IMPAC MORTGAGE HOLDINGS INC
Form 10-Q/A
October 20, 2004
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended March 31, 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	**33-0675505**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1401 Dove Street, Newport Beach, California 92660

(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 x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes x No ¨

There were 62,670,695 shares of common stock outstanding as of April 29, 2004.

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IMPAC MORTGAGE HOLDINGS, INC.

2004 FORM 10-Q/A QUARTERLY REPORT

EXPLANATORY NOTE

This document includes a restatement of our consolidated financial statements. The restatements were necessary to conform with accounting principles generally accepted in the United States of America (GAAP) and reflect the following:

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 derivative financial instruments (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

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 three months ended March 31, 2004 reflects corrections and restatements of the following unaudited financial statements: (a) consolidated balance sheets as of March 31, 2004 and December 31, 2003; (b) consolidated statements of operations and comprehensive earnings for the three months ended March 31, 2004 and 2003; and (c) consolidated statements of cash flows for the three months ended March 31, 2004 and 2003. 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 on 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 March 31, 2004. The financial statements and related financial information for the affected periods contained in our prior Quarterly Report on Form 10-Q for the three months ended March 31, 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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IMPAC MORTGAGE HOLDINGS, INC.

FORM 10-Q/A QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollar amounts in thousands, except per share data)

(unaudited)

	March 31, 2004	December 31, 2003
		(as restated)
ASSETS		
Cash and cash equivalents	$ 193,638	$ 127,381
CMO collateral	11,158,627	8,639,014
Finance receivables	526,396	630,030
Mortgages held-for-investment	136,707	652,814
Allowance for loan losses	(46,299)	(38,596)
Mortgages held-for-sale	611,072	397,618
Accrued interest receivable	47,839	39,347
Other assets	308,341	130,349
Total assets	$ 12,936,321	$ 10,577,957
LIABILITIES		
CMO borrowings	$ 11,139,069	$ 8,489,853
Reverse repurchase agreements	1,117,944	1,568,807
Accumulated dividends payable	40,723	
Other liabilities	77,010	46,510
Total liabilities	12,374,746	10,105,170
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Preferred stock; $0.01 par value; 7,500,000 shares authorized; none issued and outstanding as of March 31, 2004 and December 31, 2003, respectively		
Series A junior participating preferred stock, $0.01 par value; 2,500,000 shares authorized; none outstanding as of March 31, 2004 and December 31, 2003		
Common stock, $0.01 par value; 200,000,000 shares authorized and 62,650,696 and 56,368,368 shares issued and outstanding as of March 31, 2004 and December 31, 2003, respectively	627	564
Additional paid-in capital	749,878	629,662
Accumulated other comprehensive gain	4,216	4,356
Net accumulated deficit:		
Cumulative dividends declared	(347,754)	(307,031)

Retained earnings	154,608	145,236
Net accumulated deficit	(193,146)	(161,795)
Total stockholders equity	561,575	472,787
Total liabilities and stockholders equity	$ 12,936,321	10,577,957

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS

(in thousands, except per share data)

(unaudited)

	For the Three Months Ended March 31,	
	2004	**2003**
	(as restated)	
INTEREST INCOME:		
Mortgage assets	$ 134,267	$ 82,216
Other interest income	440	154
Total interest income	134,707	82,370
INTEREST EXPENSE:		
CMO borrowings	51,994	38,294
Reverse repurchase agreements	9,554	6,790
Other borrowings	66	632
Total interest expense	61,614	45,716
Net interest income	73,093	36,654
Provision for loan losses	9,725	6,484
Net interest income after provision for loan losses	63,368	30,170
NON-INTEREST INCOME:		
Gain on sale of loans	2,502	1,616
Equity in net earnings of Impac Funding Corporation		1,293
Mark-to-market loss derivative instruments	(36,630)	(7,118)
Other income	315	692
Total non-interest income	(33,813)	(3,517)
NON-INTEREST EXPENSE:		
Personnel expense	13,668	686
General and administrative and other expense	3,175	434
Professional services	1,831	385
Amortization and impairment of mortgage servicing rights	1,080	
Occupancy expense	841	61
Data processing expense	805	109
Equipment expense	784	79
Reversal of prior period provision for repurchases	(1,183)	
(Gain) loss on disposition of other real estate owned	(503)	90
Total non-interest expense	20,498	1,844

Net earnings before income taxes	9,057	24,809
Income taxes	(315)	
Net earnings	$ 9,372	$ 24,809
OTHER COMPREHENSIVE EARNINGS:		
Unrealized holding (losses) gains on securities arising during period	(1,382)	64
Less: Reclassification of losses included in net earnings	1,242	522
Net unrealized (losses) gains arising during period	(140)	586
Other comprehensive earnings	$ 9,232	$ 25,395
NET EARNINGS PER SHARE:		
Basic	$ 0.16	$ 0.53
Diluted	$ 0.15	$ 0.52
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.65	$ 0.50

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 Three Months Ended March 31,	
	2004	**2003**
		(as restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 9,372	$ 24,809
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Equity in net earnings of Impac Funding Corporation		(1,293)
Provision for loan losses	9,725	6,484
Amortization of CMO premiums and deferred securitization costs	24,055	14,299
(Gain) loss on sale of other real estate owned	(503)	90
Gain on sale of loans	(2,502)	(1,616)
Unrealized mark-to-market loss derivative instruments	24,308	(3,525)
Purchase of mortgages held-for-sale	(3,469,082)	
Sale and principal reductions on mortgages held-for-sale	3,258,130	
Net change in investment in and advances to Impac Funding Corporation		155,050
Net change in deferred taxes	(6,814)	
Gain on sale of investment securities available-for-sale	(291)	(122)
Depreciation and amortization	755	
Amortization and impairment of mortgage servicing rights	1,080	
Net change in accrued interest receivable	(8,492)	(1,478)
Net change in other assets and liabilities	(129,039)	(25,509)
Net cash (used in) provided by operating activities	(288,298)	167,189
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in CMO collateral	(2,545,512)	(1,100,439)
Net change in finance receivables	103,634	148,787
Purchase of premises and equipment	(839)	
Net change in mortgages held-for-investment	513,841	(17,355)
Net change in mortgage servicing rights	355	
Net principal reductions on investment securities available-for-sale	627	1,562
Proceeds from the sale of other real estate owned, net	9,737	5,319
Net cash used in investing activities	(1,918,157)	(962,126)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in reverse repurchase agreements and other borrowings	(450,863)	(312,393)
Proceeds from CMO borrowings	3,356,924	1,483,605
Repayments of CMO borrowings	(751,003)	(396,637)
Dividends paid		(21,754)

Proceeds from sale of common stock	106,280	37,778
Proceeds from sale of common stock via equity distribution agreement	10,729	4,083
Proceeds from exercise of stock options	645	442
Net cash provided by financing activities	2,272,712	795,124
Net change in cash and cash equivalents	66,257	187
Cash and cash equivalents at beginning of period	127,381	113,345
Cash and cash equivalents at end of period	$ 193,638	$ 113,532
SUPPLEMENTARY INFORMATION:		
Interest paid	$ 57,900	$ 48,485
Taxes paid	797	
NON-CASH TRANSACTIONS:		
Transfer of mortgages to other real estate owned	$ 9,169	$ 8,436
Dividends declared and unpaid	40,723	24,598
Net change in other comprehensive earnings	(140)	586

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(unaudited)

Note A Summary of Business and Significant Accounting Policies

1. Financial Statement Presentation and Business Summary

Unless the context otherwise requires, the terms Company, we, us, and our refer to Impac Mortgage Holdings, Inc. (IMH), a Maryland corporation incorporated in August 1995, and its subsidiaries, IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG), Impac Multifamily Capital Corporation (IMCC) and Impac Funding Corporation (IFC), together with its wholly-owned subsidiaries Impac Secured Assets Corp. (ISAC) and Novelle Financial Services, Inc. (Novelle).

The accompanying unaudited consolidated financial statements of IMH and our 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 period ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

The results of operations for the three months ended March 31, 2004 reflect the consolidation of IFC on July 1, 2003. On July 1, 2003, IMH entered into a stock purchase agreement with Joseph R. Tomkinson, our Chairman, Chief Executive Officer and a director, William S. Ashmore, our Chief Operating Officer, President and a director, and the Johnson Revocable Living Trust, of which Richard J. Johnson, our Executive Vice President and Chief Financial Officer is trustee, whereby IMH purchased all of the outstanding shares of voting common stock of IFC for aggregate consideration of $750 thousand. Messr s. Tomkinson and Ashmore and the Johnson Revocable Living Trust each owned one-third of the outstanding common stock of IFC. Mr. Tomkinson elected to receive $125 thousand worth of his consideration for the sale of his IFC shares of common stock in the form of 7,687 shares of IMH common stock. The fairness opinion related to the purchase price of IFC, as rendered by an independent financial advisor, and the subsequent transaction was approved by our board of directors. As a result of acquiring 100% of IFC s common stock on July 1, 2003, IMH owns all of the common stock and preferred stock of IFC and began to consolidate IFC as of that date. As such, the consolidated financial statements for the three months ended March 31, 2004 (consolidation period) reflect the results of operations of IFC on a consolidated basis. The consolidated financial statements for the three months ended March 31, 2003 (non-consolidation period) include the results of operations of IFC as equity in net earnings of IFC. The presentation of prior periods consolidated financial statements conform to the restatements referred to in Note A.2. Restatement of Consolidated Financial Statements below.

All significant inter-company balances and transactions have been eliminated in consolidation or under the equity method of accounting regarding transactions involving the mortgage operations prior to its consolidation. Certain amounts in the prior periods consolidated financial statements have been reclassified to conform to the current 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 financial statements in conformity with GAAP. Actual results could differ from those estimates.

We are a mortgage real estate investment trust (REIT) that is a nationwide acquirer, originator, seller and securitizer of non-conforming Alt-A mortgages (Alt-A mortgages). Alt-A mortgages are primarily first lien mortgages made to borrowers whose credit is generally within typical Fannie Mae and Freddie Mac guidelines, but have loan characteristics that make them non-conforming under those guidelines. Some of the principal differences between mortgages purchased by Fannie Mae and Freddie Mac and Alt-A mortgages are as follows:

credit and income histories of the mortgagor; and

documentation required for approval of the mortgagor.

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We operate three core businesses:

- long-term investment operations that is conducted by IMH, IMH Assets and IMCC;
- mortgage operations that is conducted by IFC, ISAC and Novelle; and
- warehouse lending operations that is conducted by IWLG.

The long-term investment operations primarily invest in adjustable rate and fixed rate Alt-A mortgages that are acquired and originated by the mortgage operations. The long-term investment operations also originate small-balance, multi-family residential mortgages (multi-family mortgages). Mortgage balances generally range from $250 thousand to $3.0 million. Multi-family mortgages have interest rate floors, which is the initial start rate, and prepayment penalty periods of 3, 5 and 7 years. Multi-family mortgages provide greater asset diversification on our balance sheet as multi-family mortgage borrowers typically have higher credit scores and multi-family mortgages generally have lower loan-to-value ratios (LTV ratios) and longer lives than Alt-A mortgages. This business primarily generates net interest income on mortgages held-for-investment and mortgages held as CMO collateral (long-term mortgage portfolio). Investment in Alt-A and multi-family mortgages is financed with collateralized mortgage obligations (CMO) financing, warehouse facilities and proceeds from the sale of capital stock.

The mortgage operations, a taxable REIT subsidiary (TRS), acquire, originate, sell and securitize primarily adjustable rate and fixed rate Alt-A mortgages and, to a lesser extent, sub-prime mortgages (B/C mortgages) from correspondents, mortgage brokers and retail customers. The mortgage operations acquire Alt-A mortgages from its network of third party correspondents (Impac Alt-A mortgages). Correspondents originate and close mortgages under its mortgage programs on a flow (loan-by-loan) basis or through bulk sale commitments. Correspondents include savings and loan associations, commercial banks and mortgage bankers. The mortgage operations acts as an intermediary between the originators of mortgages that do not meet the guidelines for purchase by Fannie Mae and Freddie Mac and permanent investors in mortgage-backed securities secured by or representing an ownership interest in mortgages. The mortgage operations also acquire non-conforming Alt-A mortgages on a bulk basis that are underwritten to guidelines substantially similar, but not specific, to those of the mortgage operations (non-Impac Alt-A mortgages). Non-Impac mortgage borrowers generally have higher credit scores than Impac Alt-A mortgage borrowers. The mortgage operations generate income by securitizing and selling mortgages to permanent investors. This business also earns revenue from fees associated with mortgage servicing rights (MSR), master servicing agreements and interest income earned on mortgages held-for-sale. The mortgage operations use warehouse facilities provided by the warehouse lending operations to finance the acquisition and origination of mortgages.

The warehouse lending operations provide short-term financing to mortgage loan originators, including the mortgage operations, by funding mortgages from their closing date until they are sold to pre-approved investors. This business earns fees from warehouse transactions as well as net interest income from the difference between its cost of borrowings and the interest earned on warehouse advances.

2. Restatement of Consolidated Financial Statements

The unaudited consolidated balance sheets as of March 31, 2004 and December 31, 2003 and the unaudited consolidated statements of operations and comprehensive earnings and unaudited consolidated statements of cash flows for the three-month periods ended March 31, 2004 and 2003 have been restated. The effect of this restatement on net earnings for the three-month periods ended March 31, 2004 and 2003 was a decrease of $36.7 million and $0.7 million, respectively. The following are the principal reasons for the restatement:

Correct our revenue recognition policy with respect to the cash sale of mortgage servicing rights 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 mortgages. Historically, when IFC sold mortgages, on a servicing retained basis, to IMH, IFC capitalized the portion of the price received on mortgages that was deemed to represent the value of MSRs as deferred income, which was amortized over the life of the mortgages. Subsequently, when IFC sold the MSRs to third party investors, IFC would recognize the sale of MSRs as gain on sale of loans and the remaining related amount of deferred income would be reduced accordingly. During the period when IFC was either a consolidated subsidiary or a 99% equity method investee of IMH, such related party loan sales between IFC and IMH are not sales for financial reporting purposes and, therefore, no gain should be recorded until MSRs are sold to unrelated third parties. The restated financial statements reflect IFC s sales of MSRs to third parties appropriately accounted for consistent with the provisions in AICPA Statement of Position 01-6, Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities with Others (SOP 01-6). Under SOP 01-6 for sales of MSRs with the loans being retained, the carrying value of the loan is allocated between the loan basis and the MSR basis consistent with the relative fair value method prescribed in SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). As a result, only a nominal gain is realized from the sale of MSRs and a discount is recorded on the mortgage loans retained. The consolidated financial statements have been restated to reflect the reversal of previously recorded gains on sale of loans upon the sale of MSRs and the corresponding accretion of the discount as an adjustment to the yield on the mortgage loans retained;

Correct our accounting for derivative financial instruments and hedging activities. We enter into forward purchase commitments on mortgage loans both to be held for sale and held for investment, in addition to our origination pipeline. Previously, certain purchase commitments were not accounted for as derivatives. In accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, (SFAS 133) and Statement of Financial Accounting Standards No. 149 Amendment of FASB Statement No. 133 on Derivatives and Hedging Activities (SFAS 149), we believe that such instruments met the definition of a derivative and as such, they should have been carried at their fair value with changes in fair value recognized in earnings. In addition, we enter into derivative contracts to manage the various risks associated with certain specific liabilities. On the date we enter into these derivative contracts, the derivatives were designated as a hedge of the variability in expected future cash flows associated with a financing obligation or future liability (a cash flow hedge). Any change in value associated with a cash flow hedge derivative was previously recorded as an increase or decrease in accumulated other comprehensive income. Upon our review, we now believe that the documentation of cash flow hedge accounting relationships was deficient as to the specificity of the underlying hedged transaction in order to assess hedge effectiveness and the measurement of ineffectiveness as required by the stringent applicable accounting standard, SFAS 133. As such, we made the determination that it is not appropriate to apply cash flow hedge accounting in accordance with SFAS 133 for purposes of GAAP financial statements. However, we will continue to apply hedge accounting for purposes of preparing our tax returns and managing our REIT tests, for which the standards are different to achieve hedge accounting. This correction resulted in our recording all changes in fair value of hedge derivatives as a current period expense or revenue and not as an adjustment to accumulated other comprehensive income;

Change our classification of certain interest rate derivative gains and losses to non-interest income as opposed to an adjustment to the interest yield on mortgages held for long-term investment as a result of the elimination of cash flow hedging, as stated above. We purchase derivatives to manage our exposure to the variability of one-month LIBOR, which is the underlying index of our adjustable rate CMO and warehouse borrowings, as changing interest rates affect cash flows on CMO and warehouse borrowings. Historically, cash payments received and made on derivatives were recorded as an adjustment to the interest yield on mortgages held for long-term investment on the consolidated financial statements. Due to the restatement discussed above relating to derivatives, rather than the Company reclassifying cash payments received and made on derivatives as an adjustment to the interest yield on CMO and warehouse borrowings, we have now recorded the total change in fair value of the derivatives (cash payments plus unrealized gains and losses) as mark-to-market gains (losses) - derivative instruments in the statements of operations; and

Correct our accounting for certain inter-company transactions. Prior to the consolidation of IFC on July 1, 2003, certain significant inter-company balance sheet and income statement items of the mortgage operations were presented on an unconsolidated basis. The significant transactions primarily include advances made to the mortgage operations in the form of finance receivables, which have now been reclassified to investment in and advances to IFC in prior period financial statements. In addition, inter-company balance sheet and income statement eliminations include other interest income and expense as a result of inter-company borrowings, non-interest income as a result of inter-company fees associated with finance receivables and inter-company expense allocations, which were all eliminated through equity in net earnings of IFC, which also changes amounts reported in Investment in and advances to Impac Funding Corporation on the consolidated financial statements. These elimination entries have no effect on total stockholders equity or net earnings.

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A summary of the impact of the restatements on net earnings follows:

	For the three months ended March 31,	
	2004	2003
Net earnings, as previously reported	$ 46,046	$ 25,545
Restatement for sale of mortgage servicing rights when the mortgage loans are retained	(12,116)	(4,983)
Restatement for derivatives and cessation of cash flow hedge accounting	(24,558)	4,247
Net earnings, as restated	$ 9,372	$ 24,809

The aforementioned restatement adjustments have been tax affected to the extent attributable to activities of the taxable REIT subsidiary. Note B. Reconciliation of Net Earnings Per Share, Note C. Segment Reporting, Note D. Mortgages Held-for-Sale, Note E. CMO Collateral and Note F. CMO Borrowings have been amended for the impact of the aforementioned restatements.

The following tables present the consolidated balance sheets as of March 31, 2004 and December 31, 2003 and the consolidated statements of operations and comprehensive earnings and statements of cash flows for the three-month periods ended March 31, 2004 and 2003 that were affected by the correction and reclassification entries:

Consolidated Balance Sheets

	As of March 31, 2004		As of December 31, 2003	
	As Restated	As Previously Reported	As Restated	As Previously Reported
CMO collateral	$ 11,158,627	$ 11,252,373	$ 8,639,014	$ 8,735,434
Mortgages held-for-sale	611,072	611,068	397,618	395,090
Other assets	308,341	280,960	130,349	109,678
Total assets	12,936,321	13,024,809	10,577,957	10,674,657
CMO borrowings	11,139,069	11,183,583	8,489,853	8,526,838
Other liabilities	77,010	73,789	46,510	70,522
Total liabilities	12,374,746	12,416,039	10,105,170	10,166,167
Accumulated other comprehensive gain (loss)	4,216	(33,670)	4,356	(8,348)
Retained earnings	154,608	239,689	145,236	193,643
Net accumulated deficit	(193,146)	(108,065)	(161,795)	(113,388)
Total stockholders equity	561,575	608,770	472,787	508,490
Total liabilities and stockholders equity	12,936,321	13,024,809	10,577,957	10,674,657

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Consolidated Statements of Operations and Comprehensive Earnings

	For the Three Months Ended March 31,			
	2004		2003	
	As Restated	As Previously Reported	As Restated	As Previously Reported
Interest on mortgage assets	$ 134,267	$ 115,833	$ 82,216	$ 75,478
Total interest income	134,707	116,273	82,370	76,159
Interest on CMO borrowings	51,994	54,060	38,294	41,684
Interest on other borrowings	66	66	632	883
Total interest expense	61,614	63,680	45,716	49,357
Net interest income	73,093	52,593	36,654	26,802
Net interest income after provision for loan losses	63,368	42,868	30,170	20,318
Gain on sale of loans	2,502	31,138	1,616	1,616
Equity in net earnings of IFC			1,293	5,167
Mark-to-market loss derivative instruments	(36,630)	(1,280)	(7,118)	
Other income	315	315	692	1,027
Total non-interest income	(33,813)	31,453	(3,517)	7,810
Personnel expense	13,668	13,668	686	692
General and administrative and other expense	3,175	3,173	434	435
Professional services	1,831	1,831	385	1,037
Data processing expense	805	805	109	189
Total non-interest expense	20,498	21,776	1,844	2,583
Net earnings before income taxes	9,057	52,545	24,809	25,545
Income taxes	(315)	6,499		
Net earnings	9,372	46,046	24,809	25,545
Comprehensive earnings	9,232	20,724	25,395	29,656
Net earnings per share:				
Net earnings per share basic	$ 0.16	$ 0.77	$ 0.53	$ 0.54
Net earnings per share diluted	0.15	0.76	0.52	0.53

Consolidated Statements of Cash Flows

	For the Three Months Ended March 31,			
	2004		2003	
	As Restated	As Previously Reported	As Restated	As Previously Reported
Net earnings	$ 9,372	$ 46,046	$ 24,809	$ 25,545
Equity in net earnings of IFC			(1,293)	(5,167)
Gain on sale of loans	(2,502)	(31,138)	(1,616)	(1,616)
Sale and principal reductions on mortgages held-for-sale	3,258,130	3,283,978		
Unrealized mark-to-market loss derivative instruments	(24,308)		(3,525)	
Net change in investment in and advances to IFC			155,050	
Net change in deferred taxes	(6,814)	1,030		

Net change in accrued interest receivable	(8,492)	(8,492)	(1,478)	(1,168)
Net change in other assets and other liabilities	(129,039)	(166,962)	(25,509)	(40,431)
Net cash provided by (used in) operating activities	(288,298)	(309,799)	167,189	(2,086)
Net change in CMO collateral	(2,545,512)	(2,574,835)	(1,100,439)	(1,117,985)
Net change in finance receivables	103,634	103,634	148,787	308,622
Dividend from IFC				