

IMPAC MORTGAGE HOLDINGS INC

Form 10-Q/A

August 15, 2005

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-Q/A

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

For the quarterly period ended June 30, 2005 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

(Address of principal executive offices)

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(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 75,732,094 shares of common stock outstanding as of August 4, 2005.

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**IMPAC MORTGAGE HOLDINGS, INC.**

**2005 FORM 10-Q/A QUARTERLY REPORT**

**EXPLANATORY NOTE**

This report on Form 10-Q/A for the quarterly period ended June 30, 2005 is being filed to make various corrections in Items 1, 2, 3 and 4 of Part I and to include information and exhibits under Items 5 and 6 of Part II. Other items in this report on Form 10-Q/A are not amended.

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**IMPAC MORTGAGE HOLDINGS, INC.**

**FORM 10-Q/A QUARTERLY REPORT**

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(dollar amounts in thousands, except share data)

(unaudited)

	June 30, 2005	December 31, 2004
<b>ASSETS</b>		
Cash and cash equivalents	\$ 245,254	\$ 324,351
Restricted cash	403	253,360
CMO collateral	23,980,050	21,308,906
Finance receivables	382,900	471,820
Mortgages held-for-investment	232,019	586,686
Allowance for loan losses	(69,826)	(63,955)
Mortgages held-for-sale	1,281,125	587,745
Accrued interest receivable	109,135	97,617
Other assets	337,750	249,237
<b>Total assets</b>	<b>\$ 26,498,810</b>	<b>\$ 23,815,767</b>
<b>LIABILITIES</b>		
CMO borrowings	\$ 23,544,517	\$ 21,206,373
Reverse repurchase agreements/warehouse borrowings	1,732,266	1,527,558
Trust preferred securities	76,202	
Accrued dividends payable	56,747	
Other liabilities	41,069	37,761
<b>Total liabilities</b>	<b>25,450,801</b>	<b>22,771,692</b>
Commitments and contingencies		
<b>STOCKHOLDERS EQUITY</b>		
Series A junior participating preferred stock, \$0.01 par value; 2,500,000 shares authorized; none issued and outstanding as of June 30, 2005 and December 31, 2004		
Series B 9.375% cumulative redeemable preferred stock, \$0.01 par value; liquidation value \$50,000; 2,000,000 shares authorized, issued and outstanding as of June 30, 2005 and December 31, 2004	20	20
Series C 9.125% cumulative redeemable preferred stock, \$0.01 par value; liquidation value \$107,500; 5,500,000 shares authorized; 4,300,000 shares issued and outstanding as of June 30, 2005 and December 31, 2004	43	43
Common stock, \$0.01 par value; 200,000,000 shares authorized; 75,663,094 and 75,153,926 shares issued and outstanding as of June 30, 2005 and December 31, 2004, respectively	757	752

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Additional paid-in capital	1,158,482	1,152,861
Accumulated other comprehensive income	1,420	979
Net accumulated deficit:		
Cumulative dividends declared	(634,196)	(513,453)
Retained earnings	521,483	402,873
	<u>          </u>	<u>          </u>
Net accumulated deficit	(112,713)	(110,580)
	<u>          </u>	<u>          </u>
Total stockholders' equity	1,048,009	1,044,075
	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	\$ 26,498,810	\$ 23,815,767
	<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		For the Six Months	
	Ended June 30,		Ended June 30,	
	2005	2004	2005	2004
<b>INTEREST INCOME:</b>				
Mortgage assets	\$ 308,339	\$ 160,372	\$ 584,360	\$ 294,187
Other interest income	1,446	347	2,804	669
<b>Total interest income</b>	<b>309,785</b>	<b>160,719</b>	<b>587,164</b>	<b>294,856</b>
<b>INTEREST EXPENSE:</b>				
CMO borrowings	216,255	65,187	395,722	117,181
Reverse repurchase agreements	25,982	10,062	42,744	19,615
Other borrowings	1,395	20	1,439	87
<b>Total interest expense</b>	<b>243,632</b>	<b>75,269</b>	<b>439,905</b>	<b>136,883</b>
<b>Net interest income</b>	<b>66,153</b>	<b>85,450</b>	<b>147,259</b>	<b>157,973</b>
Provision for loan losses	5,711	15,282	11,785	25,007
<b>Net interest income after provision for loan losses</b>	<b>60,442</b>	<b>70,168</b>	<b>135,474</b>	<b>132,966</b>
<b>NON-INTEREST INCOME:</b>				
Gain (loss) on derivative instruments	(99,135)	77,881	18,456	41,251
Gain on sale of loans	19,094	11,973	31,945	14,476
Gain on sale of investment securities		5,183		5,474
Other income	2,307	3,231	7,384	3,149
<b>Total non-interest income</b>	<b>(77,734)</b>	<b>98,268</b>	<b>57,785</b>	<b>64,350</b>
<b>NON-INTEREST EXPENSE:</b>				
Personnel expense	20,810	16,346	39,690	30,014
Amortization of deferred tax charge	6,792	4,486	12,595	8,684
General and administrative and other expense	6,560	4,309	11,473	7,482
Provision for repurchases	1,650	1,640	5,364	457
Amortization and impairment of mortgage servicing rights	736	570	1,026	976
Data processing expense	836	972	1,779	1,777
Occupancy expense	1,171	857	2,315	1,698
Equipment expense	1,236	830	2,383	1,614
Professional services	2,021	331	5,440	2,162
Gain (loss) on sale of other real estate owned	20	(2,247)	(829)	(2,750)

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Total non-interest expense	41,832	28,094	81,236	52,114
Net (loss) earnings before income taxes	(59,124)	140,342	112,023	145,202
Income tax benefit	(4,124)	(2,872)	(6,587)	(7,384)
Net (loss) earnings	(55,000)	143,214	118,610	152,586
Cash dividends on cumulative redeemable preferred stock	(3,624)	(443)	(7,248)	(443)
Net (loss) earnings available to common stockholders	\$ (58,624)	\$ 142,771	\$ 111,362	\$ 152,143
<b>NET (LOSS) EARNINGS PER SHARE:</b>				
Basic	\$ (0.78)	\$ 2.20	\$ 1.48	\$ 2.44
Diluted	\$ (0.78)	\$ 2.17	\$ 1.46	\$ 2.40
<b>DIVIDENDS PER COMMON SHARE</b>				
	\$ 0.75	\$ 0.75	\$ 1.50	\$ 1.40

See accompanying notes to consolidated financial statements.



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**IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS**

(in thousands)

(unaudited)

	<b>For the Three Months</b>		<b>For the Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net (loss) earnings	\$ (55,000)	\$ 143,214	\$ 118,610	\$ 152,586
Net unrealized gains (losses) arising during period:				
Unrealized holding losses on securities	177	(154)	441	(293)
Reclassification of losses included in net earnings		(3,185)		(3,185)
Net unrealized gains (losses)	177	(3,339)	441	(3,478)
Comprehensive (loss) earnings	\$ (54,823)	\$ 139,875	\$ 119,051	\$ 149,108

See accompanying notes to consolidated financial statements.

**Table of Contents****IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	<b>For the Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 118,610	\$ 152,586
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	11,785	25,007
Amortization of premiums and deferred securitization costs	138,600	60,602
Gain on sale of other real estate owned	(829)	(2,750)
Gain on sale of loans	(31,945)	(14,476)
Unrealized (gain) loss on derivative instruments	(33,639)	(67,995)
Purchase of mortgages held-for-sale	(10,127,623)	(8,919,807)
Sale and principal reductions on mortgages held-for-sale	9,462,381	9,000,141
Net change in deferred taxes	(1,990)	(2,134)
Gain on sale of investment securities available-for-sale		(5,474)
Change in deferred tax charge	154	(17,570)
Depreciation and amortization	2,229	1,549
Amortization and impairment of mortgage servicing rights	1,026	976
Net change in accrued interest receivable	(11,518)	(23,325)
Net change in restricted cash	252,957	(598)
Net change in other assets and liabilities	(3,407)	(187,222)
<b>Net cash used in operating activities</b>	<b>(223,209)</b>	<b>( 490)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net change in CMO collateral	(2,814,965)	(6,242,246)
Net change in finance receivables	88,920	50,358
Purchase of premises and equipment	(3,892)	(3,889)
Net change in mortgages held-for-investment	344,288	(206,058)
Sale of investment securities available-for-sale		4,510
Purchase of investment securities available-for-sale	(28,868)	(3,920)
Net change in mortgage servicing rights	(711)	2,033
Purchase of deferred investments	(2,485)	(809)
Net principal reductions on investment securities available-for-sale	1,748	6,086
Proceeds from the sale of other real estate owned, net	25,107	20,181
<b>Net cash used in investing activities</b>	<b>(2,390,858)</b>	<b>(6,373,754)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net change in reverse repurchase agreements and other borrowings	204,708	(7,027)
Proceeds from CMO borrowings	7,109,346	8,212,970
Repayment of CMO borrowings	(4,796,916)	(1,967,268)
Issuance of trust preferred	76,202	
Dividends paid common	(56,748)	(41,166)
Dividends paid preferred	(7,248)	
Proceeds from sale of common stock		138,523
Proceeds from sale of common stock via equity distribution agreement		112,518
Proceeds from sale of cumulative redeemable preferred stock		48,285

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Proceeds from exercise of stock options	5,626	925
Net cash provided by financing activities	2,534,970	6,497,760
Net change in cash and cash equivalents	(79,097)	123,516
Cash and cash equivalents at beginning of period	324,351	125,153
Cash and cash equivalents at end of period	\$ 245,254	\$ 248,669
<b>SUPPLEMENTARY INFORMATION:</b>		
Interest paid	\$ 378,362	\$ 121,307
Taxes paid	17,759	9,395
<b>NON-CASH TRANSACTIONS:</b>		
Transfer of mortgages to other real estate owned	\$ 35,478	\$ 18,238
Dividends declared and unpaid	56,747	52,642
Net change in other comprehensive earnings	441	(3,478)

See accompanying notes to consolidated financial statements.

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**IMPAC MORTGAGE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**(unaudited)**

**Note A Summary of Business and Significant Accounting Policies**

**1. Business Summary and Financial Statement Presentation**

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).

We are a mortgage real estate investment trust, or REIT, that is a nationwide acquirer, originator, seller and investor of non-conforming Alt-A mortgages, or Alt-A mortgages, and to a lesser extent, small-balance, multi-family mortgages, or multi-family mortgages and sub-prime, or B/C mortgages. We also provide warehouse financing to originators of mortgages.

We operate three core businesses:

the long-term investment operations that is conducted by IMH, IMH Assets and IMCC;

the mortgage operations that is conducted by IFC, ISAC and Novelle; and

the warehouse lending operations that is conducted by IWLG.

The long-term investment operations primarily invest in adjustable rate and, to a lesser extent, fixed rate Alt-A mortgages that are acquired and originated by our mortgage operations and small-balance multi-family 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.

The mortgage operations acquire, originate, sell and securitize primarily adjustable rate and fixed rate Alt-A mortgages and, to a lesser extent, B/C mortgages. The mortgage operations generate income by securitizing and selling mortgages to permanent investors, including the long-term investment operations. This business also earns revenue from fees associated with 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.

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The warehouse lending operations provide short-term financing to mortgage loan originators, including our mortgage operations, by funding mortgages from their closing or acquisition date until sale 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.

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 six-month period ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

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.

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## IMPAC MORTGAGE HOLDINGS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(unaudited)

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. Management's estimates and assumptions include allowance for loan losses, valuation of derivative financial instruments and repurchase liabilities related to sold loans, and the amortization of various loan premiums and discounts due to prepayment estimates. Actual results could differ from those estimates.

**2. Stock Options**

No compensation cost has been recognized for stock-based awards to employees as the stock option exercise price is equal to the fair market value of the underlying common stock as of the stock option grant date. Summarized below are the pro forma effects on net earnings and net earnings per share as if the Company had elected to use the fair value approach to account for its employee stock-based compensation plans:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
Net earnings (loss) available to common stockholders	\$ (58,624)	\$ 142,771	\$ 111,362	\$ 152,143
Less: Total stock-based employee compensation expense using the fair value method	(532)	(289)	(1,078)	(579)
Pro forma net earnings (loss)	\$ (59,156)	\$ 142,482	\$ 110,284	\$ 151,564
Net earnings (loss) per share as reported:				
Basic	\$ (0.78)	\$ 2.20	\$ 1.48	\$ 2.44
Diluted	\$ (0.78)	\$ 2.17	\$ 1.46	\$ 2.40
Pro forma net earnings (loss):				
Basic	\$ (0.78)	\$ 2.20	\$ 1.46	\$ 2.43
Diluted	\$ (0.78)	\$ 2.16	\$ 1.44	\$ 2.39

**3. Recent Accounting Pronouncements**

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In December 2004, the FASB issued Statement No. 123(R), Share-Based Payment (SFAS 123R). It requires all public companies to report share-based compensation expense at fair value at the grant date of the related share-based awards. The Company is required to adopt the provisions of the SFAS 123R effective for annual periods beginning after June 15, 2005. The impact of adoption of SFAS 125R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123R in prior periods, the impact of SFAS 123R would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net earnings per share in Note A.2. Stock Options.

**Table of Contents****IMPAC MORTGAGE HOLDINGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(in thousands, except per share data or as otherwise indicated)****(unaudited)****Note B Reconciliation of Earnings Per Share**

The following table presents the computation of basic and diluted net earnings (loss) per share including the dilutive effect of stock options and cumulative redeemable preferred stock outstanding for the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
Numerator for earnings (loss) per share:				
Net earnings (loss)	\$ (55,000)	\$ 143,214	\$ 118,610	\$ 152,586
Less: Cash dividends on cumulative redeemable preferred stock	(3,624)	(443)	(7,248)	(443)
<b>Net earnings (loss) available to common stockholders</b>	<b>\$ (58,624)</b>	<b>\$ 142,771</b>	<b>\$ 111,362</b>	<b>\$ 152,143</b>
Denominator for basic net earnings (loss) per share:				
Basic weighted average number of common shares outstanding	75,387	64,888	75,297	62,284
Denominator for earnings (loss) per share:				
Basic weighted average number of common shares outstanding	75,387	64,888	75,297	62,284
Net effect of dilutive stock options		1,051	938	1,086
<b>Diluted weighted average common and common equivalent shares</b>	<b>75,387</b>	<b>65,939</b>	<b>76,235</b>	<b>63,370</b>
Net earnings (loss) per share:				
Basic	\$ (0.78)	\$ 2.20	\$ 1.48	\$ 2.44
<b>Diluted</b>	<b>\$ (0.78)</b>	<b>\$ 2.17</b>	<b>\$ 1.46</b>	<b>\$ 2.40</b>

We had 1.4 million stock options outstanding during the three and six months ended June 30, 2005, and no stock options outstanding during the three and six months ended June 30, 2004, that were not included in the above weighted average calculations because they were anti-dilutive.



**Table of Contents****IMPAC MORTGAGE HOLDINGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

(unaudited)

**Note C Segment Reporting**

The following table presents reporting segments as of and for the six months ended June 30, 2005:

	<u>Long-Term Investment Operations</u>	<u>Warehouse Lending Operations</u>	<u>Mortgage Operations</u>	<u>Inter- Company (1)</u>	<u>Consolidated</u>
<b>Balance Sheet Items:</b>					
CMO collateral and mortgages held-for-investment	\$ 24,338,258	\$	\$	\$ (126,189)	\$ 24,212,069
Mortgages held-for-sale		401	1,280,724		1,281,125
Finance receivables		1,809,901		(1,427,001)	382,900
Total assets	24,670,806	1,920,374	1,346,352	(1,438,722)	26,498,810
Total stockholders' equity	901,594	187,551	24,955	(66,091)	1,048,009
<b>Income Statement Items:</b>					
Net interest income	\$ 81,027	\$ 24,980	\$ 6,659	\$ 34,593	\$ 147,259
Provision for loan losses	11,785				11,785
Non-interest income	23,805	4,257	75,396	(45,673)	57,785
Non-interest expense and income taxes	7,000	3,855	66,632	(2,838)	74,649
Net earnings (loss)	\$ 86,047	\$ 25,382	\$ 15,423	\$ (8,242)	\$ 118,610

(1) Income statement items include inter-company loan sales transactions and the elimination of related gains.

The following table presents reporting segments for the three months ended June 30, 2005:

	<u>Long-Term Investment Operations</u>	<u>Warehouse Lending Operations</u>	<u>Mortgage Operations</u>	<u>Inter- Company (1)</u>	<u>Consolidated</u>
<b>Income Statement Items:</b>					
Net interest income	\$ 28,908	\$ 13,638	\$ 4,685	\$ 18,922	\$ 66,153
Provision for loan losses	5,711				5,711
Non-interest income	(91,188)	2,230	25,723	(14,499)	(77,734)
Non-interest expense and income taxes	4,307	1,770	31,151	480	37,708

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Net earnings (loss)	<u>\$ (72,298)</u>	<u>\$ 14,098</u>	<u>\$ (743)</u>	<u>\$ 3,943</u>	<u>\$ (55,000)</u>
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(1) Income statement items include inter-company loan sales transactions and the elimination of related gains.

**Table of Contents****IMPAC MORTGAGE HOLDINGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(in thousands, except per share data or as otherwise indicated)****(unaudited)**

The following table presents business segments as of and for the six months ended June 30, 2004:

	<b>Long-Term Investment Operations</b>	<b>Warehouse Lending Operations</b>	<b>Mortgage Operations</b>	<b>Inter- Company (1)</b>	<b>Consolidated</b>
<b>Balance Sheet Items:</b>					
CMO collateral and mortgages held-for-investment	\$ 15,779,651	\$	\$	\$ (101,723)	\$ 15,677,928
Mortgages held-for-sale			326,727		326,727
Finance receivables		1,698,668		(1,118,996)	579,672
Total assets	16,264,572	1,693,796	424,461	(1,126,975)	17,255,854
Total stockholders' equity	696,437	131,383	40,257	(39,210)	828,867
<b>Income Statement Items:</b>					
Net interest income	\$ 113,037	\$ 17,966	\$ 8,045	\$ 18,925	\$ 157,973
Provision for loan losses	18,132	6,875			25,007
Non-interest income	44,461	4,764	77,173	(62,048)	64,350
Non-interest expense and income taxes	1,710	3,202	58,890	(19,072)	44,730
Net earnings	\$ 137,656	\$ 12,653	\$ 26,328	\$ (24,051)	\$ 152,586

(1) Income statement items include inter-company loan sales transactions and the elimination of related gains.

The following table presents business segments for the three months ended June 30, 2004:

	<b>Long-Term Investment Operations</b>	<b>Warehouse Lending Operations</b>	<b>Mortgage Operations</b>	<b>Inter- Company (1)</b>	<b>Consolidated</b>
<b>Income Statement Items:</b>					
Net interest income	\$ 61,575	\$ 9,548	\$ 2,903	\$ 11,424	\$ 85,450
Provision for loan losses	13,847	1,435			15,282
Non-interest income	83,612	2,807	45,195	(33,346)	98,268
Non-interest expense and income taxes	(34)	1,681	33,307	(9,732)	25,222
Net earnings	\$ 131,374	\$ 9,239	\$ 14,791	\$ (12,190)	\$ 143,214

(1) Income statement items include inter-company loan sales transactions and the elimination of related gains.

**Note D Mortgages Held-for-Sale**

Mortgages held-for-sale for the periods indicated consisted of the following:

	<u>At June 30,</u> <u>2005</u>	<u>At December 31,</u> <u>2004</u>
Mortgages held-for-sale	\$ 1,255,602	\$ 576,777
Net premiums on mortgages held-for-sale	25,523	10,968
<b>Total mortgages held-for-sale</b>	<b>\$ 1,281,125</b>	<b>\$ 587,745</b>

Included in other liabilities as of June 30, 2005 and December 31, 2004 was an allowance for mortgage repurchases of \$7.5 million and \$2.2 million, respectively. The allowance for mortgage repurchases is maintained

**Table of Contents****IMPAC MORTGAGE HOLDINGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(in thousands, except per share data or as otherwise indicated)****(unaudited)**

for the purpose of purchasing previously sold mortgages for various reasons, including early payment defaults or breach of representations or warranties, which may be subsequently sold at a loss. In determining the adequacy of the liability for mortgage repurchases, management considers such factors as specific requests for repurchase, known problem loans, underlying collateral values, recent sales activity of similar loans and other appropriate information. In 2005, gains or losses from the subsequent sale of repurchased loans were recorded as gain (loss) on sale of loans. In 2004, losses from the subsequent sale of repurchased loans were \$77,000 and \$273,000 for the three and six months ended June 30, 2004 and are shown as an offset to provision for loan repurchases in the following table. Activity for the allowance for repurchases for the periods indicated was as follows:

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Beginning balance	\$ 5,897	\$ 948	\$ 2,183	\$ 2,327
Provision for loan repurchases	1,650	1,563	5,364	184
<b>Total allowance for repurchases</b>	<b>\$ 7,547</b>	<b>\$ 2,511</b>	<b>\$ 7,547</b>	<b>\$ 2,511</b>

**Note E CMO Collateral**

CMO collateral for the periods indicated consisted of the following:

	<b>At June 30, 2005</b>	<b>At December 31, 2004</b>
Mortgages secured by single-family residential real estate	\$ 22,853,017	\$ 20,428,144
Mortgages secured by multi-family residential real estate	815,078	604,934
Net premiums on mortgages	311,955	275,828
<b>Total CMO collateral</b>	<b>\$ 23,980,050</b>	<b>\$ 21,308,906</b>

**Note F Allowance for Loan Losses**

Activity for allowance for loan losses for the periods indicated was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
Beginning balance	\$ 66,789	\$ 46,299	\$ 63,955	\$ 38,596
Provision for loan losses	5,711	15,282	11,785	25,007
Charge-offs, net of recoveries	(2,674)	(1,332)	(5,914)	(3,354)
Total allowance for loan losses (1)	\$ 69,826	\$ 60,249	\$ 69,826	\$ 60,249

- (1) The three and six months ended June 30, 2004 include specific impairment on warehouse advances of \$6 million and \$8 million, respectively, that we have estimated will be non-collectible.

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

(unaudited)

**Note G Other Assets**

Other assets for the periods indicated consisted of the following:

	At June 30, 2005	At December 31, 2004
Derivative assets	\$ 159,906	\$ 103,290
Investment securities available-for-sale	52,988	25,427
Deferred tax charge	48,057	48,211
Real estate owned	29,477	18,277
Prepaid and other assets	20,225	35,423
Premises and equipment	10,755	9,092
Deferred income taxes	7,318	5,328
Investment in Impac Capital Trust	2,350	
Deferred compensation	6,674	4,189
<b>Total other assets</b>	<b>\$ 337,750</b>	<b>\$ 249,237</b>

**Note H CMO Borrowings**

Selected information on CMO borrowings for the periods indicated consisted of the following (dollars in millions):

Year of Issuance	Original Issuance Amount	CMOs Outstanding as of		Range of Fixed Interest Rates (%)	Range of Interest Rate Margins Over One-Month LIBOR (%)	Range of Interest Rate Margins After Adjustment Date (%) (1)(2)
		6/30/05	12/31/04			
2002	\$ 3,876.1	\$ 306.3	\$ 1,237.3	5.25 - 12.00	0.27 - 2.75	0.54 - 3.68
2003	5,966.1	2,654.0	3,615.8	4.34 - 12.75	0.27 - 3.00	0.54 - 4.50
2004	17,710.7	13,695.9	16,407.5	3.58 - 5.56	0.25 - 2.50	0.50 - 3.75
2005	7,137.5	6,944.9		N/A	0.26 - 2.90	0.52 - 4.35

Sub-total CMO borrowings	23,601.1
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