IFC, commercial operations conducted by ICCG, retail mortgage operations conducted by IHL, and warehouse lending operations conducted by IWLG.

The Company consists of the continuing operations which includes the long-term mortgage portfolio (residual interests in securitizations) conducted by IMH and IMH Assets, master servicing portfolio conducted by IFC and real estate advisory fees from IMH's advisory services agreement with a real estate marketing company.

The information contained throughout this document is presented on a continuing basis, unless otherwise stated.

Financial Statement Presentation

The accompanying unaudited consolidated financial statements of IMH and its subsidiaries (as defined above) have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three-month and six month periods ended June 30, 2008 are not

necessarily indicative of the results that may be expected for the year ending December 31, 2008.

All significant inter-company balances and transactions have been eliminated in consolidation. In addition, certain amounts in the prior periods consolidated financial statements have been reclassified to conform to the current year presentation.

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with GAAP. The items affected by management's estimates and assumptions include the valuation of trust assets and liabilities (including investment securities available-for-sale), the valuation of repurchase liabilities related to sold loans, the valuation of trust preferred securities, and the valuation of loans held-for-sale. Actual results could differ from those estimates.

Market Conditions, Status of Operations, Liquidity and Capital Resources

In 2007 and 2008, management has been seriously challenged by the unprecedented turmoil in the mortgage market, including the following: significant increases in delinquencies and foreclosures; significant increases in credit-related losses; decline in originations; tightening of warehouse credit and the virtual elimination of the market for loan securitizations. As a result, the Company discontinued certain operations, resolved and terminated all but one of the Company's reverse repurchase facilities and settled a portion of its outstanding repurchase claims, while also reducing its operating costs and liabilities. In the first quarter of 2008, the Company also entered into an agreement with a real estate marketing company to generate advisory fees.

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As describes in Note L, in September 2008, the Company executed definitive agreements, which require scheduled principal paydowns and remove any and all technical defaults that existed under the previous reverse repurchase facility.

In order to reduce dividend payments on its preferred stock, the Company is considering exchanging the preferred stock for common stock. In July 2008, the Company's stockholders approved the potential issuance of common shares in excess of 20 percent of the existing common shares.

The Company earns advisory fees from a real estate marketing company specializing in the marketing and disposition of foreclosed properties. During the three and six months ended June 30, 2008, the Company earned \$4.7 million and \$8.5 million, respectively, from this relationship. The amount of real estate advisory fees the Company receives from this relationship are based on numerous factors, including real estate market conditions, the level of foreclosure activity, the ability of the marketing company to attract new business, and the Company retaining its CEO and avoiding liquidation. The agreement terminates in 2010 with the Company having an option to extend the agreement for an additional three years.

In July 2008, the Company executed a letter of intent, subject to execution of definitive agreements, to acquire a special servicing platform, whereby the seller will contribute specified balances of loans (mostly distressed) to the platform in order to provide sufficient cash flows to maintain the business during its initial operations.

There can be no assurance that the Company will be successful in executing the agreements outlined above. Also, there can be no assurance that the restructuring of the trust preferred securities or the preferred stock will occur. In this event, the Company intends to reduce operating expenses to a level that is supportable by the revenues from the existing long-term mortgage portfolio (residual interests in securitizations), master servicing portfolio and real estate advisory fees. Nevertheless, if the Company is not successful in completing the objectives outlined above, it may not be able to meet its contractual obligations for the next year, including repayment of the reverse repurchase line, interest payments on trust preferred securities and preferred stock dividends.

2. Adoption of New Accounting Standards

Adoption of SFAS 157 Fair Value Measurements

The Company prospectively adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 157 Fair Value Measurements (SFAS 157), as of January 1, 2008. SFAS 157 defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 Quoted prices for identical instruments in active markets.

- Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

For some products or in certain market conditions, observable inputs may not always be available. Through the second quarter of 2008, certain markets remained illiquid, and some key observable inputs used in valuing certain exposures were unavailable. When and if these markets are liquid, the Company will use the related observable inputs available at that time from these markets.

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Under fair value accounting, the Company is required to take into account its own credit risk when measuring the fair value of assets and liabilities.

Adoption of SFAS 159 - Fair Value Option

The adoption of Statement No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159) has also resulted in new valuation techniques used by the Company when determining fair value, most notably to value its securitized mortgage collateral and borrowings and trust preferred securities, which had not previously been carried at fair value. The Company prospectively adopted SFAS 159 as of January 1, 2008. SFAS 159 provides an option on an instrument-by-instrument basis for most financial assets and liabilities to be reported at fair value with changes in fair value reported in earnings. After the initial adoption, the election is made at the acquisition of a financial asset, financial liability, or a firm commitment and it may not be revoked. Management believes that the adoption of SFAS 159 provides an opportunity to mitigate volatility in reported earnings and provides a better representation of the economics of the trust assets and liabilities.

Under the SFAS 159 transition provisions, the Company elected to apply fair value accounting to certain financial instruments (certain trust assets, trust liabilities and trust preferred securities) held at January 1, 2008. Differences between the December 31, 2007 carrying values and the January 1, 2008 fair values were recognized as an adjustment to retained deficit. The adoption of SFAS 159 resulted in a \$1.1 billion decrease to retained deficit on January 1, 2008 from \$(1.4) billion at December 31, 2007 to \$(308.8) million at January 1, 2008.

As a result of deterioration in the real estate market since the second half of 2007, the Company significantly added to its allowance for loan losses during the third and fourth quarters of 2007. Principally, because of the increase in the allowance for loan losses, the Company reported a stockholders' deficit as of December 31, 2007. This stockholders' deficit was created primarily because the Company was required under GAAP to record an allowance for loan losses that reduced securitized mortgage collateral in its consolidated trusts below the balance of the related securitized mortgage borrowings, resulting in a negative investment in certain consolidated trusts, even though the related trust agreements are nonrecourse to the Company. However, with the adoption of SFAS 159, the Company's net investment position is unable to go below zero since the related trust liabilities are also recorded at fair value. Therefore the difference between the fair value of the trust assets and trust liabilities represents the net investment interests (residual interests in securitizations) in the trust at fair value.

The following table summarizes the initial retained earnings charge related to the prospective adoption SFAS 159 as of January 1, 2008 and the related fair value balances as of January 1, 2008.

Ending Balance as of