IMPAC MORTGAGE HOLDINGS INC
Form 10-Q
August 14, 2007

UNITED STATES

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, 2007 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: 1-14100

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.)

19500 Jamboree Road, Irvine, California 92612

(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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes o No x

There were 76,083,865 shares of common stock outstanding as of August 14, 2007.

IMPAC MORTGAGE HOLDINGS, INC.

FORM 10-Q QUARTERLY REPORT

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollar amounts in thousands, except share data)

	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 113,180	$ 179,677
Restricted cash	6,598	617
Securitized mortgage collateral	20,388,616	21,050,829
Finance receivables	132,985	306,294
Mortgages held-for-investment	4,319	1,880
Allowance for loan losses	(220,944)	(91,775)
Mortgages held-for-sale	1,362,204	1,561,919
Accrued interest receivable	115,540	115,054
Derivative assets	145,505	147,291
Real estate owned, net	352,935	161,538
Other assets	162,647	165,631
Total assets	$ 22,563,585	$ 23,598,955
LIABILITIES		
Securitized mortgage borrowings	$ 20,075,004	$ 20,526,369
Reverse repurchase agreements	1,575,314	1,880,395
Trust preferred securities	98,052	97,661
Other liabilities	112,953	85,000
Total liabilities	21,861,323	22,589,425
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Series-A junior participating preferred stock, $0.01 par value; 2,500,000 shares authorized; none issued and outstanding as of June 30, 2007 and December 31, 2006, respectively		
Series-B 9.375% cumulative redeemable preferred stock, $0.01 par value; liquidation value $50,000; 2,000,000 shares authorized, 2,000,000 shares issued and outstanding as of June 30, 2007 and December 31, 2006, respectively	20	20
Series-C 9.125% cumulative redeemable preferred stock, $0.01 par value; liquidation value $111,765; 5,500,000 shares authorized; 4,470,600 and 4,444,000 shares outstanding as of June 30, 2007 and December 31, 2006, respectively	45	44
Common stock, $0.01 par value; 200,000,000 shares authorized; 76,083,865 shares issued and outstanding as of June 30, 2007 and December 31, 2006	761	761
Additional paid-in capital	1,173,027	1,170,872
Accumulated other comprehensive income	1,235	2,357
Net accumulated deficit:		
Cumulative dividends declared	(796,469)	(762,382)
Retained earnings	323,643	597,858
Net accumulated deficit	(472,826)	(164,524)
Total stockholders equity	702,262	1,009,530
Total liabilities and stockholders equity	$ 22,563,585	$ 23,598,955

See accompanying notes to consolidated financial statements.

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE EARNINGS (LOSS)

(in thousands, except per share data)

(unaudited)

	For the Three Months Ended June 30, 2007	2006	For the Six Months Ended June 30, 2007	2006
INTEREST INCOME:				
Mortgage assets	$ 334,694	$ 311,263	$ 675,465	$ 644,639
Other	2,316	2,496	4,366	4,325
Total interest income	337,010	313,759	679,831	648,964
INTEREST EXPENSE:				
Securitized mortgage borrowings	304,551	302,744	597,928	598,219
Reverse repurchase agreements	17,236	23,456	50,973	49,329
Other borrowings	2,240	2,306	4,492	4,688
Total interest expense	324,027	328,506	653,393	652,236
Net interest income (expense)	12,983	(14,747)	26,438	(3,272)
Provision for loan losses	162,981	(45)	192,355	105
Net interest expense after provision for loan losses	(149,998)	(14,702)	(165,917)	(3,377)
NON-INTEREST INCOME:				
Change in fair value of derivative instruments	56,900	11,504	(1,861)	62,933
Realized gain from derivative instruments	38,640	55,868	76,099	96,004
Gain (loss) on sale of loans	2,406	16,548	(6,725)	30,741
Amortization of mortgage servicing rights	(206)	(381)	(416)	(732)
(Loss) gain on sale of other real estate owned	(1,060)	621	(215)	976
Loss on lower of cost or market writedown	(10,180)	(18,780)	(34,874)	(15,283)
Goodwill impairment	(12,360)		(12,360)	
Provision for REO losses	(18,421)		(28,311)	
Provision for repurchases	(18,889)	(12,773)	(30,718)	(23,110)
Other income (expense)	(314)	9,581	5,334	18,403
Total non-interest income (expense)	36,516	62,188	(34,047)	169,932
NON-INTEREST EXPENSE:				
Personnel expense	23,640	16,710	42,028	35,331
General and administrative and other expense	4,487	4,524	9,609	9,600
Professional services	2,137	2,192	4,831	4,509
Equipment expense	1,550	1,809	3,108	3,319
Occupancy expense	2,846	1,244	6,667	2,612
Data processing expense	1,185	744	2,922	2,110
Total non-interest expense	35,845	27,223	69,165	57,481
Net (loss) earnings before income taxes	(149,327)	20,263	(269,129)	109,074
Income tax expense (benefit)	3,220	(6,093)	5,086	(2,848)
Net (loss) earnings	(152,547)	26,356	(274,215)	111,922
Cash dividends on cumulative redeemable preferred stock	(3,722)	(3,672)	(7,443)	(7,344)
Net (loss) earnings available to common stockholders	$ (156,269)	$ 22,684	$ (281,658)	$ 104,578

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE EARNINGS (LOSS) - (continued)

(in thousands, except per share data)

(unaudited)

	For the Three Months Ended June 30, 2007	2006	For the Six Months Ended June 30, 2007	2006
Net (loss) earnings	$ (152,547)	$ 26,356	$ (274,215)	$ 111,922
Net unrealized gains (losses) on securities:				
Unrealized holding losses arising during year	(1,656)	(991)	(2,718)	(1,778)
Reclassification of losses included in net earnings	1,596	(55)	1,596	143
Net unrealized losses	(60)	(1,046)	(1,122)	(1,635)
Comprehensive (loss) earnings	$ (152,607)	$ 25,310	$ (275,337)	$ 110,287
Net (loss) earnings per share:				
Basic	$ (2.05)	$ 0.30	$ (3.70)	$ 1.37
Diluted	$ (2.05)	$ 0.30	$ (3.70)	$ 1.37
Dividends declared per common share	$	$ 0.25	$ 0.10	$ 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 Six Months Ended June 30, 2007	2006 restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) earnings	$ (274,215)	$ 111,922
Adjustments to reconcile net earnings to net cash used in operating activities:		
Provision for loan losses	192,355	105
Provision for REO losses	28,311	
Amortization of deferred charge, net	9,069	11,011
Amortization of premiums, securitization costs and debt issuance costs	85,422	126,952
(Gain) loss on sale of other real estate owned	215	(976)
(Gain) loss on sale of loans	6,725	(30,741)
Provision for repurchases	30,718	23,110
Loss on lower of cost or market writedown	34,874	15,283
Change in fair value of derivative instruments	1,861	(62,933)
Purchase of mortgages held-for-sale	(4,229,695)	(4,915,058)
Sale and principal reductions on mortgages held-for-sale	1,145,966	5,084,020
Net change in deferred taxes	20,060	84
Stock-based compensation	1,639	1,332
Depreciation and amortization	2,930	2,998
Goodwill impairment	12,360	
Amortization and impairment of mortgage servicing rights	416	732
Net change in accrued interest (receivable) payable	(486)	20,571
Net change in restricted cash	(5,981)	37
Net change in other assets and liabilities	(61,338)	3,493
Net cash (used in) provided by operating activities	(2,998,794)	391,942
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	3,491,323	4,608,289
Finance receivable advances to customers	(1,954,790)	(2,180,281)
Repayments of finance receivables	2,128,099	2,238,212
Purchase of premises and equipment	(9,202)	(3,932)
Net change in mortgages held-for-investment	(3,229)	38,230
Sale of investment securities available-for-sale		35,146
Distribution of deferred compensation plan benefits		8,041
Net principal reductions on investment securities available-for-sale	6,417	(28,787)
Proceeds from the sale of other real estate owned	80,822	38,134
Net cash provided by investing activities	3,739,440	4,753,052
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash disbursements under reverse repurchase agreements	(6,687,335)	(9,419,575)
Cash receipts from reverse repurchase agreements	6,382,254	8,267,985
Proceeds from securitized mortgage borrowings	3,858,143	919,769
Repayment of securitized mortgage borrowings	(4,323,044)	(4,837,825)
Common stock dividends paid	(30,326)	(34,253)
Preferred stock dividends paid	(7,443)	(7,344)
Proceeds from sale of cumulative redeemable preferred stock	608	272
Net cash used in financing activities	(807,143)	(5,110,971)
Net change in cash and cash equivalents	(66,497)	34,023

Cash and cash equivalents at beginning of period	179,677	146,621
Cash and cash equivalents at end of period	$ 113,180	$ 180,644

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Six Months Ended June 30, 2007	2006 restated
SUPPLEMENTARY INFORMATION:		
Interest paid	$ 651,736	$ 517,438
Taxes paid	116	45
NON-CASH TRANSACTIONS:		
Accumulated other comprehensive loss	$ (1,122)	$ (1,635)
Dividends declared but unpaid		19,028
Transfer of mortgages to other real estate owned	20,872	2,575
Transfer of securitized mortgage collateral to other real estate owned	255,051	68,300
Transfer of loans held-for-sale to securitized mortgage collateral	3,245,500	694,336
Transfer of loans held-for-investment to securitized mortgage collateral		225,764
Transfer of securitized mortgage collateral to loans held-for-sale	27,040	

See accompanying notes to consolidated financial statements.

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note A Summary of Business and Significant Accounting Policies

1. Business Summary and Financial Statement Presentation

Market Conditions

During the second quarter, the secondary and securitization mortgage markets have deteriorated, become more unpredictable and volatile, making it more difficult to sell loans and securities to investors. In addition, because housing prices have declined, default and credit losses have increased; investors are requiring higher returns, reducing the price of mortgage loans. As a result, the loans have not performed up to expectations and the fair value of mortgage loans has deteriorated.

In light of the continued and widely publicized volatility in the secondary and securitization markets, the Company suspended funding on loans previously referred to as Alt-A loans in August 2007 and currently do not have any plans to originate these types of loans in the near future. At this point, the Company is only funding loans that are eligible to be sold to government sponsored agencies.

Business Summary

Impac Mortgage Holdings, Inc. (the Company or IMH), is a Maryland corporation incorporated in August 1995, and has the following subsidiaries, IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG), and Impac Funding Corporation (IFC), together with its wholly-owned subsidiaries Impac Secured Assets Corp. (ISAC), and Impac Commercial Capital Corporation (ICCC).

The Company is a mortgage real estate investment trust, or REIT, that is a nationwide acquirer, originator, seller and investor of non-conforming Alt-A residential mortgages, or Alt-A mortgages, and to a lesser extent, small-balance, commercial and multi-family mortgages, or commercial mortgages. We also provide warehouse financing to originators of mortgages.

During the six months ended June 30, 2007, the Company operated four core businesses:

- the Long-Term Investment operations conducted by IMH and IMH Assets;
- the Mortgage Operations conducted by IFC and ISAC;
- the Commercial Operations conducted by ICCC; and
- the Warehouse Lending Operations conducted by IWLG.

The long-term investment operations and the warehouse lending operations are conducted by IMH and IWLG at the REIT. The mortgage operations and commercial operations, which are each a taxable REIT subsidiary (TRS), are conducted by IFC and ICCC, respectively.

The long-term investment operations generate earnings primarily from net interest income earned on mortgages held as securitized mortgage collateral and mortgages held-for-investment collectively (long-term mortgage portfolio) and associated hedging derivative cash flows. The long-term mortgage portfolio as reported on the Company s consolidated balance sheet consists of mortgages held as securitized mortgage collateral and mortgages held-for-investment. Investments in Alt-A mortgages and commercial mortgages are initially financed with short-term borrowings supported by reverse repurchase agreements that are subsequently converted to long-term financing in the form of collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs). Cash flows from the long-term mortgage portfolio, proceeds from the prior sale of capital stock and the issuance of trust preferred securities also finance the acquisitions of new residential and commercial mortgages.

The mortgage operations acquire, originate, sell and securitize primarily Alt-A adjustable rate mortgages (ARMs) and fixed rate mortgages (FRMs) from correspondents, mortgage brokers and retail customers. The Company also originates prime and agency loans (Fannie Mae, Freddie Mac, FHA, VA). Correspondents originate and close mortgages under our mortgage programs and then sell the closed mortgages to the mortgage operations 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 generate income by securitizing and selling mortgages to permanent investors, including the long-term investment operations. These operations also earn revenue from fees associated with master servicing rights 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 commercial operations originate commercial mortgages, that are primarily adjustable rate mortgages with initial fixed interest rate periods of three-, five-, seven- and ten-years that subsequently convert to adjustable rate mortgages, or hybrid ARMs, with balances that generally range from $500,000 to $5.0 million or by additional underwriting exceptions up to $10 million. Commercial mortgages have an interest rate floor, which is the initial start rate; in some circumstances have lock out periods, and prepayment penalty periods of three-, five-, seven- and ten-years. These mortgages provide greater asset diversification on our balance sheet as commercial mortgage borrowers typically have higher credit scores, typically have lower loan-to-value ratios, or LTV ratios, and the mortgages have longer average lives than residential mortgages.

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The warehouse lending operations provide short-term financing to mortgage loan originators, including the mortgage and commercial operations, by funding mortgages from their closing 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, both of which are tied to the one-month London Inter-Bank Offered Rate (LIBOR) rate.

Financial Statement Presentation

The accompanying unaudited consolidated financial statements of IMH and our subsidiaries (as defined above) have been prepared in accordance with 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 generally accepted accounting principles (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, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

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. The ownership interest in consolidated subsidiaries from non-controlling shareholders is reflected as minority interest.

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. The items affected by management s estimates and assumptions include allowance for loan losses, valuation of derivative financial instruments, net realizable value of real estate owned (REO), 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.

Asset Purchase and related impairment

In May 2007, the Company completed the acquisition of certain production facilities from Pinnacle Financial Corporation (PFC), which is primarily located in the East Coast of the United States. The PFC retail platform originates prime and agency loans. This transaction was recorded as a business combination for accounting purposes resulting in the Company initially recording $12.4 million in goodwill. Because of the current market environment, the goodwill was impaired and the Company has recorded an impairment charge for the full amount.

2. Restated Consolidated Cash Flows for 2006 Interim Periods and Reclassifications

Certain interim amounts in the 2006 Consolidated Statement of Cash Flows have been restated to reflect properly the specific intercompany activities related to cash receipts from loan sales and cash disbursements for loan purchases between consolidated companies. Such intercompany loan sale and purchase transaction activities had the effect of presenting separate cash inflows and outflows even though there was no cash inflow or outflow on a consolidated basis. This restatement serves to eliminate this intercompany activity from its Consolidated Statements of Cash Flows and present them as non-cash transactions.

The restatement increases cash used in operating activities and increases cash provided by investing activities. The restatement of these transactions does not change total cash and cash equivalents as previously reported. Furthermore, the restatement has no effect on the Company s Consolidated Statements of Operations and Comprehensive Earnings, or Consolidated Balance Sheets.

The Company has reclassified the presentation of the Consolidated Statement of Operations and Comprehensive Earnings (Loss) to reflect Amortization of mortgage servicing rights, Write-down on investment securities available-for-sale, and Loss (gain) on sale of other real estate owned as other non-interest income rather than non-interest expense, for the second quarter of 2006 to conform to the current period presentation. In addition, the Amortization of deferred charge for 2006 was reclassified as income tax expense (benefit) rather than non-interest expense.

Please refer to the Company s Form 10-K for the year ended December 31, 2006, for more information regarding these reclassifications.

3. Stock Options

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, (SFAS 123R). This Statement requires companies to expense the estimated fair value of stock options and similar equity instruments issued to employees over the requisite service period. SFAS 123R eliminates the alternative to use the intrinsic method of accounting provided for in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), which generally resulted in no compensation expense recorded in the financial statements related to the grant of stock options to employees if certain conditions were met.

Effective for the first quarter of fiscal 2006, we adopted SFAS 123R using the modified prospective method, which required us to record compensation expense for all awards granted after the date of adoption, and for the unvested portion of previously granted awards that remained outstanding at the date of adoption.

We continue using both the Black-Scholes-Merton option-pricing formula and straight-line amortization of compensation expense over the requisite service period of the grant. We will reconsider use of the Black-Scholes-Merton model if additional information becomes available in the future that indicates another model would be more appropriate for the Company, or if grants issued in future periods have characteristics that cannot be reasonably estimated using this model.

The following table presents a summary of option activity for the six months ended June 30, 2007, under the Company s stock option plans:

	Number of Shares
Options outstanding at December 31, 2006	7,048,755
Options granted	
Options exercised	
Options forfeited / cancelled	(361,168)
Options outstanding at June 30, 2007	6,687,587

4. Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), which provides reporting entities an option to report selected financial assets, including investment securities designated as available for sale, and liabilities, including most insurance contracts, at fair value. SFAS No. 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The standard also requires additional information to aid financial statement users understanding of a reporting entity s choice to use fair value on its earnings and also requires entities to display on the face of the balance sheet the fair value of those assets and liabilities which the reporting entity has chosen to measure at fair value. SFAS No. 159 is effective as of the beginning of a reporting entity s first fiscal year beginning after November 15, 2007. The Company is currently assessing the effect that SFAS 159 will have on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently assessing the effect that SFAS 157 will have on the consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* (FIN 48) which expands on the accounting guidance of FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this interpretation by the Company has not had a significant effect on the consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140* (SFAS 156). This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. This statement also requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. An entity should adopt this statement as of the beginning of its first fiscal year that begins after September 15, 2006. The adoption of this statement has not had a material effect on the consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and SFAS No. 140* (SFAS 155). This statement permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It also clarifies which interest-only strips and principal-only strips are not subject to FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The adoption of this statement has not had a material effect on the consolidated financial statements.

5. Legal Proceedings

The Company is party to litigation and claims which are normal in the course of our operations. While the results of such litigation and claims cannot be predicted with certainty, the Company believes the final outcome of such matters will not have a material adverse effect on our financial condition or results of operations.

The Company's 2006 10-K reported shareholder derivative actions filed against the Company and its senior officers and directors in the U.S. District Court, Central District of California and Orange County Superior Court. In 2007, the Company entered into an agreement to settle the currently pending federal and state derivative actions against the Company and its senior officers and directors. Under the proposed settlement, all claims asserted against the officers and directors named as defendants in those actions will be dismissed with prejudice with no admission of wrongdoing on the part of any defendant and the Company will agree to certain corporate governance practices. In addition, the proposed settlement will provide for an aggregate cash payment of up to $300,000 in attorney's fees subject to plaintiff's application to and approval by the court, which will be paid entirely by the Company's insurance carriers and will have no effect on the financial position of the Company. The settlement was executed and approved by the court on June 19, 2007. Subsequent to that, an objecting stockholder filed an appeal and, as such, the settlement is not final until the appeal is resolved.

Note B Reconciliation of Earnings Per Share

The following table presents the computation of basic and diluted net earnings 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, 2007	2006	For the Six Months Ended June 30, 2007	2006
Numerator for basic earnings per share:				
Net (loss) earnings	$ (152,547)	$ 26,356	$ (274,215)	$ 111,922
Less: Cash dividends on cumulative redeemable preferred stock	(3,722)	(3,672)	(7,443)	(7,344)
Net (loss) earnings available to common stockholders	$ (156,269)	$ 22,684	$ (281,658)	$ 104,578
Denominator for basic earnings per share:				
Basic weighted average number of common shares outstanding during the period	76,084	76,113	76,084	76,113
Denominator for diluted earnings per share:				
Diluted weighted average number of common shares outstanding during the period	76,084	76,113	76,084	76,113
Net effect of dilutive stock options		307		288
Diluted weighted average common shares	76,084	76,420	76,084	76,401
Net (loss) earnings per share:				
Basic	$ (2.05)	$ 0.30	$ (3.70)	$ 1.37
Diluted	$ (2.05)	$ 0.30	$ (3.70)	$ 1.37

For the three and six month periods ended June 30, 2007, stock options to purchase 6.7 million shares were outstanding but not included in the above weighted average calculations because they were anti-dilutive.

For the three and six month periods ended June 30, 2006, stock options to purchase 4.1 million and 4.3 million shares, respectively, were outstanding but not included in the above weighted average calculations because they were anti-dilutive.

Note C Segment Reporting

The following tables present reporting segments for the three and six month periods ended June 30, 2007 and 2006:

	Reporting Segments as of and for the Three Months Ended June 30, 2007					
	Long-Term Investment Operations	Warehouse Lending Operations	Mortgage Operations (IFC)	Commercial Operations	Inter-Company (1)	Consolidated
Income Statement Items:						
Net interest (expense) income	$ (975)	$ 3,727	$ (1,851)	$ (68)	$ 12,150	$ 12,983
Provision (benefit) for loan losses	161,594	2,630	(1,243)			162,981
Realized gain from derivative instruments	38,401		115	124		38,640
Change in fair value of derivative instruments	53,269		742	2,889		56,900
Other non-interest (expense) income	(24,119)	474	(25,429)	(233)	(9,717)	(59,024)
Non-interest expense and income taxes	4,765	2,248	24,108	2,975	4,969	39,065
Net (loss) earnings	$ (99,783)	$ (677)	$ (49,288)	$ (263)	$ (2,536)	$ (152,547)

	Reporting Segments as of and for the Six Months Ended June 30, 2007					
	Long-Term Investment Operations	Warehouse Lending Operations	Mortgage Operations (IFC)	Commercial Operations	Inter-Company (1)	Consolidated
Balance Sheet Items:						
Securitized mortgage collateral and mortgages held-for-investment	$ 20,445,335	$	$ 81,866	$	$ (134,266)	$ 20,392,935
Mortgages held-for-sale	26,380		1,038,363	297,461		1,362,204
Finance receivables		1,402,314			(1,269,329)	132,985
Allowance for loan losses	(214,734)	(4,989)	(1,221)			(220,944)
Total assets	20,905,985	1,613,337	1,218,994	307,943	(1,482,674)	22,563,585
Total stockholders equity	631,870	255,681	(6,650)	10,179	(188,818)	702,262
Income Statement Items:						
Net interest (expense) income	$ (2,602)	$ 12,178	$ (6,183)	$ (383)	$ 23,428	$ 26,438
Provision (benefit) for loan losses	190,444	2,343	(432)			192,355
Realized gain from derivative instruments	75,026		854	219		76,099
Change in fair value of derivative instruments	(1,354)		(1,808)	1,301		(1,861)
Other non-interest (expense) income	(34,106)	1,214	(51,590)	(269)	(23,534)	(108,285)
Non-interest expense and income taxes	9,963	4,542	45,139	5,651	8,956	74,251
Net (loss) earnings	$ (163,443)	$ 6,507	$ (103,434)	$ (4,783)	$ (9,062)	$ (274,215)

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(1) Corporate overhead expenses are allocated to the segments based on the percentage of time devoted to the segment, headcount, loan production, or other relevant measures. Income statement items include inter-company loan

sale transactions and the elimination of related gains or losses. Balance sheet items include inter-company warehouse borrowings and the elimination of related interest income and interest expense.

	Reporting Segments as of and for the Three Months Ended June 30, 2006					
	Long Term Investment Operations	Warehouse Lending Operations	Mortgage Operations (IFC)	Commercial Operations	Inter Company (1)	Consolidated
Income Statement Items:						
Net interest (expense) income	$ (35,226)	$ 6,879	$ (2,664)	$ 56	$ 16,208	$ (14,747)
Provision for loan losses	(45)					(45)
Realized gain from derivative instruments	55,851		4	13		55,868
Change in fair value of derivative instruments	7,903		629	(1,058)	4,030	11,504
Other non-nterest income	272	751	(5,265)	2,064	(3,006)	(5,184)
Non-nterest expense and income taxes	4,470	1,627	8,787	2,696	3,550	21,130
Net earnings (loss)	$ 24,375	$ 6,003	$ (16,083)	$ (1,621)	$ 13,682	$ 26,356

	Reporting Segments as of and for the Six Months Ended June 30, 2006					
	Long-Term Investment Operations	Warehouse Lending Operations	Mortgage Operations (IFC)	Commercial Operations	Inter Company (1)	Consolidated
Balance Sheet Items:						
Securitized mortgage collateral and mortgages held-or-nvestment	$ 20,623,573	$	$	$	$ (106,358)	$ 20,517,215
Mortgages held-or-ale			1,076,090	127,133		1,203,223
Finance receivables		1,388,282			(1,095,996)	292,286
Allowance for loan losses	(57,389)	(10,683)				(68,072)
Total assets	20,974,306	1,484,173	1,123,951	126,699	(961,581)	22,747,548
Total stockholders equity	1,034,678	231,058	83,658	240	(131,448)	1,218,186
Income Statement Items:						
Net interest (expense) income	$ (47,314)	$ 14,570	$ (1,386)	$ 190	$ 30,668	$ (3,272)
Provision for loan losses	105					105
Realized gain from derivative instruments	95,986		4	14		96,004
Change in fair value of derivative instruments	54,866		4,254	(217)	4,030	62,933
Other non-nterest income	362	1,548	14,089	3,102	(8,106)	10,995
Non-nterest expense and income taxes	8,862	3,501	30,792	5,106	6,372	54,633
Net earnings (loss)	$ 94,933	$ 12,617	$ (13,831)	$ (2,017)	$ 20,220	$ 111,922

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(1) Corporate overhead expenses are allocated to the segments based on the percentage of time devoted to the segment, headcount, loan production, or other relevant measures. Income statement items include inter-company loan sale transactions and the elimination of related gains or losses. Balance sheet items include inter-company warehouse borrowings and the elimination of related interest income and interest expense.

Note D Mortgages Held-for-Sale

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

	At June 30, 2007	At December 31, 2006
Mortgages held-for-sale - residential	$ 1,102,773	$ 1,381,264
Mortgages held-for-sale - commercial	294,815	177,619
Net (discount) premiums on mortgages held-for-sale - residential (1)	(3,526)	18,024
Net premiums on mortgages held-for-sale - commercial	1,670	857
Change in fair value of residential mortgages held-for-sale	(38,155)	(18,717)
Net deferred costs	4,627	2,872
Total mortgages held-for-sale	$ 1,362,204	$ 1,561,919

(1) Included in the net premiums (discount) for 2007 is $4.7 million of discount applied to specific loans that were repurchased during the second quarter of 2007. Also the Company recorded a $2.8 million discount on loans that were transferred to loans held-for-sale, from securitized mortgage collateral.

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Mortgage loans held-for-sale are recorded at the lower of cost or market determined on an aggregate basis. The change in fair value of the loans held-for-sale is recorded as an increase or decrease to non-interest income.

During the second quarter of 2007, the Company recorded a charge to earnings for the change in fair value of loans held-for-sale primarily due to loans deemed to be unsaleable at standard sale premiums included in loans held-for-sale of $66.8 million as compared to $66.2 million at year end, and the reduction in market prices of performing and non-performing loans during the second quarter of 2007.

Note E Securitized Mortgage Collateral

Securitized mortgage collateral for the periods indicated consisted of the following:

	At June 30, 2007	At December 31, 2006
Mortgages secured by single-family residential real estate	$ 18,181,875	$ 18,967,431
Mortgages secured by commercial real estate	1,852,213	1,713,737
Net unamortized premiums on mortgages - residential	307,065	337,196
Net unamortized premiums on mortgages - commercial	47,463	32,465
Total securitized mortgage collateral	$ 20,388,616	$ 21,050,829

Securitized mortgage collateral includes our CMOs and REMICs. The Company s exposure to losses from consolidated securitizations is limited to the carrying value of the collateral in excess of the carrying value of the debt, which is non recourse to the Company in each of its securitizations.

Note F Allowance for Loan Losses

The allowance for loan losses for the periods indicated consisted of the following:

	At June 30, 2007	At December 31, 2006
Securitized mortgage collateral and held-for-investment - Residential	$ 198,434	$ 64,020
Specific other residential reserves	6,799	9,184
Securitized mortgage collateral and held-for-investment - Commercial	10,722	7,973
Specific reserve for finance receivables	4,989	10,598
Allowance for loan losses	$ 220,944	$ 91,775

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

	For Three Months Ended June 30, 2007	2006	For Six Months Ended June 30, 2007	2006
Beginning balance	$ 102,838	$ 74,258	$ 91,775	$ 78,514
Provision for loan losses	162,981	(45)	192,355	105
Charge-offs, net of recoveries	(44,875)	(6,141)	(63,186)	(10,547)
Allowance for loan losses	$ 220,944	$ 68,072	$ 220,944	$ 68,072

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Note G Other Assets

Other assets for the periods indicated consisted of the following:

	At June 30, 2007	At December 31, 2006
Deferred charge	$ 43,316	$ 52,272
Investment securities available-for-sale	24,098	31,628
Prepaid and other assets	57,318	24,395
Cash margin balances	13,593	19,112
Premises and equipment, net	21,789	15,526
Deferred income taxes		20,060
Investment in Impac Capital Trusts	2,533	2,638
Total other assets	$ 162,647	$ 165,631

At June, 30, 2007, $4.9 million of investment securities available-for-sale were considered to be other than temporarily impaired (OTTI) and was charged off primarily due to expected credit losses.

In May 2007, the Company completed the acquisition of certain production facilities from Pinnacle Financial Corporation (PFC). This transaction was recorded as a business combination for accounting purposes resulting in the Company initially recording $12.4 million in goodwill. Because of the current market environment and the lack of projected future earnings as of June 30, 2007, the goodwill was considered fully impaired.

Note H Real Estate Owned (REO)

The following table presents a rollforward of the real estate owned:

	For the six months ended June 30, 2007	For the year ended December 31, 2006
Beginning balance	$ 170,077	$ 46,351
Additions	283,722	199,583
Sales	(81,037)	(84,410)
Other	6,179	8,553
REO	378,941	170,077
REO reserve	(26,006)	(8,539)
REO, net	$ 352,935	$ 161,538

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

	For the quarter ended June 30, 2007 (1)	For the six months ended June 30, 2007 (1)
Beginning balance	$ 15,672	$ 8,539
Provision	18,421	28,311
Charge-offs	(8,087)	(10,844)
Ending balance	$ 26,006	$ 26,006

(1) There was not an REO reserve established for the three and six month periods ended June 30, 2006.

Real estate owned, which consists of residential real estate acquired in satisfaction of loans, is carried at the lower of cost or net realizable value which has been reduced for estimated selling and holding costs, offset by expected mortgage insurance proceeds to be received. Adjustments to the loan carrying value required at the time of foreclosure are charged to the allowance for loan losses. Gains or losses from the ultimate disposition of real estate owned are recorded as (gain) loss on sale of other real estate owned.

Note I Securitized Mortgage Borrowings

The following is selected information on securitized mortgage borrowings for the periods indicated: (dollars in millions):

				Range of Percentages:		
Year of Issuance	**Original Issuance Amount**	**Securitized mortgage borrowings outstanding as of June 30, 2007**	**December 31, 2006**	**Fixed Interest Rates**	**Interest Rate Margins over One-Month LIBOR (1)**	**Interest Rate Margins after Adjustment Date (2)**
2002	$ 3,876.1	$ 46.8	$ 52.0	5.25 - 12.00	0.27 - 2.75	0.54 - 3.68
2003	5,966.1	455.9	906.7	4.34 - 12.75	0.27 - 3.00	0.54 - 4.50
2004	17,710.7	3,507.2	5,230.8	3.58 - 5.56	0.25 - 2.50	0.50 - 3.75
2005	13,387.7	6,996.9	8,578.1		0.24 - 2.90	0.48 - 4.35
2006	6,079.1	5,306.6	5,794.7	6.25	0.10 - 2.75	0.20 - 4.13
2007	3,860.5	3,788.1			0.06 - 2.00	0.12 - 3.00
Subtotal securitized mortgage borrowings		20,101.5	20,562.3			
Accrued interest payable		20.0	22.8			
Unamortized securitization costs		(46.5)	(58.7)			
Total securitized mortgage borrowings		$ 20,075.0	$ 20,526.4			

(1) One-month LIBOR was 5.3195% as of June 30, 2007.

(2) Interest rate margins are generally increased when the unpaid principal balance is reduced to less than 10-20% of the original issuance amount.

Securitized mortgage borrowings are issued by bankruptcy-remote trusts. These securitizations issued are carried at their unpaid principal balances net of any unamortized discount or premium. Securitized mortgage borrowings are payable solely from the cashflows produced by these entities and are non recourse to the Company.

Note J Reverse Repurchase Agreements

Reverse repurchase agreements for the periods indicated consisted of the following:

	At June 30, 2007	**At December 31, 2006**
Reverse repurchase facilities	$ 1,409,665	$ 1,716,512
Repo facilities (1)	165,649	163,883
Total reverse repurchase agreements	$ 1,575,314	$ 1,880,395

(1) The Repo facilities represent borrowings on residual interests owned by the Company that are included in securitized mortgage collateral. The repo facilities represent primarily committed facilities.

Reverse repurchase facilities finance our warehouse lending operations and fund the purchase of mortgages by the mortgage operations. During the second quarter of 2007, these facilities amounted to $5.2 billion, as compared to a capacity of $5.7 billion at December 31, 2006. These facilities consist of uncommitted lines, which may be withdrawn at any time by the lender, and committed lines. For the quarter ended June 30, 2007, the Company obtained required waivers of non-compliance with the financial covenants related to earnings (as defined) for the reverse repurchase agreements in which a default of the covenants occurred. Additionally, one of the Company s reverse repurchase agreements with total capacity of $750 million expired in June of 2007, per the terms of the arrangement and was not renewed.

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Note K Repurchase Reserve

Repurchase reserve for the periods indicated consisted of the following:

	At June 30, 2007	At December 31, 2006
Reserve for early payment defaults (1)	$ 16,523	$ 12,220
Reserve for misrepresentations	9,381	
Other	1,908	3,126
Total repurchase reserve	$ 27,812	$ 15,346

(1) This figure at December 31, 2006 includes both the reserve for early payment default and the reserve for misrepresentations.

This repurchase liability is included in other liabilities and represents estimated losses for normal representation and warranty terms related to previously sold whole loans. The reserve totaled approximately $27.8 million at June 30, 2007, compared to $15.3 million at December 31, 2006. In determining the adequacy of the reserve for mortgage repurchases, management considers such factors as specific requests for repurchase, known problem loans, underlying collateral values, recent sales activity of similar loans, historical experience, current market conditions and other appropriate information. For the three and six months ended June 30, 2007, the Company recorded a provision for repurchase losses of $18.9 million and $30.7 million as compared to a provision of $12.8 million and $23.1 million for the same periods in 2006, included in non-interest income.

During the quarter ended June 30, 2007, the Company sold $417.7 million in whole loans compared to $2.1 billion during the same period in 2006.

Note L Income Taxes

During the three and six months ended June 30, 2007, income tax expense was $3.2 million and $5.1 million, respectively, as compared to a benefit of $6.1 million and $2.7 million, respectively, during the same periods in 2006. The amount of income tax expense for the quarter ended June 30, 2007 was primarily a result of the recognition of $5.0 million of tax expense related to the amortization of the existing deferred charge balance, partially offset by a $1.7 million tax benefit arising from the refund of taxes paid attributable to the carryback of the 2007 net operating losses. The Company makes an estimate of the effective tax rate expected to be applicable for the fiscal year when providing for income tax expense. The Company has reserved all tax benefits that cannot be utilized by carrying losses back to years in which tax payments were made. During the quarter ended June 30, 2007 there was approximately $12.1 million in current quarter tax benefits that were fully reserved as a result of the Company s net losses. Additionally, the Company paid approximately $1,000 and $4,000 of interest and penalties, charged to general and administrative expense, related to taxes during the second quarter of fiscal 2007 and 2006, respectively.

Note M Subsequent Events

Reverse Repurchase and Warehouse Facilities

In August 2007, the Company amended its agreement with one of its lenders primarily increasing the pricing structure should the Company exceed a specified level of borrowing, which is above the current borrowing level.

In August 2007, the Company entered into a new reverse repurchase agreement with a current lender with all the same terms except to conform covenants to be primarily the same as other lenders including a profitability covenant which is not effective until June 2008.

Associated with the acquisition of certain assets from PFC, in August 2007, the Company entered into a new warehouse agreement with a new lender with a borrowing capacity of $98.0 million and covenants similar to the Company s other borrowing facilities.

Liquidity

The Company has received a significant amount of margin calls from its lenders and continues to receive additional margin calls from its lenders due to the current market environment. The Company has the ability to satisfy the margin calls received. In light of the continued and widely publicized volatility in the secondary and securitization markets, the Company has suspended funding of loans previously referred to as Alt-A loans. At this point, the Company is only funding loans that are eligible to be sold to government sponsored agencies. In addition to the suspension of Alt-A loans, the Company has taken steps to reduce operating expenses significantly, which include staff reductions and closure of selected facilities.

ITEM 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Forward-Looking Statements

This report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as may, will, believe, expect, likely, should, could, anticipate, or similar terms or variations on those terms or the negative of those ter forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to the ability to generate sufficient liquidity; failure of current strategic initiatives to achieve their goals and inability to successfully manage through the current market environment based on a rapidly changing mortgage market with unexpected events or downturns; inability to renew, or termination of, current finance facilities based on the Company s financial performance or inability to satisfy financing covenants; inability to obtain financing on acceptable terms; deterioration in the secondary market causing delays or inability to complete securitizations or mortgage sales; the inability to sell or securitize mortgages for a profit; unexpected deterioration in the housing market changing previously appraised home values; significant margin calls; failure to sell, or achieve expected returns on sale of, negotiated loan sales, including non-performing loans, in the secondary market due to market conditions, lack of interest or ineffectual pricing; inability to effectively liquidate properties through auction process or otherwise; failure to reduce costs associated with REO portfolio; unexpected increases in our loan repurchase obligations; inability to effectively implement strategies to increase cure rates, reduce delinquencies or mitigate losses on mortgage loans; continued increase in price competition; changes in assumptions regarding estimated loan losses or an increase in loan losses; risks of delays in raising, or the inability to raise on acceptable terms, additional capital, either through equity offerings, lines of credit or otherwise; the ability to generate taxable income and to pay dividends; interest rate fluctuations on our assets that unexpectedly differ from those on our liabilities; unanticipated interest rate fluctuations; changes in expectations of future interest rates; the adoption of new laws that affect our business or the business of people with whom we do business; changes in laws that affect our products and our business; and other general market and economic conditions.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the period ended December 31, 2006, and the other reports we file under the Securities and Exchange Act of 1934, and the additional risk factors set forth below in this quarterly report. This document speaks only as of its date and we do not undertake, and specifically disclaim any obligation, to publicly release the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

The Mortgage Banking Industry and Discussion of Relevant Fiscal Periods

The mortgage banking industry is continually subject to current events that occur in the financial services industry. Such events include changes in economic indicators, government regulation, interest rates, price competition, geographic shifts, disposable income, housing prices, market anticipation, and customer perception, as well as others. The factors that affect the industry change rapidly.

In this environment, mortgage banking companies generally anticipate the future marketplace, engage in hedging activities and continuously reassess business plans and strategies to effectively position themselves in the marketplace.

As a result, current events can diminish the relevance of quarter over quarter and year-to-date over year-to-date comparisons of financial information. In such instances, the Company intends to present financial information in its Management Discussion and Analysis that is the most relevant to its financial information.

Executive Review of Performance

Market Conditions

During the second quarter, the secondary and securitization mortgage markets have deteriorated, become more unpredictable and volatile, making it more difficult to sell loans and securities to investors. In addition, because housing prices have declined, default and credit losses have increased; investors are requiring higher returns, reducing the price of mortgage loans. As a result, the loans have not performed up to expectations and the fair value of mortgage loans has deteriorated. The underlying reason for the deterioration of industry conditions appears to be initially based on the relatively poor performance of loans originated in 2006. This decline in performance has led to a lack of confidence by bond investors and lenders and their reluctance to invest/lend as aggressively. These market conditions have also increased the Company s loss severities during the second quarter.

Recently these market conditions required us to focus on preserving liquidity. We have received a significant amount of margin calls from our lenders and continue to receive margin calls due to the current market environment, we intend to satisfy these margin calls; however, we cannot make any assurances we will satisfy margin calls received in the future. In addition, we are operating under waivers provided by certain lenders, as certain lenders have waived certain covenants that require us to maintain positive net income and certain leverage ratios. There can be no assurance that we will be able to obtain future waivers or new waivers if covenants are not met, or that we will be able to obtain waivers on favorable terms. Further, we have negotiated sales of approximately $1.0 billion of our $1.6 billion of loans held on financed facilities.

In light of the continued and widely publicized volatility in the secondary and securitization markets, we have suspended funding of loans previously referred to as Alt-A loans and currently do not have any plans to originate these types of loans in the near future. At this point, the Company is only funding loans that are eligible to be sold to government sponsored agencies. In addition to the suspension of Alt-A loans, the Company has taken steps to significantly reduce operating expenses which include staff reductions and closure of selected facilities. Should the market conditions continue to deteriorate, we may take further steps including limiting our operations to the Long Term Investment Operations.

During the quarter ended June 30, 2007, the residential mortgage market continued to be affected by increasing interest rates, a weakening housing market and increasing delinquencies and defaults, regulators and legislators increased their focus on tightening underwriting standards for new mortgage loans. Many nonprime mortgage lenders were impacted by reduced liquidity and as a result, were required to scale back or cease operations. Most market participants responded to changes in the marketplace with changes in product offering and tightening of underwriting guidelines.

Additionally, the Company did not declare a cash dividend on our common stock during the second quarter of 2007, as the dividend may be considered a return of capital. Currently, we do not anticipate paying any further dividends on our common stock for the remainder of 2007.

Delinquencies and REO

Although, we have seen improvements in our adjusted net interest margin as a result of decreased amortization due to lower actual and expected prepayments and longer duration loans in the portfolio offset by increased credit losses, the Company has experienced an increase in delinquencies and loan defaults and an increase in loss severities during the second quarter. The

Company s allowance for loan losses increased to reflect higher estimated losses stemming from higher delinquencies and default rates, deterioration in the prevailing real estate market, current economic conditions, and the seasoning of the Long-Term Investment Operations investment loan portfolio. In an effort to mitigate the increase in severities, the Company has pursued a strategy to reduce the loans that ultimately become foreclosures and result in losses. The Company s recently implemented strategy includes reducing delinquencies by more closely managing the sub-servicers. This includes working with management of the sub-servicers to develop a plan to reduce future delinquency rates. Some of the strategies to reduce delinquencies include:

- Increased and new loss mitigation efforts (forbearance plans, or loan modifications),
- An aggressive focus on front end collections,
- Daily collections goals, and,
- Closely monitoring sub-servicers performance against performance metrics.

These objectives are expected to improve delinquent loan cure rates in an effort to dissipate the increase of foreclosed loans into REO. While the loan portfolio continued to deteriorate in the form of additional delinquencies and REO during July, these recently initiated strategies that are expected to have a fuller impact in the fourth quarter of 2007.

Additionally, during the second quarter of 2007, the Company explored alternative REO liquidation methods, in an effort to accelerate the disposition of foreclosed loans, through the use of the auction process. Two auctions were conducted recently and the Company accepted bids on approximately 90 percent of the properties included in the auction which are expected to close in the third quarter. As such, the effects of these auctions will be more prominent in the third quarter of 2007. This acceleration of liquidating the REO properties we anticipate will mitigate increased holding costs and reduce losses if the real estate market deteriorates further.

Other Events

On May 31, 2007, the Company acquired production facilities from Pinnacle Financial Corporation (PFC) located primarily in the East Coast of the United States. The PFC retail platform originates prime and agency loans.

This transaction was recorded as a business combination for accounting purposes resulting in the Company initially recording $12.4 million in goodwill. Because of the current market environment, the goodwill was impaired and the Company has recorded an impairment charge for the full amount.

General Overview

We are a mortgage real estate investment trust, or REIT, that is a nationwide acquirer, originator, seller and investor of non-conforming Alt-A residential mortgages, or Alt-A mortgages, and to a lesser extent, small-balance, commercial mortgages and multi-family, or commercial mortgages. As a result of the recent market deterioration, we have suspended the funding of Alt-A mortgages to focus on prime and agency (conforming) loans. We also provide warehouse financing to originators of mortgages.

We operate four core businesses:

- the Long-Term Investment Operations conducted by IMH and IMH Assets;
- the Mortgage Operations conducted by IFC and ISAC;
- the Commercial Operations conducted by ICCC; and
- the Warehouse Lending Operations conducted by IWLG.

The REIT (IMH) is comprised of the long-term investment operations and the warehouse lending operations. The Taxable REIT Subsidiaries (TRS) include the Mortgage Operations and Commercial Operations which are subsidiaries of the REIT.

Critical Accounting Policies

We define critical accounting policies as those that are important to the portrayal of our financial condition and results of operations and require estimates and assumptions based on our judgment of changing market conditions and the performance of our assets and liabilities at any given time. In determining which accounting policies meet this definition, we considered our policies with respect to the valuation of our assets and liabilities and estimates and assumptions used in determining those valuations. We believe the most critical accounting issues that require the most complex and difficult judgments and that are particularly susceptible to significant change to our financial condition and results of operations include the following:

- allowance for loan losses;
- calculation of repurchase reserve; and
- allowance for REO Losses.

Allowance for Loan Losses

We provide an allowance for loan losses for mortgages held as securitized mortgage collateral, finance receivables and mortgages held-for-investment (loans provided for). In evaluating the adequacy of the allowance for loan losses, management takes many factors into consideration. For instance, a detailed analysis of historical loan performance data is accumulated and reviewed. This data is analyzed for loss performance and prepayment performance by product type, origination year and securitization issuance. The data is also broken down by collection status. Our estimate of the required allowance for these loans is developed by estimating both the rate of default of the loans and the amount of loss in the event of default. The rate of default is assigned to the loans based on their attributes (*e.g.,* original loan-to-value, borrower credit score, documentation type, etc.) and collection status. The rate of default is based on analysis of migration of loans from each aging category. The loss severity is determined by estimating the net proceeds from the ultimate sale of the foreclosed property. The results of that analysis are then applied to the current mortgage portfolio and an estimate is created. We believe that pooling of mortgages with similar characteristics is an appropriate methodology in which to evaluate the allowance for loan losses. Management also recognizes that there are qualitative factors that must be taken into consideration when evaluating and measuring inherent loss in our loan portfolios. These items include, but are not limited to, economic indicators that may affect the borrower s ability to pay, changes in value of collateral, projected loss curves, political factors, market conditions, competitor s performance, market perception and industry statistics. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as factors change or as more information becomes available.

Specific valuation allowances may be established for loans that are deemed impaired, if default by the borrower is deemed probable, and if the fair value of the loan or the collateral is estimated to be less than the gross carrying value of the loan. Actual losses on loans are recorded as a reduction to the allowance through charge-offs.

Calculation of Repurchase Reserve

When we sell loans through whole-loan sales we are required to make normal and customary representations and warranties about the loans to the purchaser. Our whole-loan sale agreements generally require us to repurchase loans if we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its sale.

Investors have requested the Company to repurchase loans or to indemnify them against losses on certain loans which the investors believe either do not comply with applicable representations or warranties or defaulted shortly after its purchase. Upon completion of its own investigation regarding the investor claims, the Company repurchases or provides indemnification on certain loans, as appropriate. The Company maintains a liability for expected losses on dispositions of loans expected to be repurchased or on which indemnification is expected to be provided and regularly evaluates the adequacy of this repurchase liability based on trends in repurchase and indemnification requests, actual loss experience, and other relevant factors including economic conditions.

The Company estimates the repurchase reserve based on the estimated trailing whole loan sales that still have outstanding early payment warranties and misrepresentation warranties. The calculation of the trailing whole loan sales subject to request is based upon historical analysis of the timing of requests in relation to their sale date. The Company also calculates the rate at which our whole loan sales will develop into early payment default or misrepresentation claims. Then based on historical experience management will determine what percentage of the claims that will incur a loss. The Company applies a historical loss rate, adjusted for current market conditions based on the type of loan (first lien or to a lesser extent second lien) to the loans we expect to incur loss on in the future to derive the repurchase reserve. The reserve includes the Company s estimate of losses in the fair value of loans the Company expects it will repurchase, plus any premiums that will be refunded to the investor. The loss in fair value is predominately determined based on historical market losses on repurchased loans.

Allowance for REO Losses

We provide an allowance for REO losses for mortgages held as real estate owned. In evaluating the adequacy of the allowance for REO losses, management takes many items into consideration. When real estate is acquired in settlement of loans, or other real estate owned, the mortgage is written-down to a percentage of the property s appraised value or broker s price opinion or list price less estimated selling costs and including mortgage insurance expected to be received. Subsequent changes in the net realizable value of the real estate owned is reflected as an allowance for REO losses. The allowance for REO losses increased as a result of increased expected loss severities from a reduction in estimated sales prices principally as home prices have deteriorated.

Selected Financial Results for the Second quarter of 2007

- Estimated taxable loss per diluted share was ($0.25) compared to income of $0.25 for the first quarter of 2007 and $0.27 for the second quarter of 2006;

- No Cash dividend was declared for the second quarter of 2007 compared to $0.10 for the first quarter of 2007 and $0.25 for the second quarter of 2006;

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- Total assets were $22.6 billion as of June 30, 2007 compared to $23.6 billion as of December 31, 2006 and $22.7 billion as of June 30, 2006;

- Book value per common share was $7.10 as of June 30, 2007 compared to $11.15 as of December 31, 2006 and $13.91 as of June 30, 2006;

- The mortgage operations acquired and originated $1.3 billion of primarily Alt-A mortgages compared to $2.2 billion for the first quarter of 2007 and $2.2 billion for the second quarter of 2006;

- The commercial mortgage operations originated $159.0 million of commercial mortgages compared to $196.9 million for the first quarter of 2007 and $277.9 million for the second quarter of 2006; and

- The long-term investment operations retained for investment $795.6 million of primarily Alt-A mortgages and no commercial mortgages compared to $2.2 billion of primarily Alt-A mortgages and $234.9 million of commercial mortgages for the first quarter of 2007 and $579.7 million of primarily Alt-A mortgages and $114.7 million of commercial mortgages for the second quarter of 2006.

Selected Financial Results for the First Six Months of 2007

- Estimated taxable income per diluted share was $0.00 compared to $0.63 for the first six months of 2006;

- Cash dividends declared per share were $0.10 compared to $0.50 for the first six months of 2006; Based on current tax estimates, some portion or all of the 2007 dividends may be a return of capital.

- The mortgage operations acquired and originated $3.5 billion of primarily Alt-A mortgages compared to $4.3 billion for the first six months of 2006;

- The commercial mortgage operations originated $355.9 million of commercial mortgages compared to $480.7 million for the first six months of 2006; and

- The long-term investment operations retained for investment $3.0 billion of primarily Alt-A mortgages and $234.9 million of commercial mortgages compared to $579.7 million of primarily Alt-A mortgages and $114.7 million of commercial mortgages for the first six months of 2006.

Second Quarter 2007 vs. First Quarter 2007 Net Earnings

	For the Three Months Ended ,			
	June 30, 2007	**March 31, 2007**	**Increase (Decrease)**	**% Change**
Interest income	$ 337,010	$ 342,821	$ (5,811)	(2)%
Interest expense	324,027	329,366	(5,339)	(2)
Net interest income	12,983	13,455	(472)	(4)
Provision for loan losses	162,981	29,374	133,607	455
Net interest expense after provision for loan losses	(149,998)	(15,919)	(134,079)	(842)
Total non-interest income	36,516	(70,562)	107,078	152
Total non-interest expense	35,845	33,321	2,524	8
Income tax expense	3,220	1,866	1,354	73
Net loss	$ (152,547)	$ (121,668)	$ (30,879)	(25)%
Net loss per share - diluted	$ (2.05)	$ (1.65)	$ (0.40)	(24)%
Dividends declared per common share	$	$ 0.10	$ (0.10)	(100)%

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The results of operations for the second quarter of 2007 resulted in a net loss of $152.5 million or $2.05 per share as compared to a net loss of $121.7 million or $1.65 per share, for the first quarter of 2007. The increase in the net loss was primarily due to a $133.6 million increase in provision for loan losses, a $12.4 million charge off for the impairment of goodwill, and an $8.5 million increase in provision for REO losses, offset by a $115.7 million increase in earnings due to the increase in fair value of derivative instruments, and a $14.5 million reduction in losses from the a reduced lower of cost or market writedown.

During the second quarter of 2007, the change in fair value of derivative instruments increased to a gain of $56.9 million as compared to a loss of $58.8 million during the first quarter of 2007. The change in the fair value of the derivative instruments was primarily the result of cash receipts received and changes in the expectation of future interest rates.

Estimated Taxable Income

Because dividend payments are based on estimated taxable income, dividends may be more or less than net earnings. As such, we believe that the disclosure of estimated taxable income available to common stockholders, which is a non-generally accepted accounting principle, or non-GAAP, financial measurement, is useful information for our investors. Based on current tax estimates, some portion or all of the 2007 dividends may be a return of capital.

The following table presents a reconciliation of net (loss) earnings (GAAP) to estimated taxable income available to common stockholders for the periods indicated (in thousands, except per share amounts):

	For the Three Months Ended (1)			For the Six Months
	June 30, 2007	March 31, 2007	June 30, 2006	Ended June 30, (1) 2007
Net (loss) earnings	$ (152,547)	$ (121,668)	$ 26,356	$ (274,215)
Adjustments to net (loss) earnings: (2)				
Loan loss provisions (3)	181,977	38,734	(45)	220,711
Tax deduction for actual loan losses (3)	(49,460)	(11,262)	(6,141)	(60,722)
GAAP earnings on REMICs (4)	(21,070)	(14,932)	(1,237)	(36,002)
Taxable income on REMICs (5)	28,224	12,843	5,611	41,067
Change in fair value of derivatives (6)	(53,269)	54,623	(7,903)	1,354
Dividends on preferred stock	(3,722)	(3,722)	(3,672)	(7,444)
Net loss (earnings) of taxable REIT subsidiaries (7)	49,551	58,667	17,704	108,218
Dividend from taxable REIT subsidiaries (8)			3,500	
Elimination of inter-company loan sales transactions (9)	368	5,471	(13,682)	5,839
Miscellaneous adjustments	1,012	108	119	1,120
Estimated taxable income (loss) available to common stockholders (10)	$ (18,936)	$ 18,862	$ 20,610	$ (74)
Estimated taxable income (loss) per diluted common share (10)	$ (0.25)	$ 0.25	$ 0.27	$ (0.00)
Diluted weighted average common shares outstanding	76,084	76,084	76,420	76,084

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(1) Estimated taxable income includes estimates of book to tax adjustments and can differ from actual taxable income as calculated when we file our annual corporate tax return. Since estimated taxable income is a non-GAAP financial measurement, the reconciliation of estimated taxable income available to common stockholders to net earnings is intended to meet the requirements of Regulation G as promulgated by the SEC for the presentation of non-GAAP financial measurements. To maintain our REIT status, we are required to distribute a minimum of 90% of our annual taxable income to our stockholders.

(2) Certain adjustments are made to net earnings in order to calculate estimated taxable income due to differences in the way revenues and expenses are recognized under the two methods.

(3) To calculate estimated taxable income, actual loan losses are deducted. For the calculation of net earnings, GAAP requires a deduction for estimated losses inherent in our mortgage portfolios in the form of a provision for loan losses, which are generally not deductible for tax purposes. Therefore, as the estimated losses provided for GAAP are realized, the losses will negatively and may materially impact future taxable income. The loan loss provisions include the allowance for loan loss provision and the REO loan loss provision for the

REIT.

(4) Includes GAAP amounts related to the REMIC securitizations, which were treated as secured borrowings for GAAP purposes and sales for tax purposes. The REMIC GAAP income excludes the provision for loan losses recorded that may relate to the REMIC collateral included in securitized mortgage collateral. The Company does not have any specific valuation allowances recorded as an offset to the REMIC collateral.

(5) Includes amounts that are taxable to the Company related to its residual interest in the securitizations, as the REMICs are accounted for as sales in its tax filings.

(6) The mark-to-market change for the valuation of derivatives at IMH is income or expense for GAAP financial reporting but is not included as an addition or deduction for taxable income calculations until realized.

(7) Represents net earnings of IFC and ICCC, our taxable REIT subsidiaries (TRS), which may not necessarily equal taxable income.

(8) Any dividends paid to IMH by the TRS in excess of their cumulative undistributed taxable income would be recognized as return of capital by IMH to the extent of IMH s capital investment in the TRS. Distributions from the TRS to IMH may not equal the TRS net earnings, however, IMH can only recognize dividend distributions received from the TRS as taxable income to the extent that the TRS distributions are from current or prior period undistributed taxable income. Any distributions by the TRS in excess of IMH s capital investment in the TRS would be taxed as capital gains.

(9) Includes the effects to taxable income associated with the elimination of gains from inter-company loan sales and other intercompany transactions between IFC, ICCC, and IMH, net of tax and the related amortization of the deferred charge.

(10) Excludes the deduction for common stock dividends paid and the availability of a deduction attributable to net operating loss carry-forwards. As of December 31, 2006, the Company had estimated Federal net operating loss carry-forwards of $8.2 million that expire in the year 2020.

Second Quarter 2007 vs. First Quarter 2007

Estimated taxable income decreased $37.8 million to a loss of $18.9 million, or ($0.25) per diluted common share, for the second quarter 2007, compared to $18.9 million or $0.25 per diluted common share, for the first quarter 2007. The decrease in estimated taxable income was mainly attributable to an increase in actual loan losses which increased $38.2 million from the first quarter of 2007. Offsetting the increase in chargeoffs was an increase in the adjusted net interest margin at IMH which increased $6.4 million from the first quarter of 2007, including the REMIC taxable income.

Financial Condition and Results of Operations

Financial Condition

Condensed Balance Sheet Data

(dollars in thousands)

	June 30, 2007	December 31, 2006	Increase (Decrease)	% Change
Cash and cash equivalents	$ 113,180	$ 179,677	$ (66,497)	(37)%
Securitized mortgage collateral	20,388,616	21,050,829	(662,213)	(3)
Mortgages held-for-investment	4,319	1,880	2,439	130
Finance receivables	132,985	306,294	(173,309)	(57)
Allowance for loan losses	(220,944)	(91,775)	129,169	141
Mortgages held-for-sale	1,362,204	1,561,919	(199,715)	(13)
Derivatives	145,505	147,291	(1,786)	(1)
Real Estate Owned	352,935	161,538	191,397	118
Other assets	284,785	281,302	3,483	1
Total assets	$ 22,563,585	$ 23,598,955	$ (1,035,370)	(4)%
Securitized mortgage borrowings	$ 20,075,004	$ 20,526,369	$ (451,365)	(2)%
Reverse repurchase agreements	1,575,314	1,880,395	(305,081)	(16)
Other liabilities	211,005	182,661	28,344	16
Total liabilities	21,861,323	22,589,425	(728,102)	(3)
Total stockholders equity	702,262	1,009,530	(307,268)	(30)
Total liabilities and stockholders equity	$ 22,563,585	$ 23,598,955	$ (1,035,370)	(4)%

Total assets were $22.6 billion as of June 30, 2007 as compared to $23.6 billion as of December 31, 2006, as the long-term investment operations retained $3.0 billion of primarily Alt-A mortgages and $234.9 million of commercial mortgages offset by $1.1 billion in whole loan sales and $3.3 billion in total prepayments.

The Company s allowance for loan losses increased to reflect higher estimated losses stemming from higher delinquencies combined with higher estimates of default rates, deterioration in the prevailing real estate market and economic conditions and the seasoning of the long term investment operations investment loan portfolio.

Real estate owned at June 30, 2007 was $352.9 million, or 118 percent, higher than at December 31, 2006 as a result of an increase in foreclosures, in excess of real estate liquidated, which is due to a seasoning of the loan portfolio, longer holding periods, reduced housing demand in the marketplace and lower housing prices.

The following table presents selected information about mortgages held as securitized mortgage collateral as of the dates indicated. Some information is presented as a percentage of the portfolio:

	Residential As of June 30, 2007		**December 31, 2006**		**June 30, 2006**		**Commercial As of June 30, 2007**		**December 31, 2006**		**June 30, 2006**	
Alt-A mortgages	99	%	99	%	99	%	N/A		N/A		N/A	
Non-hybrid ARMs	5	%	7	%	12	%	2	%	2	%	2	%
Hybrid ARMs	72	%	73	%	75	%	98	%	98	%	98	%
FRMs	23	%	20	%	13	%	0	%	0	%	0	%
Interest-only	73	%	72	%	72	%	15	%	14	%	12	%
Weighted average coupon												