

REDWOOD TRUST INC  
Form 10-Q  
November 05, 2012  
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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

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

<b>(Unaudited)</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
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
<b>Total earning assets</b>	<b>5,144,513</b>	<b>5,613,753</b>
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
<b>Total Assets <sup>(1)</sup></b>	<b>\$ 5,296,855</b>	<b>\$ 5,743,298</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
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
<b>Total liabilities <sup>(1)</sup></b>	<b>4,247,003</b>	<b>4,850,714</b>
<b>Equity</b>		
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)

<b>Total equity</b>		1,049,852		892,584
<b>Total Liabilities and Equity</b>		\$ 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
<b>(Unaudited)</b>				
<b>Interest Income</b>				
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
<b>Interest Expense</b>				
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)
<b>Net Interest Income</b>	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 <sup>(1)</sup>	(1,207)	(1,083)	(1,842)	(5,171)
Other market valuation adjustments, net	(3,470)	(13,448)	(9,503)	(30,335)
<b>Net Interest Income After Provision and Other Market Valuation Adjustments</b>	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)
<b>Net Income Attributable to Redwood Trust, Inc.</b>	\$ 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.*

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**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
<b>Net Income</b>	\$ 39,701	\$ 1,297	\$ 89,691	\$ 28,901