

REDWOOD TRUST INC
Form 10-Q
November 04, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended: September 30, 2005
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)

Indicate by check mark whether the Registrant (1) has filed all documents and 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 a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant is an accelerated filer (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 stock, as of the last practicable date.

Common Stock (\$0.01 par value per share)

24,825,475 as of November 3, 2005

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CONSOLIDATED BALANCE SHEETS****September 30,
2005****December 31, 2004****(In thousands, except share data)
(Unaudited)**

ASSETS			
Residential real estate loans	\$	16,341,180	\$ 22,208,417
Residential home equity lines of credit		215,137	296,348
Residential loan credit-enhancement securities		664,801	561,658
Commercial real estate loans		56,102	54,479
Commercial loan credit-enhancement securities		43,540	14,498
Securities portfolio		1,783,429	1,380,077
Cash and cash equivalents		163,160	57,246
Total Earning Assets		19,267,349	24,572,723
Restricted cash		58,796	36,038
Accrued interest receivable		79,958	72,459
Interest rate agreements		25,422	16,144
Principal receivable		1,529	2,653
Deferred tax asset		7,679	10,572
Deferred asset-backed security issuance costs		56,391	60,993
Other assets		8,850	6,483
Total Assets	\$	19,505,974	\$ 24,778,065

LIABILITIES AND STOCKHOLDERS EQUITY

LIABILITIES			
Redwood debt	\$	161,739	\$ 203,281
Asset-backed securities issued		18,237,792	23,630,162
Accrued interest payable		42,205	35,064
Interest rate agreements		356	1,124
Accrued expenses and other liabilities		30,482	28,095
Dividends payable		17,335	16,183
Total Liabilities		18,489,909	23,913,909

Commitments and contingencies (Note 11)

STOCKHOLDERS EQUITY			
Common stock, par value \$0.01 per share, 50,000,000 shares authorized; 24,764,404 and 24,153,576 issued and outstanding		248	242
Additional paid-in capital		808,107	773,222

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Accumulated other comprehensive income	117,043	105,357
Cumulative earnings	638,983	481,607
Cumulative distributions to stockholders	(548,316)	(496,272)
Total Stockholders Equity	1,016,065	864,156
Total Liabilities and Stockholders Equity	\$ 19,505,974	\$ 24,778,065

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
(In thousands, except share data)				
(Unaudited)				
Interest Income				
Residential real estate loans	\$ 190,599	\$ 149,238	\$ 589,032	\$ 361,688
Residential home equity lines of credit	2,206	1,882	7,101	2,685
Residential loan credit-enhancement securities	24,368	16,007	63,431	47,617
Commercial real estate loans	1,209	1,038	3,819	2,607
Commercial loan credit-enhancement securities	453	346	1,690	442
Securities portfolio	22,926	12,932	60,356	32,992
Cash and cash equivalents	990	175	2,374	414
Interest income before provision for credit losses	242,751	181,618	727,803	448,445
Reversal of (provision for) credit losses	805	(1,528)	1,307	(5,539)
Total interest income	243,556	180,090	729,110	442,906
Interest Expense				
Redwood debt	(3,845)	(2,312)	(8,398)	(7,373)
Asset-backed securities issued	(192,841)	(112,499)	(559,435)	(277,374)
Total interest expense	(196,686)	(114,811)	(567,833)	(284,747)
Net Interest Income	46,870	65,279	161,277	158,159
Operating expenses	(11,194)	(8,561)	(33,450)	(27,048)
Net recognized gains and valuation adjustments	24,916	20,586	42,973	50,281
Net income before provision for income taxes	60,592	77,304	170,800	181,392
Provision for income taxes	(4,693)	(4,962)	(13,424)	(3,171)
Net Income	\$ 55,899	\$ 72,342	\$ 157,376	\$ 178,221
Basic Earnings Per Share:	\$ 2.26	\$ 3.30	\$ 6.41	\$ 8.62
Diluted Earnings Per Share:	\$ 2.21	\$ 3.18	\$ 6.26	\$ 8.29
Regular dividends declared per common share	\$ 0.70	\$ 0.67	\$ 2.10	\$ 2.01
Special dividends declared per common share				0.50

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Total dividends declared per common share	\$	0.70	\$	0.67	\$	2.10	\$	2.51
Basic weighted average shares outstanding		24,712,536		21,952,606		24,554,475		20,674,396
Diluted weighted average shares outstanding		25,314,315		22,728,369		25,159,619		21,486,208

The accompanying notes are an integral part of these consolidated financial statements.

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REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
(In thousands)				
(Unaudited)				
Net income	\$ 55,899	\$ 72,342	\$ 157,376	\$ 178,221
Other comprehensive income:				
Net unrealized gains on available-for-sale securities (AFS)	(16,200)	14,562	34,578	44,244
Reclassification adjustment for net (gains) included in net income	(18,137)	(15,198)	(31,100)	(36,026)
Net unrealized gains (losses) on cash flow hedges	13,891	(13,772)	7,901	5,768
Reclassification of net realized cash flow hedge losses (gains) to interest expense on asset-backed securities issued	109	(361)	307	287
Total other comprehensive income	(20,337)	(14,769)	11,686	14,273
Comprehensive Income	\$ 35,562	\$ 57,573	\$ 169,062	\$ 192,494

The accompanying notes are an integral part of these consolidated financial statements.

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**REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

For the Nine Months Ended September 30, 2005:

(In thousands, except share data) (Unaudited)	Common Stock		Additional	Other	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
	Shares	Amount	Paid-In Capital	Comprehensive Income			
December 31, 2004	24,153,576	\$ 242	\$ 773,222	\$ 105,357	\$ 481,607	\$ (496,272)	\$ 864,156
Comprehensive income:							
Net income					157,376		157,376
Net unrealized gain on assets AFS				3,478			3,478
Net unrealized (loss) on interest rate agreements				8,208			8,208
Total comprehensive income							169,062
Issuance of common stock:							
Secondary Offerings							
Dividend Reinvestment & Stock Purchase Plans	582,250	5	31,294				31,299
Employee Option & Stock Plans	19,969	1	1,459				1,460
Restricted Stock & Stock DERs	8,609		2,132				2,132
Dividends declared:							
Common						(52,044)	(52,044)
September 30, 2005	24,764,404	\$ 248	\$ 808,107	\$ 117,043	\$ 638,983	\$ (548,316)	\$ 1,016,065

For the Nine Months Ended September 30, 2004:

	Common Stock	Additional	Other	Cumulative	Cumulative	Cumulative
		Paid-In	Comprehensive	Earnings	Distributions	to

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	Shares	Amount	Capital	Income	Earnings	Stockholders	Total
December 31, 2003	19,062,983	\$ 191	\$ 517,826	\$ 82,179	\$ 248,972	\$ (295,840)	\$ 553,328
Comprehensive income:							
Net income					178,221		178,221
Net unrealized gain on assets AFS				8,218			8,218
Net unrealized gain on interest rate agreements				6,055			6,055
Total comprehensive income							192,494
Issuance of common stock:							
Secondary Offerings	2,350,000	24	116,596				116,620
Dividend Reinvestment & Stock Purchase Plans	1,545,840	15	81,512				81,527
Employee Option & Stock Plans	278,895	3	4,048				4,051
Restricted Stock & Stock DERs	107,978		7,162				7,162
Dividends d							