

IMPAC MORTGAGE HOLDINGS INC

Form 10-Q/A

October 22, 2004

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended June 30, 2004

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)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

1401 Dove Street, Newport Beach, California 92660

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(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 an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes No

There were 70,605,694 shares of common stock outstanding as of August 12, 2004.

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IMPAC MORTGAGE HOLDINGS, INC.
QUARTERLY REPORT on FORM 10-Q/A

EXPLANATORY NOTE

This Amendment No. 1 reflects the following:

the correction of basic and diluted earnings per share (EPS) for the six months ended June 30, 2004 as a clerical error resulted in the misstatement of weighted average shares outstanding for the period and the corresponding calculation of EPS;

the reclassification of derivative financial instruments (derivatives) to other assets and other liabilities on our consolidated balance sheet. Previously, we included the fair value of derivatives, including cash and cash equivalents in margin accounts, in various balance sheet items including CMO collateral, mortgages held-for-sale, derivative assets, other assets and other liabilities. We now include positive fair values of derivatives in other assets and the negative fair values of derivatives in other liabilities on our consolidated balance sheet; and

conforming changes throughout this report based on the filing of our report on Form 10-K/A for the year ended December 31, 2003 and report on Form 10-Q/A for the quarter ended March 31, 2004.

The consolidated financial statements in this document include restatements and reclassifications as previously filed in our original Form 10-Q for the quarter ended June 30, 2004, Form 10-Q/A for the quarter ended March 31, 2004 and Form 10-K/A for the year ended December 31, 2003. The restatements were necessary to conform with accounting principles generally accepted in the United States of America (GAAP) as follows:

the correction of our revenue recognition policy with respect to the cash sale of mortgage loan servicing rights (MSRs) to unrelated third parties when the mortgage loans are retained. Previously, we recognized gains in the period in which the mortgage servicing rights were sold for the amount of cash proceeds received. We now allocate a portion of the accounting basis of the mortgage loans to the mortgage servicing rights, which results in a discount to the mortgage loans retained. That discount is accreted as an adjustment to yield on mortgage assets over the life of the related mortgage loans;

the correction of our accounting for derivatives and interest rate risk management activities related to the variability in expected future cash flows associated with a financing obligation or future liability (a cash flow hedge). Upon review, we now believe that the documentation of our cash flow hedge accounting relationships were deficient as to the specificity of the underlying hedged transaction in order to assess hedge effectiveness and measurement of ineffectiveness as required by the stringent applicable accounting standards. As such, we made the determination that it was not appropriate to apply cash flow hedge accounting for purposes of our GAAP financial statements. In addition, we determined that certain forward purchase commitments on mortgage loans meet the definition of a derivative and now need to be accounted for as such in the financial statements;

the reclassification of certain derivative gains and losses to mark-to-market gain (loss) derivative instruments as opposed to an adjustment to the yield on mortgage assets as a result of the elimination of cash flow hedge accounting, as stated above; and

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the elimination of certain inter-company balance sheet and income statement items, principally finance receivables and the related interest income and expense, with Impac Funding Corporation, our mortgage operations, prior to its consolidation on July 1, 2003.

Although these corrections have an effect on net earnings, these corrections and reclassifications have no effect on taxable income, which is an important factor in determining the amount of dividends paid to our stockholders. In addition, beginning and ending cash and cash equivalents for all reporting periods remain unchanged.

This report on Form 10-Q/A for the quarter ended June 30, 2004 reflects corrections, reclassifications and restatements of the following unaudited financial statements: (a) consolidated balance sheets as of June 30, 2004, March 31, 2004 and December 31, 2003 and 2002; (b) consolidated statements of operations for the six months

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ended June 30, 2004 and for the three and six months ended June 30, 2003; (c) consolidated statements of comprehensive earnings for the three and six months ended June 30, 2003; (d) consolidated statements of operations and comprehensive earnings for the three months ended March 31, 2004 and 2003, for the three and nine months ended September 30, 2003 and for the years ended December 31, 2003, 2002 and 2001; and (e) consolidated statements of cash flows for the six months ended June 30, 2004 and 2003, for the three months ended March 31, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001. For a more detailed description of the restatements and reclassifications, see Note A.2. Restatement of Consolidated Financial Statements to the accompanying notes to the consolidated financial statements and Restatement of Consolidated Financial Statements in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this report on Form 10-Q/A. This report on Form 10-Q/A restates certain financial information for the applicable periods set forth in notes to consolidated financial statements, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 3. Quantitative and Qualitative Disclosures About Market Risk and Item 4. Controls and Procedures. Other items included in this report of Form 10-Q/A are not affected by the restatements and reclassifications and appear unchanged from our original Form 10-Q for the quarterly period ended June 30, 2004. The consolidated statement of operations and related financial information for the six months ended June 30, 2004 contained in our prior Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 should no longer be relied upon. We will not amend any Annual Reports on Form 10-K for fiscal years prior to December 31, 2003 or Quarterly Reports on Form 10-Q for quarterly periods prior to the three months ended March 31, 2004.

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FORM 10-Q/A QUARTERLY REPORT

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(dollar amounts in thousands, except per share data)

(unaudited)

	June 30, 2004	December 31, 2003
	<u> </u>	<u> </u>
(as restated)		
ASSETS		
Cash and cash equivalents	\$ 252,305	\$ 127,381
CMO collateral	14,816,077	8,639,014
Mortgages held-for-investment	853,513	652,814
Finance receivables	579,672	630,030
Allowance for loan losses	(60,249)	(38,596)
Mortgages held-for-sale	326,661	397,618
Accrued interest receivable	62,672	39,347
Other assets	425,203	130,349
	<u> </u>	<u> </u>
Total assets	\$ 17,255,854	\$ 10,577,957
	<u> </u>	<u> </u>
LIABILITIES		
CMO borrowings	\$ 14,749,602	\$ 8,489,853
Reverse repurchase agreements	1,561,780	1,568,807
Accumulated dividends payable	52,642	
Other liabilities	62,963	46,510
	<u> </u>	<u> </u>
Total liabilities	16,426,987	10,105,170
	<u> </u>	<u> </u>
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Series A junior participating preferred stock, \$0.01 par value; 2,500,000 shares authorized; none outstanding as of June 30, 2004 and December 31, 2003		
Series B 9.375% cumulative redeemable preferred stock, \$0.01 par value; liquidation value \$50,000,000; 7,500,000 shares authorized; 2,000,000 shares and none issued and outstanding as of June 30, 2004 and December 31, 2003, respectively	20	
Common stock, \$0.01 par value; 200,000,000 shares authorized and 69,613,694 and 56,368,368 shares issued and outstanding as of June 30, 2004 and December 31, 2003, respectively	696	564
Additional paid-in capital	930,290	629,662
Accumulated other comprehensive gain	878	4,356
Net accumulated deficit:		

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Cumulative dividends declared	(400,839)	(307,031)
Retained earnings	297,822	145,236
	<u> </u>	<u> </u>
Net accumulated deficit	(103,017)	(161,795)
	<u> </u>	<u> </u>
Total stockholders' equity	828,867	472,787
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 17,255,854	\$ 10,577,957
	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

Table of Contents**IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2004	2003	2004	2003
	(as restated)		(as restated)	
INTEREST INCOME:				
Mortgage assets	\$ 160,246	\$ 89,289	\$ 294,513	\$ 171,505
Other interest income	438	378	878	532
Total interest income	160,684	89,667	295,391	172,037
INTEREST EXPENSE:				
CMO borrowings	65,187	45,615	117,181	83,908
Reverse repurchase agreements	10,062	7,305	19,615	14,096
Borrowings secured by investment securities		852		1,484
Other borrowings	20		87	
Total interest expense	75,269	53,772	136,883	99,488
Net interest income	85,415	35,895	158,508	72,549
Provision for loan losses	15,282	7,059	25,007	13,543
Net interest income after provision for loan losses	70,133	28,836	133,501	59,006
NON-INTEREST INCOME:				
Gain on sale of loans	11,973		14,476	1,613
Equity in net earnings of Impac Funding Corporation		10,244		11,537
Gain on sale of investment securities	5,183	1,958	5,474	2,081
Mark-to-market gain (loss) derivative instruments	77,881	(7,750)	41,251	(14,868)
Other income	4,092	638	4,115	1,210
Total non-interest income	99,129	5,090	65,316	1,573
NON-INTEREST EXPENSE:				
Personnel expense	16,346	790	30,014	1,476
General and administrative and other expense	4,309	474	7,483	909
Provision for repurchases	1,640		457	
Amortization and impairment of mortgage servicing rights	1,396		2,477	
Data processing expense	972	114	1,777	223
Occupancy expense	857	59	1,698	120
Equipment expense	830	67	1,614	146

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Professional services	331	797	2,162	1,182
Gain on disposition of other real estate owned	(2,247)	(523)	(2,750)	(434)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total non-interest expense	24,434	1,778	44,932	3,622
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net earnings before income taxes	144,828	32,148	153,885	56,957
Income taxes	1,614		1,299	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>