

REDWOOD TRUST INC
Form 10-Q
August 04, 2011

**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: June 30, 2011

OR

o **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
(State or Other Jurisdiction of
Incorporation or Organization)

68-0329422
(I.R.S. Employer
Identification No.)

One Belvedere Place, Suite 300
Mill Valley, California
(Address of Principal Executive Offices)

94941
(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 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 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 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

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

78,706,126 shares outstanding as of August 3, 2011

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**REDWOOD TRUST, INC.
2011 FORM 10-Q REPORT**

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CONSOLIDATED BALANCE SHEETS**

(In Thousands, Except Share Data) (Unaudited)	June 30, 2011	December 31, 2010
ASSETS		
Residential real estate loans	\$3,860,233	\$3,797,095
Commercial real estate loans	83,866	50,386
Real estate securities, at fair value:		
Trading securities	296,978	329,717
Available-for-sale securities	740,623	825,119
Total real estate securities	1,037,601	1,154,836
Other investments		
Cash and cash equivalents	79,977	46,937
Total earning assets	5,061,677	5,049,254
Restricted cash	35,673	24,524
Accrued interest receivable	13,690	13,782
Derivative assets	4,013	8,051
Deferred tax asset		3,487
Deferred securities issuance costs	6,472	5,928
Other assets	43,463	38,662
Total Assets ⁽¹⁾	\$5,164,988	\$5,143,688
LIABILITIES AND EQUITY		
Liabilities		
Short-term debt	\$40,891	\$44,137
Accrued interest payable	6,422	5,930
Derivative liabilities	82,639	83,115
Accrued expenses and other liabilities	9,954	14,305
Dividends payable	19,640	19,531
Asset-backed securities issued Sequoia	3,566,001	3,458,501
Asset-backed securities issued Acacia	273,325	303,077
Long-term debt	139,500	139,500
Total liabilities ⁽²⁾	4,138,372	4,068,096
Equity		
Common stock, par value \$0.01 per share, 125,000,000 shares authorized; 78,554,965 and 78,124,668 issued and outstanding	786	781
Additional paid-in capital	1,694,077	1,689,851
Accumulated other comprehensive income	80,621	112,339
Cumulative earnings	502,544	474,940
Cumulative distributions to stockholders	(1,253,518)	(1,213,158)

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Total stockholders equity	1,024,510	1,064,753
Noncontrolling interest	2,106	10,839
Total equity	1,026,616	1,075,592
Total Liabilities and Equity	\$5,164,988	\$5,143,688

Our consolidated balance sheets include assets of consolidated variable interest entities (VIEs) that can only be (1) used to settle obligations of these VIEs. At June 30, 2011 and December 31, 2010, these assets totaled \$4,005,933 and \$3,941,212, respectively.

Our consolidated balance sheets include liabilities of consolidated VIEs for which creditors do not have recourse to (2) the primary beneficiary (Redwood Trust, Inc.). At June 30, 2011 and December 31, 2010, these liabilities totaled \$3,912,958 and \$3,838,386, respectively.

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) (Unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Interest Income				
Residential real estate loans	\$18,904	\$15,746	\$37,372	\$30,235
Commercial real estate loans	1,800	269	3,025	573
Real estate securities	32,234	40,458	66,859	84,357
Other investments		4		13
Cash and cash equivalents	17	93	32	110
Total interest income	52,955	56,570	107,288	115,288
Interest Expense				
Short-term debt	(7	) (36	) (189	) (36
Asset-backed securities issued	(21,251	) (18,988	) (40,675	) (36,054
Long-term debt	(2,375	) (2,140	) (4,742	) (3,256
Total interest expense	(23,633	) (21,164	) (45,606	) (39,346
Net Interest Income	29,322	35,406	61,682	75,942
Provision for loan losses	(1,581	) (4,321	) (4,389	) (13,797
Market valuation adjustments	(9,681	) (2,909	) (12,799	) (12,200
Other-than-temporary impairments ⁽¹⁾	(1,466	) (4,216	) (4,088	) (6,162
Market valuation adjustments, net	(11,147	) (7,125	) (16,887	) (18,362
Net Interest Income After Provision and Market Valuation Adjustments	16,594	23,960	40,406	43,783
Operating expenses	(12,087	) (11,227	) (23,600	) (28,533
Realized gains on sales and calls, net	5,834	16,080	9,699	60,417
Net income before provision for income taxes	10,341	28,813	26,505	75,667
Provision for income taxes	(14	) (26	) (28	) (52
Net income	10,327	28,787	26,477	75,615
Less: Net income (loss) attributable to noncontrolling interest	888	186	(1,127	) 171
Net Income Attributable to Redwood Trust, Inc.	\$9,439	\$28,601	\$27,604	\$75,444
Basic earnings per common share	\$0.12	\$0.36	\$0.34	\$0.94
Diluted earnings per common share	\$0.11	\$0.35	\$0.34	\$0.94
Regular dividends declared per common share	\$0.25	\$0.25	\$0.50	\$0.50
Basic weighted average shares outstanding	78,324,057	77,800,642	78,176,767	77,739,279
Diluted weighted average shares outstanding	79,477,504	78,852,259	79,425,360	78,661,642

(1) For the three months ended June 30, 2011, other-than-temporary impairments were \$2,655, of which \$1,189 were recognized in Accumulated Other Comprehensive Income. For the three months ended June 30, 2010, other-than-temporary impairments were \$7,086, of which \$2,870 were recognized in Accumulated Other

Comprehensive Income.

For the six months ended June 30, 2011, other-than-temporary impairments were \$5,967, of which \$1,879 were recognized in Accumulated Other Comprehensive Income. For the six months ended June 30, 2010, other-than-temporary impairments were \$10,701, of which \$4,539 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 CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME

For the Six Months Ended June 30, 2011

(In Thousands, Except Share Data) (Unaudited)	Common Stock Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Noncontrolling Interest	Total	
December 31, 2010	78,124,668	\$781	\$1,689,851	\$112,339	\$474,940	\$(1,213,158)	\$10,839	\$1,075,592
Net income (loss)				27,604		(1,127)	26,477	
Net unrealized (loss) gain on available-for-sale securities				(34,683)		4,164	(30,519)	
Reclassification of other-than-temporary impairments to net income				2,349			2,349	
Net unrealized loss on interest rate agreements				(1,528)			(1,528)	
Reclassification of unrealized loss on interest rate agreements to net income				2,144			2,144	
Total other comprehensive loss				(31,718)				
Total comprehensive loss							(1,077)	
Issuance of common stock:								
Dividend reinvestment & stock purchase plans	158,028	2	2,349				2,351	
Employee stock purchase and incentive plans	272,269	3	(2,929)				(2,926)	
Non-cash equity award compensation			4,806				4,806	
Distributions to noncontrolling interest, net						(11,770)	(11,770)	
Common dividends declared					(40,360)		(40,360)	
June 30, 2011	78,554,965	\$786	\$1,694,077	\$80,621	\$502,544	\$(1,253,518)	\$2,106	\$1,026,616

For the Six Months Ended June 30, 2010